

NEW ISSUE  
DTC BOOK-ENTRY ONLY

S&P Rating: "BBB+"  
See "RATING" herein

In the opinion of Lozano Smith, A Professional Law Corporation, Sacramento, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Exemption" herein.

\$82,875,000\*

ELK GROVE UNIFIED SCHOOL DISTRICT  
(SACRAMENTO COUNTY, CALIFORNIA)  
COMMUNITY FACILITIES DISTRICT NO. 1  
2012 SPECIAL TAX REFUNDING BONDS

DATED: Date of Delivery

DUE: December 1, as shown below

The Elk Grove Unified School District, Community Facilities District No. 1, 2012 Special Tax Refunding Bonds (the "Refunding Bonds") in the aggregate principal amount of \$82,875,000\* are being issued by the Elk Grove Unified School District (the "School District") for and on behalf of the Elk Grove Unified School District Community Facilities District No. 1 (the "District") (i) to refund certain outstanding obligations of the District and (ii) to pay costs of issuance of the Refunding Bonds. See "PLAN OF REFUNDING" herein.

The Refunding Bonds are payable from the proceeds of an annual Special Tax being levied on and collected from property within the District (see "THE DISTRICT" herein) according to the rate and method of apportionment determined by a formula approved by the registered voters within the District (see "SECURITY AND SOURCE OF PAYMENT—The Special Tax" and "APPENDIX B—SPECIAL TAX FORMULA" herein). Neither the faith and credit nor the general taxing power of the District, the School District, Sacramento County, the State of California, or any political subdivision thereof is pledged to the payment of the Refunding Bonds (see "SPECIAL RISK FACTORS" herein).

The Refunding Bonds are being issued as fully registered bonds, without coupons, and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Refunding Bonds. Individual purchases of the Refunding Bonds will be made in book-entry-only form and only in authorized denominations, as described in this Official Statement. So long as Cede & Co. is the registered owner of the Refunding Bonds, principal of and interest on the Refunding Bonds will be made by the Sacramento County Director of Finance to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Refunding Bonds. See "THE REFUNDING BONDS—DTC Book-Entry-Only" herein.

Interest on the Refunding Bonds is first payable on June 1, 2013, and semiannually thereafter on June 1 and December 1 of each year. The Refunding Bonds are subject to redemption prior to maturity. See "THE REFUNDING BONDS—Redemption Provisions" herein.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE REFUNDING BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED WILL HAVE THE MEANINGS SET FORTH HEREIN.

MATURITY SCHEDULE

Maturity Date December 1	Principal Amount*	Coupon Interest Rate	Reoffering Price or Yield	Maturity Date December 1	Principal Amount*	Coupon Interest Rate	Reoffering Price or Yield
2013	\$ 500,000	— %	— %	—	—	—	—
2014	560,000	—	—	2024	\$3,915,000	— %	— %
2015	470,000	—	—	2025	6,225,000	—	—
2016	430,000	—	—	2026	6,475,000	—	—
2017	430,000	—	—	2027	6,730,000	—	—
2018	440,000	—	—	2028	7,000,000	—	—
2019	435,000	—	—	2029	7,285,000	—	—
2020	445,000	—	—	2030	7,580,000	—	—
2021	1,890,000	—	—	2031	7,895,000	—	—
2022	3,615,000	—	—	2032	8,225,000	—	—
2023	3,755,000	—	—	2033	8,575,000	—	—

The Refunding Bonds are being purchased for reoffering by \_\_\_\_\_ as Underwriter of the Refunding Bonds. The Refunding Bonds are offered when, as and if issued by the School District and received by the Underwriter, subject to approval as to legality by Lozano Smith, Sacramento, California, Bond Counsel. It is anticipated that the Refunding Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about November 20, 2012.

This Official Statement is dated \_\_\_\_\_, 2012

\* Preliminary; subject to adjustment.

The information contained in this PRELIMINARY OFFICIAL STATEMENT has been deemed by the District to be final as of the date hereof; however, the information contained herein is subject to completion or amendment. These securities may not be sold, nor may offers to buy be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this PRELIMINARY OFFICIAL STATEMENT constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

THIS OFFICIAL STATEMENT IS SUBMITTED WITH RESPECT TO THE SALE OF THE REFUNDING BONDS REFERRED TO HEREIN AND MAY NOT BE REPRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE REFUNDING BONDS.

THE REFUNDING BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, IN RELIANCE UPON EXCEPTIONS THEREIN FOR THE ISSUANCE AND SALE OF MUNICIPAL SECURITIES. THE REFUNDING BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAW OF ANY STATE.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL NOR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE REFUNDING BONDS BY A PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE AN OFFER, SOLICITATION OR SALE.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE SCHOOL DISTRICT TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED HEREIN, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT.

THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE SCHOOL DISTRICT AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DISTRICT OR SCHOOL DISTRICT SINCE THE DATE HEREOF.

THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES UNDER FEDERAL SECURITIES LAWS, AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "ESTIMATE," "PROJECT," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE SCHOOL DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE REFUNDING BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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### CUSIP Numbers

Maturity Date December 1	CUSIP Number	Maturity Date December 1	CUSIP Number
2013		-	
2014		2024	
2015		2025	
2016		2026	
2017		2027	
2018		2028	
2019		2029	
2020		2030	
2021		2031	
2022		2032	
2023		2033	

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\$82,875,000<sup>\*</sup>  
ELK GROVE UNIFIED SCHOOL DISTRICT  
(SACRAMENTO COUNTY, CALIFORNIA)  
COMMUNITY FACILITIES DISTRICT NO. 1  
2012 SPECIAL TAX REFUNDING BONDS

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SCHOOL DISTRICT BOARD OF EDUCATION

Chet Madison, Sr., President  
Alfred Rowlett, Clerk  
Jeanette Amavisca, Member  
Priscilla Cox, Member  
William Lugg, Jr., Member  
Jacob L. Rambo, Member  
Bobbie Singh-Allen, Member

SCHOOL DISTRICT ADMINISTRATION

Steven M. Ladd, Ed.D., Superintendent  
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ESCROW AGENT

Union Bank, N.A.  
350 California Street, 11th Floor  
San Francisco, California 94104  
(415) 273-2514

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<sup>\*</sup> Preliminary; subject to adjustment

\$82,875,000<sup>\*</sup>  
ELK GROVE UNIFIED SCHOOL DISTRICT  
(SACRAMENTO COUNTY, CALIFORNIA)  
COMMUNITY FACILITIES DISTRICT NO. 1  
2012 SPECIAL TAX REFUNDING BONDS

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<sup>\*</sup> Preliminary; subject to adjustment

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# OFFICIAL STATEMENT

\$82,875,000\*

ELK GROVE UNIFIED SCHOOL DISTRICT  
(SACRAMENTO COUNTY, CALIFORNIA)  
COMMUNITY FACILITIES DISTRICT NO. 1  
2012 SPECIAL TAX REFUNDING BONDS

## INTRODUCTION

*The purpose of this Official Statement is to provide certain information concerning the sale and delivery of an issue of bonds designated as the Elk Grove Unified School District, Community Facilities District No. 1, 2012 Special Tax Refunding Bonds (the "Refunding Bonds").*

*This "INTRODUCTION" is not a summary of this Official Statement. It is only a brief description of and guide to this Official Statement and is qualified by more complete and detailed information contained in the entire Official Statement, which includes the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Refunding Bonds to potential investors is made only by means of this entire Official Statement.*

### The District

The Elk Grove Unified School District Community Facilities District No. 1 is a community facilities district organized by the Board of Education (the "Board") of the Elk Grove Unified School District (the "School District") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 et seq. of the California Government Code (the "Law"). Pursuant to the Law, the seven members of the Board serve as the legislative body of the District by virtue of their election to the Board.

The boundaries of the District are coterminous with the boundaries of the School District. The District encompasses an area of approximately 320 square miles, or approximately one-third of the land area of the County of Sacramento (the "County"). See "THE DISTRICT" herein.

### Authority for Issuance

Pursuant to the Law, the Board adopted resolutions on January 26, 1987, confirming the establishment of the District and calling for an election to authorize the issuance of bonds and the levying of a special tax within the District. On April 28, 1987, at an election held pursuant to the Law, the registered voters within the boundaries of the District authorized the issuance of \$70,000,000 principal amount of special tax bonds to finance certain elementary and secondary school facilities, including classrooms and related buildings, student transportation equipment, and student support facilities, together with related equipment and grounds necessary and convenient thereto (the "1987 Facilities") in and for the District and approved the maximum rate and method of apportionment of a special tax to pay the principal and interest on bonds and to pay directly for the 1987 Facilities (the "1987 Authorization").

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\* Preliminary; subject to adjustment

The School District has issued five series the bonds under the 1987 authorization:

- In 1987, the School District issued the first series of special tax bonds under the 1987 Authorization (the "Series 1987 Bonds") pursuant to Resolution No. 18, 1987-88 adopted by the Board on October 14, 1987, as amended by Resolution No. 38, 1991-92 adopted by the Board on December 19, 1991 (the "1987 Master Resolution");
- In 1990, the School District issued the second series of special tax bonds under the 1987 Authorization (the "Series 1990 Bonds") pursuant to Resolution No. 36, 1990-91 adopted by the Board on November 5, 1990 (the "1987 First Supplemental Resolution");
- In 1991, the School District issued the third series of special tax bonds under the 1987 Authorization (the "Refunding Series 1991 Bonds") to refund all of the Series 1987 Bonds pursuant to Resolution No. 38, 1991-92 adopted by the Board on December 9, 1991 (the "1987 Second Supplemental Resolution");
- In 1994, the School District issued the fourth series of special tax bonds under the 1987 Authorization (the "Series 1994 Bonds") pursuant to Resolution No. 19, 1994-95 adopted by the Board on October 17, 1994 (the "1987 Third Supplemental Resolution"); and
- In 1995, the School District issued the fifth series of special tax bonds under the 1987 Authorization (the "Refunding Series 1995 Bonds") to refund all of the Series 1990 Bonds and Series 1994 Bonds pursuant to Resolution No. 15, 1995-96 adopted by the Board on August 7, 1995, as amended by Resolution No. 17, 1995-96 adopted by the Board on September 18, 1995 (the "1987 Fourth Supplemental Resolution").

The 1987 Master Resolution, the 1987 First Supplemental Resolution, the 1987 Second Supplemental Resolution, the 1987 Third Supplemental Resolution, and the 1987 Fourth Supplemental Resolution are referred to collectively herein as the "1987 Authorization Resolution." The Series 1987 Bonds, Series 1990 Bonds, Refunding Series 1991 Bonds, Series 1994 Bonds and the Refunding Series 1995 Bonds are collectively referred to herein as the "1987 Authorization Bonds." The School District has no authorization remaining under the 1987 Authorization.

Pursuant to the Law, the Board adopted resolutions on October 20, 1997, proposing to change the rate and method of apportionment of the special tax approved pursuant to the 1987 Authorization and calling for an election to authorize the issuance of additional special tax bonds of the District and to change of the rate and method of apportionment of the special tax within the District. On March 10, 1998, at an election held pursuant to the Act, the registered voters within the boundaries of the District approved the changes to the rate and method of apportionment of the special tax and authorized the issuance of \$205,000,000 principal amount of special tax bonds (the "1998 Authorization"). The annual special tax and the proceeds of bonds approved with respect to the 1998 Authorization are to be used for improvements to existing elementary, middle, and high schools and for new elementary, middle, and high schools in the District, and for alternative and special education facilities and educational centers, support facilities, and improvements to school grounds (the "1998 Facilities", and, together with the 1987 Facilities, the "Facilities").

The School District has heretofore issued five series of special tax bonds pursuant to the 1998 Authorization.

- In 1998, the School District issued the first series of special tax bonds under the 1998 Authorization (the "Series 1998 Bonds") pursuant to a resolution adopted by the Board on September 21, 1998 (the "Series 1998 Issuance Resolution") and a resolution adopted by the Board on October 19, 1998 (the "1998 Master Bond Resolution"), as supplemented by a resolution adopted by the Board on October 19, 1998 (the "1998 First Supplemental Bond Resolution");
- In 2001, the School District issued the second series of special tax bonds under the 1998 Authorization (the "Series 2001 Bonds") pursuant to a resolution adopted by the Board on September 18, 2001 (the "Series 2001 Issuance Resolution") and a resolution adopted by the Board of November 19, 2001 (the "1998 Second Supplemental Bond Resolution");
- In 2003, the School District issued the third series of special tax bonds under the 1998 Authorization (the "Series 2003 Bonds") pursuant to a resolution adopted by the Board on October 6, 2003 (the "Series 2003 Issuance Resolution") and a resolution adopted by the Board on November 3, 2003 (the "1998 Third Supplemental Bond Resolution");
- In 2005, the School District issued the fourth series of special tax bonds under the 1998 Authorization (the "Series 2005 Bonds") pursuant to a resolution adopted by the Board on October 18, 2005 (the "Series 2005 Issuance Resolution") and a resolution adopted by the Board on November 15, 2005 (the "1998 Fourth Supplemental Bond Resolution"); and
- In 2008, the School District issued the fifth issuance of special tax bonds under the 1998 Authorization (the "Series 2008 Bonds") pursuant to a resolution adopted by the Board on May 20, 2008 (the "Series 2008 Issuance Resolution") and a resolution adopted by the Board on July 1, 2008, as executed and completed as of December 9, 2008 (the "1998 Fifth Supplemental Bond Resolution").



The Refunding Bonds represent the sixth series of special tax bonds issued pursuant to the 1998 Authorization. The Refunding Bonds in the principal amount of \$82,875,000\* are being issued pursuant to a resolution adopted by the Board of the School District on October 2, 2012 (the "2012 Refunding Bonds Issuance Resolution") and a resolution to be adopted by the Board of the School District on November 13, 2012 (the "1998 Sixth Supplemental Bond Resolution").

There is \$51,935,300.75 in unsold Bonds pursuant to the 1998 Authorization.

The 1998 Master Bond Resolution, the Series 1998 Issuance Resolution, the 1998 First Supplemental Bond Resolution, the Series 2001 Issuance Resolution, the 1998 Second Supplemental Bond Resolution, the Series 2003 Issuance Resolution, the 1998 Third Supplemental Bond Resolution, the Series 2005 Issuance Resolution, the 1998 Fourth Supplemental Bond Resolution, the Series 2008 Issuance Resolution, the 1998 Fifth Supplemental Bond Resolution, the 2012 Refunding Bond Issuance Resolution and the 1998 Sixth Supplemental Resolution are referred to herein as the "1998 Bond Resolution". All special tax bonds to be issued pursuant to the 1998 Authorization, including the Series 1998 Bonds, the Series 2001 Bonds, the Series 2003 Bonds, the Series 2005 Bonds, the Series 2008 Bonds, and the Refunding Bonds are referred to herein as the "1998 Authorization Bonds" or the "Bonds". Capitalized terms not defined herein are defined in the 1998 Bond Resolution authorizing the issuance of the Refunding Bonds.

#### Purpose of Issue

Proceeds of the Refunding Bonds will be applied (i) to refund 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 (together, the "Prior Bonds") and (ii) to pay costs of issuance of the Refunding Bonds. See "PLAN OF REFUNDING" herein.

#### Source of Payment

Payments of principal of and interest on the Refunding Bonds are to be made from the proceeds of an annual special tax authorized to be levied annually by the School District on all Taxable Land (as herein defined) in the District under and pursuant to the Law and the rate and method of apportionment of the special tax approved at the election held in the District on April 28, 1987, as amended by the rate and method of apportionment of the special tax approved at the election held in the District on March 10, 1998 (the "Special Tax"). See "SECURITY AND SOURCE OF PAYMENT—The Special Tax" and "APPENDIX B—SPECIAL TAX FORMULA" herein.

The Special Tax will be collected in the same manner and at the same time as *ad valorem* property taxes are collected by the Sacramento County Director of Finance (the "County Director of Finance"), and when received by the County Director of Finance will be placed in a special fund (the "Special Tax Fund") established by the School District in the treasury of the County and held by the County Director of Finance on behalf of the District. As used in this Official Statement, the "Taxable Property" is all land within the District taxable under the Law in accordance with the proceedings for the authorization of the issuance of the Bonds and the levy and collection of the Special Tax.

The Special Tax Revenues have been dedicated by the Board to the payment of the principal of and interest and any premium on all 1987 Authorization Bonds and 1998 Authorization Bonds, including the Refunding Bonds, until all of the 1987 Authorization Bonds and 1998 Authorization Bonds have been paid and retired or until moneys or federal securities have been set aside irrevocably for that purpose. See "SECURITY AND SOURCE OF PAYMENT" herein.

#### Limited Obligations

Neither the faith and credit nor the general taxing power of the District, the School District, the County, the State of California nor any political subdivision thereof is pledged for the payment of the Refunding Bonds. The Refunding Bonds are not general obligations of the District or the School District, but are limited obligations of the District payable solely from the proceeds of the Special Tax and other sources described in the 1998 Bond Resolution. See "SPECIAL RISK FACTORS—Not General Obligation of the District or School District" herein.

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\* Preliminary; subject to adjustment

### Parity Bonds

Pursuant to the Law and under the authority of the 1998 Bond Authorization, additional series of bonds may be issued in the future in an amount up to the maximum aggregate principal amount authorized by the voters on a parity basis with the 1987 Authorization Bonds and 1998 Authorization Bonds, and consequently will be secured by a pledge of the proceeds of the Special Tax and certain amounts on deposit under the 1998 Bond Resolution ("Parity Bonds"). Additional Parity Bonds, if issued, must be issued subject to the conditions and limitations contained in the 1998 Bond Resolution regarding the issuance of additional Parity Bonds. See "ISSUANCE OF ADDITIONAL INDEBTEDNESS" herein.

### Description of the Bonds

The Refunding Bonds will be dated their date of delivery and will be issued as fully registered bonds, without coupons, in book-entry form only. The Refunding Bonds will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Payments of the principal of and interest on the Refunding Bonds will be made by the County Director of Finance as paying agent, registrar and transfer agent on the Refunding Bonds to DTC for subsequent disbursement to the Beneficial Owners (as defined herein) of the Bonds. See "THE REFUNDING BONDS—DTC Book-Entry-Only System" herein.

The Refunding Bonds are issued as current interest bonds in denominations of \$5,000 principal amount, or any integral multiple thereof, and mature on December 1 in each of the years and in the amounts set forth on the cover page hereof. Interest with respect to the Refunding Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2013. Interest on the Refunding Bonds is computed on the basis of a 360-day year of twelve 30-day months. See "THE REFUNDING BONDS" herein.

### Bond Insurance

The decision as to whether or not payment of debt service on the Bonds will be insured will be determined by the Underwriter of the Bonds at the time of the sale of the Bonds.

### Professionals Involved

Government Financial Strategies inc., Sacramento, California has acted as financial advisor (the "Financial Advisor") with respect to the sale and delivery of the Refunding Bonds. See "FINANCIAL ADVISOR" herein. All proceedings in connection with the issuance of the Refunding Bonds are subject to the approving legal opinion of Lozano Smith, A Professional Law Corporation, Sacramento, California ("Bond Counsel"). The County Director of Finance will act as paying agent, registrar and transfer agent (the "Paying Agent") with respect to the Refunding Bonds. Union Bank, N.A. will act as escrow agent (the "Escrow Agent") with respect to the Prior Bonds. Bond Counsel, Paying Agent and Escrow Agent will receive compensation from the School District contingent upon the sale and delivery of the Refunding Bonds.

### Other Information

This Official Statement may be considered current only as of its date that has been made a part of the cover page hereof, and the information contained herein is subject to change. A summary of the Refunding Bonds, the District and the School District, together with descriptions of certain provisions of the 1998 Bond Resolution, are included in this Official Statement. The descriptions herein do not purport to be comprehensive or definitive. All references herein to the Refunding Bonds and the 1998 Bond Resolution are qualified in their entirety by reference to such documents.

Copies of the 1998 Bond Resolution, audited financial statements, annual budgets and or any other information which may be considered informative regarding the sale and delivery of the Refunding Bonds and which is generally available to the School District will be made available for public inspection by contacting the School District through the office of the Associate Superintendent, Finance and School Support at the address and telephone set forth on page "iii" of this Official Statement, or by contacting the Financial Advisor at address and telephone set forth on page "iii" of this Official Statement.

## THE REFUNDING BONDS

### Authority for Issuance

The Law was enacted by the California Legislature to provide an alternative method of financing certain essential public capital facilities and services. Once duly established by the legislative body of a local agency, a community facilities district is a legally constituted governmental entity within defined boundaries, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of qualified electors and compliance with the provisions of the Law, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Law, the Board adopted resolutions on January 26, 1987, confirming the establishment of the District and calling for an election to authorize the issuance of bonds and the levying of a special tax within the District. On April 28, 1987, at an election held pursuant to the Law, the registered voters within the boundaries of the District authorized the issuance of \$70,000,000 principal amount of special tax bonds to finance 1987 Facilities in and for the District and approved 1987 Authorization.

Pursuant to the Law, the Board adopted resolutions on October 20, 1997, proposing to change the rate and method of apportionment of the special tax approved pursuant to the 1987 Authorization and calling for an election to authorize the issuance of additional special tax bonds of the District and to change of the rate and method of apportionment of the special tax within the District. On March 10, 1998, at an election held pursuant to the Law, the registered voters within the boundaries of the District approved the changes to the rate and method of apportionment of the special tax and authorized the 1998 Authorization.

The text of the ballot measure of the 1998 Authorization, which passed with more than two-thirds of the votes cast in favor of the ballot measure, was as follows:

*Shall the Elk Grove Unified School District Community Facilities District No. 1 be authorized to finance the acquisition and construction of public school facilities which are consistent with the Elk Grove Unified School District's Facilities Master Plan consisting of improvements to existing and acquisition and construction of new elementary and secondary schools in the District, together with alternative and special education facilities, support facilities and improvements to school grounds and related equipment, by incurring a bonded indebtedness in the principal amount of two hundred five million dollars (\$205,000,000), and shall the rate and method of apportionment of the special tax for the Community Facilities District be changed as provided in Resolution No. 22, 1997-98 adopted by the Board of Education of the District on October 20, 1997, which is incorporated herein by reference, which special tax shall be levied to pay for the acquisition and construction of such facilities, including the payment of principal of and interest on such bonds and including the repayment of funds advanced for the Community Facilities District?*

The Refunding Bonds are being issued under and pursuant to the provisions of the Law and pursuant to the 1998 Bond Resolution.

### Form and Registration

The Refunding Bonds will be dated their date of delivery and will be issued as fully registered bonds, without coupons, in book-entry form only. The Refunding Bonds will be initially issued and registered in the name of Cede & Co. as nominee of DTC. Purchases of Refunding Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Refunding Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Refunding Bonds, Beneficial Owners (as defined herein) will not receive physical certificates representing their ownership interests.

The Paying Agent agrees to keep and maintain for and on behalf of the District at the Paying Agent office, books and records, electronic or otherwise (herein referred to as the "Bond Register") for recording the names and addresses of the owners (the "Registered Owners"), the transfer, exchange, and replacement of the Refunding Bonds, and the payment of the principal of and interest on the Refunding Bonds to the Registered Owners and containing such other information as may be reasonably required by the School District and subject to such reasonable regulations as the School District and the Paying Agent may prescribe. All transfers, exchanges, and replacement of Refunding Bonds shall be noted in the Bond Register.

### Payment of Principal and Interest

The Refunding Bonds are issued as current interest bonds in denominations of \$5,000 principal amount, or any integral multiple thereof, and mature on December 1 in each of the years and in the amounts set forth on the cover page hereof. Interest with respect to the Refunding Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2013. Interest on the Refunding Bonds is computed on the basis of a 360-day year of twelve 30-day months.

The principal of and interest on the Refunding Bonds will be paid in lawful money of the United States of America by the Paying Agent to DTC, who will, in turn, disburse such payment to direct and indirect participants of DTC for subsequent disbursement to Beneficial Owners. The principal of the Refunding Bonds is payable upon maturity or prior redemption of a Refunding Bond upon its surrender at the office of the Paying Agent. So long as Cede & Co. or its registered assignee is the Registered Owner of the Refunding Bonds, payment of principal shall be made by wire transfer.

The interest on the Refunding Bonds shall be payable to the person whose name appears in the registration books required to be kept by the Paying Agent pursuant to the 1998 Bond Resolution as the registered owner thereof as of the close of business on the record date specified in the Refunding Bonds, whether or not such day is a business day, such interest to be paid by check mailed to such owner at such owner's address as it appears in such registration books or at such address as the owner may have filed with the Paying Agent for that purpose, except that, while Cede & Co. or its registered assignee is the Registered Owner or upon the written request of any Owner of one million dollars (\$1,000,000) or more in principal amount of Refunding Bonds then outstanding who has provided the Paying Agent with written wire transfer instructions at least fifteen (15) days before such interest payment date, payment shall be made by wire transfer of immediately available funds.

### Transfer and Exchange

Subsequent to the initial registration of the Refunding Bonds with Cede & Co., as nominee of DTC, registered ownership of the Refunding Bonds, or any portion thereof, may not thereafter be transferred except: (i) to any successor of Cede & Co., as nominee of DTC, or its nominee, or to any substitute depository designated pursuant to clause (ii) below (a "Substitute Depository"); provided, that any successor of Cede & Co., as nominee of DTC, or Substitute Depository, shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any Substitute Depository not objected to by the School District, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the School District to substitute another depository for DTC (or its successor) because DTC or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided, that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or (iii) to any person as described below, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the School District to remove DTC or its successor (or any substitute depository or its successor) from its functions as depository.

In the event that the book-entry system as described above is no longer used with respect to the Refunding Bonds, the following provisions will govern the transfer and exchange of the Refunding Bonds.

The Refunding Bonds may be transferred by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of the Refunding Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Paying Agent.

Every Refunding Bond surrendered to the Paying Agent for transfer or exchange shall have been duly endorsed or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent, duly executed by either the Registered Owner thereof or his authorized agent in writing. The Paying Agent may request any supporting documentation it determines is necessary to affect a registration, transfer or exchange of the Refunding Bonds.

### Redemption Provisions

*Optional Redemption.* The Refunding Bonds maturing on or after December 1, 2023, are subject to optional redemption by the School District prior to their respective maturity dates, as a whole or in part on any date on or after December 1, 2022, from any

source of available funds, upon mailed notice as provided herein, at the redemption price equal to the principal amount of Refunding Bonds to be redeemed, together with accrued interest thereon to the date of redemption, without premium.

*[Mandatory Sinking Fund Redemption.* The Refunding Bonds maturing by their terms on December 1, 20\_\_, (the “Term Bonds”), are subject to mandatory sinking fund redemption by the District prior to their maturity, in part by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, if any, without premium, solely from mandatory sinking fund payments as provided in the 1998 Bond Resolution, on each December 1, but which amounts will be reduced proportionately by the principal amount of all such Term Bonds optionally redeemed.

**Mandatory Sinking Fund Redemption Schedule  
Elk Grove Unified School District Community Facilities District No. 1  
2012 Refunding Special Tax Term Bonds**

Year Ending December 1	Sinking Fund Amount	Year Ending December 1	Sinking Fund Amount
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] *Notice of Redemption:* Pursuant to the 1998 Bond Resolution, the Paying Agent will give notice (a “Redemption Notice”) of any redemption of Refunding Bonds by mail, postage prepaid, not less than 30 nor more than 90 days prior to the redemption date (i) to the respective registered Owners thereof at the addresses appearing on the bond registration books, (ii) to all securities depositories and securities information services selected by the Paying Agent in accordance with 1998 Bond Resolution, and (iii) the original underwriter or first purchaser of the Refunding Bonds. In addition, the District has covenanted to give notice of optional, unscheduled, and contingent bond calls with respect to the Refunding Bonds to the Municipal Securities Rulemaking Board via the Electronic Municipal Market Access (EMMA). Neither failure to receive any redemption notice nor any defect in any such redemption notice mailed will affect the sufficiency of the proceedings for the redemption of the affected Refunding Bonds or the cessation of interest on the redemption date.

Each Redemption Notice shall state (i) the date of such notice, (ii) the Refunding Bonds to be redeemed, (iii) the date of issue of the Refunding Bonds, (iv) the redemption date, (v) the redemption price, (vi) the place of redemption, and (vii) the CUSIP number, if any, of the Refunding Bonds to be redeemed, and if less than all of the maturity or maturities are to be redeemed, the numbers of such maturity to be redeemed, and, in the case if Refunding Bonds to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed, and shall require that such Refunding Bonds be surrendered at the office of the Paying Agent and give notice that further interest on such Bonds will not accrue after the designated redemption date.

*Effect of Notice of Redemption:* If notice of redemption has been duly given money for the payment of the principal of and redemption premiums, if any, on, together with interest to the redemption date on, the Refunding Bonds or portions thereof so called for redemption is held by the Paying Agent, then on the redemption date designated in such notice such Refunding Bonds or such portions thereof shall become due and payable, and from and after the date so designated interest on the Refunding Bonds or such portions thereof so called for redemption shall cease to accrue and the Registered Owners of such Refunding Bonds shall have no rights in respect thereof except to receive payment of the principal or such portions thereof and the redemption premiums, if any, thereon and the interest accrued thereon to the redemption date.

Defeasance

Any or all of the Refunding Bonds may be defeased in any of the following ways:

(a) if the School District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all outstanding Refunding Bonds the interest thereon and the principal or redemption price thereof at the times and in the manner stipulated in the 1998 Bond Resolution, then all agreements, covenants and other obligations of the School District to the Owners of such Refunding Bonds under the 1998 Bond Resolution shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Paying Agent shall execute and deliver to the School District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Paying Agent shall deposit in the Special Projects Fund all money or securities held by him pursuant to the 1998 Bond Resolution which are not required for the payment of the interest and compounded interest on and the principal or redemption price of such Refunding Bonds.

(b) Any outstanding Refunding Bonds shall on the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in paragraph (a) above if there shall be on deposit with the Paying Agent money which is sufficient to pay the interest due on such Refunding Bonds on such date and the principal and redemption premiums, if any, due on such Refunding Bonds on such date.

(c) Any outstanding Refunding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (1) in case any of such Refunding Bonds are to be redeemed on any date prior to their maturity date, the School District shall have agreed to mail a notice of redemption pursuant to the 1998 Bond Resolution to the respective Owners of all such Refunding Bonds and to the securities depositories or securities information services selected by the Paying Agent pursuant to the 1998 Bond Resolution and to the original underwriter or other first purchaser of the Refunding Bonds, (2) there shall have been deposited with an escrow agent or the Paying Agent pursuant to the 1998 Bond Resolution either money in an amount which shall be sufficient or Federal Securities which are not subject to redemption except by the holder thereof prior to maturity (including any Federal Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with such escrow agent or the Paying Agent at the same time, shall be sufficient to pay when due the interest to become due on such Refunding Bonds on and prior to the maturity dates or redemption dates thereof, as the case may be, and the principal of and redemption premiums, if any, on such Refunding Bonds on and prior to the maturity dates or the redemption dates thereof, as the case may be, as evidenced by an accountant's report on file with the School District and the Paying Agent, and an opinion of counsel to the effect that the payment of such Refunding Bonds has been provided for in the manner set forth in the 1998 Bond Resolution and that all obligations of the School District with respect to such Refunding Bonds have been discharged and satisfied, shall have been filed with the School District and the Paying Agent, and (3) in the event such Refunding Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the School District shall have agreed to mail pursuant to the 1998 Bond Resolution a notice to the Owners of such Refunding Bonds and to the securities depositories and securities information services selected by him pursuant to the 1998 Bond Resolution and to the original underwriter or other first purchaser of the Refunding Bonds that the deposit required by clause (2) above has been made with such escrow agent or the Paying Agent and that such Refunding Bonds are deemed to have been paid in accordance with the 1998 Bond Resolution and stating the maturity dates or redemption dates, as the case may be, upon which money will be available for the payment of the principal of and redemption premiums, if any, on such Refunding Bonds.

#### DTC Book-Entry-Only

*The following description includes the procedures and record-keeping with respect to beneficial ownership interests in the Refunding Bonds, payment of principal and interest, other payments with respect to the Refunding Bonds to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Refunding Bonds, notices to Beneficial Owners and other related transactions by and between DTC, the participants, and the Beneficial Owners. However, DTC, the participants, and the Beneficial Owners should not rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.*

DTC, New York, NY, will act as securities depository for the Refunding Bonds. The Refunding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Refunding Bond certificate will be issued for the Refunding Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly

("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of each Refunding Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

To facilitate subsequent transfers, all the Refunding Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Refunding Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Refunding Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Refunding Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Refunding Bond documents. For example, Beneficial Owners of the Refunding Bonds may wish to ascertain that the nominee holding the Refunding Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Refunding Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Refunding Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Refunding Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Refunding Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the School District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent, or the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the School District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Refunding Bonds at any time by giving reasonable notice to the School District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Refunding Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Refunding Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the accuracy thereof.

## PLAN OF REFUNDING

### Application and Investment of Bond Proceeds

A portion of the proceeds from the sale of the Refunding Bonds will be irrevocably deposited into (i) an escrow fund (the "1998 Escrow Fund") to be created and maintained by the Escrow Agent under that certain escrow agreement (the "Escrow Agreement") by and between the School District and the Escrow Agent dated as of November 15, 2012 in order to refund the Series 1998 Bonds maturing on or after December 1, 2013; an escrow fund (the "2001 Escrow Fund") to be created and maintained by the Escrow Agent under the Escrow Agreement in order to refund the Series 2001 Bonds maturing on or after December 1, 2013, and (iii) an escrow fund (the "2003 Escrow Fund," and, together with the 1998 Escrow Fund and the 2001 Escrow Fund, the Escrow Funds) to be created and maintained by the Escrow Agent under the Escrow Agreement in order to refund the Series 2003 Bonds maturing on or after December 1, 2022. Moneys in the 1998 Escrow Fund and 2001 Escrow Fund will be held in cash, uninvested. Moneys in the 2003 Escrow Fund will be invested in non-callable direct obligations of the United States Treasury or other non-callable obligations, the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America.

AMTEC (in conjunction with Ross & Company, PLLC, a certified public accountant licensed to practice in the State), acting as verification agent with respect to the Escrow Funds, will certify in writing that moneys irrevocably deposited and invested in the Escrow Funds, together with earnings thereon, will be sufficient for the payment of interest coming due and payable to the date fixed for redemption plus the redemption amount of the Prior Bonds, redeemable on the dates indicated below, the first optional redemption date for the Prior Bonds. Upon such irrevocable deposit, the Prior Bonds will be deemed paid and no longer outstanding.

The Prior Bonds and refunding details are identified in the following table.

### Prior Bonds Elk Grove Unified School District Community Facilities District No. 1

<u>Series</u>	<u>Maturities To Be Refunded</u>	<u>Amount To Be Refunded<sup>1</sup></u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series 1998 Bonds	December 1, 2013 - 2028	\$39,445,061.20	December 1, 2012	100%
Series 2001 Bonds	December 1, 2013 – 2031	\$20,104,488.50	December 1, 2012	100%
Series 2003 Bonds	December 1, 2022 - 2033	\$13,765,356.80	December 1, 2013	101%

<sup>1</sup> Includes accreted value to date of redemption for capital appreciation bonds

A portion of the proceeds of the Refunding Bonds in the amount of the Required Bond Reserve will be retained by the County Director of Finance for deposit in the Bond Reserve Fund.

A portion of the proceeds of the Refunding Bonds will be retained by the Escrow Agent in a costs of issuance account (the "Costs of Issuance Fund") and used to pay costs associated with the issuance of the Refunding Bonds. Any proceeds of sale of the Bonds not needed to fund the Escrow Funds or to pay costs of issuance of the Refunding Bonds will be transferred by the Escrow Agent to the County Director of Finance to the credit of the Bond Redemption Fund.



## Sources and Uses of Funds

The sources and uses of funds in connection with the sale and delivery of the Refunding Bonds are set forth in the exhibit below.

### Sources and Uses of Funds Elk Grove Unified School District Community Facilities District No. 1 2012 Special Tax Refunding Bonds

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#### SOURCES OF FUNDS

Par Amount of Refunding Bonds  
Original Issue Premium

#### TOTAL SOURCES OF FUNDS

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#### USES OF FUNDS

Series 1998 Escrow Fund  
Series 2001 Escrow Fund  
Series 2003 Escrow Fund  
Bond Reserve Fund  
Costs of Issuance Fund <sup>1</sup>  
Underwriter's Discount <sup>2</sup>

#### TOTAL USES OF FUNDS

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<sup>1</sup> Costs of issuance includes the fees and expenses of Bond Counsel, Financial Advisor, rating agency and other expenses related to the issuance of the Refunding Bonds.

<sup>2</sup> Underwriter's discount includes the premium for bond insurance, if any, to be paid by the underwriter at the Underwriter's option and expense.

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## Debt Service Schedules

Scheduled debt service on the Refunding Bonds (without regard to optional redemption) is shown in the table below.

### Debt Service Schedule Elk Grove Unified School District Community Facilities District No. 1 2012 Special Tax Refunding Bonds

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<u>Date</u>	<u>Principal Amount*</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
June 1, 2013				
December 1, 2013				
June 1, 2014				
December 1, 2014				
June 1, 2015				
December 1, 2015				
June 1, 2016				
December 1, 2016				
June 1, 2017				
December 1, 2017				
June 1, 2018				
December 1, 2018				
June 1, 2019				
December 1, 2019				
June 1, 2020				
December 1, 2020				
June 1, 2021				
December 1, 2021				
June 1, 2022				
December 1, 2022				
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June 1, 2024				
December 1, 2024				
June 1, 2025				
December 1, 2025				
June 1, 2026				
December 1, 2026				
June 1, 2027				
December 1, 2027				
June 1, 2028				
December 1, 2028				
June 1, 2029				
December 1, 2029				
June 1, 2030				
December 1, 2030				
June 1, 2031				
December 1, 2031				
June 1, 2032				
December 1, 2032				
June 1, 2033				
December 1, 2033				
	\$82,875,000			

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\* Preliminary; subject to adjustment.

Upon issuance of the Refunding Bonds, scheduled debt service (without regard to optional redemption) on the District's Special Tax Bonds will be as shown in the table below

**Debt Service Schedule**  
**Outstanding Special Tax Bonds**  
**Elk Grove Unified School District Community Facilities District No. 1**

Year Ending December 1	Debt Service of Bonds to Remain Outstanding	Debt Service of Refunding Bonds *	Debt Service of All Bonds *	Bond Reserve Fund Receipts <sup>1</sup>	Net Debt Service of All Bonds
2012	\$13,673,144	\$0	\$13,673,144	(\$15,613)	\$13,657,531
2013	9,717,944	3,907,739	13,625,683	(56,338)	13,569,345
2014	9,730,144	3,831,443	13,561,586	(56,338)	13,505,249
2015	9,739,544	3,771,843	13,511,386	(56,338)	13,455,049
2016	9,741,144	3,712,163	13,453,306	(56,338)	13,396,969
2017	9,753,356	3,702,313	13,455,669	(56,338)	13,399,331
2018	9,759,984	3,696,163	13,456,146	(56,338)	13,399,809
2019	9,775,284	3,683,588	13,458,872	(56,338)	13,402,534
2020	9,777,109	3,679,347	13,456,456	(56,338)	13,400,118
2021	8,346,044	5,108,537	13,454,580	(56,338)	13,398,243
2022	6,705,106	6,753,661	13,458,767	(56,338)	13,402,429
2023	6,703,100	6,755,578	13,458,678	(56,338)	13,402,340
2024	6,696,025	6,757,638	13,453,663	(56,338)	13,397,325
2025	4,544,575	8,911,464	13,456,039	(56,338)	13,399,701
2026	4,542,725	8,915,592	13,458,317	(56,338)	13,401,979
2027	4,542,863	8,916,112	13,458,974	(56,338)	13,402,636
2028	4,545,919	8,912,296	13,458,214	(56,338)	13,401,877
2029	4,541,663	8,914,094	13,455,756	(56,338)	13,399,418
2030	4,545,325	8,915,386	13,460,711	(56,338)	13,404,373
2031	4,544,988	8,915,221	13,460,208	(56,338)	13,403,870
2032	4,542,038	-	13,454,658	(56,338)	13,398,320
2033	4,541,475	-	13,453,056	(8,201,238)	5,251,817
2034	13,673,063	-	13,673,063	(15,613)	13,657,449
2035	13,671,563	-	13,671,563	(15,613)	13,655,949
2036	13,673,813	-	13,673,813	(15,613)	13,658,199
2037	13,674,675	-	13,674,675	(15,613)	13,659,062
2038	13,674,675	-	13,674,675	(3,138,226)	10,536,449
Total	\$229,377,283	\$135,584,371	\$364,961,653	(\$12,544,281)	\$352,417,372

<sup>1</sup> Assumes earnings on the Bond Reserve Fund at 0.5% annually.

## SECURITY AND SOURCE OF PAYMENT

### Introduction

The School District has covenanted in the 1998 Bond Resolution, so long as any 1998 Authorization Bonds or 1987 Authorization Bonds are outstanding, annually to levy the Special Tax against all Taxable Land in the District and make provision for the collection of the Special Tax in amounts which will be sufficient, together with money then on deposit in the Bond Redemption Fund, after making reasonable allowances for contingencies and errors in the estimates, to yield proceeds equal to the amounts required for compliance with the agreements, conditions, covenants, and terms contained in the 1998 Bond Resolution, and which

\* Preliminary; subject to adjustment

in any event will be sufficient to pay the interest and compounded interest on and principal of and Sinking Fund Account Payments for and redemption premiums, if any, on the 1998 Authorization Bonds or 1987 Authorization Bonds, as they become due and payable and to replenish the Bond Reserve Fund to the Required Bond Reserve and to pay all current Expenses as they become due and payable in accordance with the provisions in the 1998 Bond Resolution.

Pursuant to the 1998 Bond Resolution, all proceeds of the annual Special Tax are to be deposited in the Special Tax Fund established by the 1998 Bond Resolution, and first applied to pay debt service payments on all outstanding 1998 Authorization Bonds and 1987 Authorization Bonds, to replenish the Bond Reserve Fund to the Required Bond Reserve and to pay current Expenses.

If the School District is not in default under the 1998 Bond Resolution, all remaining money in the Special Tax Fund on or before December 1 of each year is to be withdrawn by the County Director of Finance and transferred to the School District and deposited in the Elk Grove Unified School District Special Projects Fund (the "Special Projects Fund") and expended by the School District for the payment of costs of the acquisition and construction of the Facilities or otherwise for the benefit of the District in accordance with the Law.

**Neither the full faith and credit nor the general taxing power of the School District, the District, the State of California, or any political subdivision thereof is pledged to the payment of the Refunding Bonds. The Refunding Bonds are not general obligations of the School District but are limited obligations of the School District payable solely from the proceeds of the Special Tax and other sources described in the 1998 Bond Resolution.**

#### The Special Tax

The levy of the Special Tax on Taxable Land in the District was approved initially pursuant to the 1987 Authorization by a 74.8% affirmative vote of the registered voters of the District voting on the matter at an election held on April 28, 1987. The rate and method of apportionment of the Special Tax was amended pursuant to the 1998 Authorization and approved by an 80.7% affirmative vote of the registered voters of the District voting on the matter at an election held on March 10, 1998. The levy of the Special Tax on Taxable Land in the District is now subject to the amended rate and method of apportionment of the Special Tax approved pursuant to the 1998 Authorization.

The Special Tax is to be levied and collected according to the rate and method of apportionment set forth in the formula (the "Special Tax Formula") which is summarized in "APPENDIX B—SPECIAL TAX FORMULA." The Special Tax is to be levied against taxable units of property within the District, with the number of taxable units and the amount of Special Tax varying depending on the land use of the property, the status of development approval, and the date on which a taxable unit is placed in a category of development approval status. The Special Tax Formula establishes maximum rates (the "Maximum Rates") that may be levied against Taxable Land, depending on these various factors. The following table summarizes the Maximum Rates. The table is a simplification of the Special Tax Formula, and reference should be made to Appendix B for a complete description of the Special Tax Formula.

#### Maximum Special Taxes per Taxable Unit Elk Grove Unified School District Community Facilities District No. 1

	Maximum Special Taxes Based on Period During Which Parcel Status is Classified or Reclassified			
	Prior to 1/26/1987	1/26/1987 - 6/30/1998	7/1/1998 - 6/30/2001	After 6/30/2001
<b>Existing or Future Development - Approved</b>				
Per Month	\$ 3.82	\$ 9.82	\$ 15.00	\$ 16.67
Per Year	\$ 45.94	\$ 117.84	\$ 180.00	\$ 200.00
<b>Future Development - Planned</b>				
Development Classified as Future Development Planned during a given period	<b>40 Percent (40%) of Future Development - Approved</b> [The exact amount is dependent on the date a taxable unit is placed in Future Development - Planned category.]			

For a description of the Special Tax Formula to be used by the Board in establishing the Special Tax, and a description of the tax rates, rate descriptions, and rate categories, see "APPENDIX B—SPECIAL TAX FORMULA."

The Special Tax is to be levied against all Taxable Land within the District. Certain properties are exempt from the Special Tax, including (i) all agricultural zoned lands unless residences exist on the property and (ii) existing property which is publicly owned, open space, common areas, churches, schools, hospitals, and property owned by charitable organizations, provided that such property is exempt by law from *ad valorem* real property taxes, and provided further that there are no residences on such property. Property owners who are at least 65 years of age or disabled have the option of applying annually for a reduction which would reduce the amount of the Special Tax against such owner's residence by 70%.

Pursuant to Section 53340 of the Law, properties or entities of state, federal or other local governments are exempt from the Special Tax except that, under Section 53317.3 of the Law, property not otherwise exempt which is acquired by a public entity through a negotiated transaction, or by gift or devise, remains subject to the Special Tax. It is not clear under the Law whether property acquired by a public entity following a tax sale or foreclosure based upon failure of a non-exempt person or entity to pay property taxes would remain subject to the Special Tax under Section 53317.3 of the Law or would become exempt from the Special Tax under Section 53340 of the Law. Pursuant to Section 53317.5 of the Law, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special annual assessment. For this purpose, the present value of the obligation to pay the Special Tax to pay principal and interest on any bonds outstanding prior to the date of apportionment is to be treated the same as a fixed lien special annual assessment. The Law further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new tax under the Law or to alter the rate or method of apportionment of an existing tax under the Law. (See "SPECIAL RISK FACTORS—Exempt Properties.")

The Law prohibits the Board from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the Board determines that the reduction or termination of the Special Tax "would not interfere with the timely retirement" of the 1998 Authorization Bonds.

The Board is to establish tax rates to be used to levy and apportion the Special Tax against property within the District on an annual basis. By Ordinance No. 1, 2012-13, dated August 21, 2012, the Board adopted a tax report (the "Tax Report") that was used to levy and apportion the Special Tax against property within the District for fiscal year 2012-13 (see "TAX REPORT" herein). The Board elected to levy the Special Tax at the Maximum Rates applicable to the status of Taxable Land pursuant to the Special Tax Formula for fiscal year 2012-13.

Applying these tax rates against the existing land uses in the District, the aggregate amount of the Special Tax levied for 2012-13 was \$14,037,446. The actual amount of the Special Tax that will be collected for such year will depend upon the level of delinquent Special Tax installments and any adjustments approved by the School District in the levy of the Special Tax. The collection of the Special Tax by the School District is subject to the Teeter Plan (as defined herein) adopted by the County effective July 1, 1993. Under the Teeter Plan, the School District will receive 100% of the Special Tax levied on Taxable Land in the District, except any Special Tax due from properties owned by government entities and any Special Tax due from properties for which accelerated foreclosure proceedings have commenced. See "SECURITY AND SOURCE OF PAYMENT—Alternative Method of Tax Apportionment."

The Board first levied the Special Tax on Taxable Land within the District in fiscal year 1987-88, beginning July 1, 1987. In each of the fiscal years from 1987-88 to 1989-90, the Board elected to levy the Special Tax at rates lower than the Maximum Rates. In each of these fiscal years, the Board levied the Special Tax at the rate of \$2.42 per month per taxable unit for "Existing Development" and \$7.37 per month per taxable unit for "Future Development".

Beginning in fiscal year 1990-91, the Board has levied the Special Tax at the Maximum Rates.

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The following table shows the Special Tax levy in each fiscal year since the initial levy and the corresponding Special Tax collections and delinquencies.

**Special Tax Levies and Collections**  
**Fiscal Years 1987-88 through 2012-13**  
**Elk Grove Unified School District Community Facilities District No. 1**

Fiscal Year	Special Tax Levy <sup>1</sup>	Current Year Tax Collection	Current Year Delinquencies as of June 30	Delinquency Rate as of June 30	Delinquent Tax Collection	Total Tax Collection	Total Collection as % of Levy
1987-88	\$ 2,656,271	\$ 2,395,020	\$ 261,251	9.84%	n/a	\$2,395,020	90.16%
1988-89	3,220,123	2,949,546	270,577	8.40	\$ 115,682	3,065,228	95.19
1989-90	3,469,349	3,134,535	334,814	9.65	216,202	3,350,737	96.58
1990-91	5,443,597	5,164,898	278,699	5.12	296,860	5,459,758	100.30
1991-92	5,878,723	5,572,439	306,284	5.21	93,841	5,666,280	96.39
1992-93	6,050,809	5,760,917	289,892	4.79	240,430	6,001,347	99.18
1993-94	6,786,938	6,490,764	296,174	4.36	791,174 <sup>2</sup>	7,282,938	107.31
1994-95	7,423,196	7,068,390	354,806	4.78	349,471	7,417,861	99.93
1995-96	7,341,300	7,070,232	271,068	3.69	259,827	7,330,059	99.85
1996-97	7,175,599	6,923,531	252,068	3.51	366,625	7,290,156	101.60
1997-98	7,243,728	7,071,964	171,764	2.37	702,502	7,774,466	107.33
1998-99	7,313,645	7,175,408	144,653	1.98	186,901	7,362,309	100.67
1999-00	7,568,767	7,398,968	169,799	2.24	254,016	7,652,984	101.11
2000-01	8,001,413	7,889,387	112,026	1.35	129,103	8,018,490	100.21
2001-02	8,611,590	8,522,029	117,134	1.38	133,226	8,655,255	100.51
2002-03	9,220,299	9,116,562	88,081	0.96	79,043	9,195,605	99.73
2003-04	10,449,568	10,389,413	110,155	1.05	86,461	10,475,874	99.77
2004-05	12,186,847	12,049,049	137,798	1.13	108,443	12,157,492	99.76
2005-06	13,336,084	13,036,946	299,138	2.24	136,482	13,173,428	98.78
2006-07	14,522,586	13,928,227	594,359	4.09	238,521	14,166,748	97.55
2007-08	15,423,004	13,880,174	1,542,830	10.00	592,964	14,473,138	93.84
2008-09	15,704,862	14,267,861	1,437,001	9.15	1,376,060	15,643,921	99.61
2009-10	15,002,844	13,973,782	1,029,062	6.86	780,356	14,754,138	98.34
2010-11	14,395,388	13,925,883	469,505	3.26	777,271	14,703,104	102.14
2011-12	14,573,226	14,153,751	419,475	2.88	1,076,612	15,230,363	104.51
2012-13	14,037,446	n/a	n/a	n/a	n/a	n/a	n/a

<sup>1</sup> The Special Tax is levied and collected by the County as part of each parcel's combined property tax bill. In California, secured property taxes are payable in two equal installments, the first due without penalty no later than December 10 and the second due no later than April 10. The Special Tax levies shown represent the actual levies for the respective fiscal years as adjusted for any changes in the tax roll during the fiscal year, and may not match the levy as approved by the Board pursuant to the Tax Report.

<sup>2</sup> Effective fiscal year 1993-94, the County adopted the "Teeter Plan" (See "SECURITY AND SOURCE OF PAYMENT—Alternative Method of Tax Apportionment"). During fiscal year 1993-94, the School District received a one-time distribution of delinquent Special Taxes for fiscal year 1992-93 and prior years in the amount of \$645,595. The School District will receive 100% of subsequent years' Special Tax levy less any amount of such levy subject to accelerated judicial foreclosure procedures by the School District.

The decrease in Special Tax in fiscal year 2012-13 was due primarily to the reclassification of certain parcels within the District (see "SECURITY AND SOURCE OF PAYMENT—Application of Special Tax Formula" and "THE TAX REPORT" herein).

Although the Special Tax constitutes a lien on parcels subject to taxation within the District, it does not constitute a personal indebtedness of the owners of property within the District. There is no assurance that the owners will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. The risk of the property owners not paying the annual Special Tax is more fully described in "SPECIAL RISK FACTORS."

The School District has covenanted to cause foreclosure proceedings to be commenced and prosecuted against (i) all parcels with delinquent installments of the Special Tax when the amount of the Special Tax collected in any fiscal year is less than 90% of the amount of the Special Tax levied in such fiscal year, and (ii) any single property owner for whom the amount of delinquent installments of the Special Tax in any fiscal year exceeds \$25,000 (see "SECURITY AND SOURCE OF PAYMENT—Delinquent Payments of Special Tax; Covenant for Foreclosure"). Subject to the agreement of the School District to pursue such foreclosure proceedings, the Special Tax will be collected in the manner and at the same time as *ad valorem* property taxes are collected by the County Director of Finance and shall be subject to the same penalties and the same procedures, sale and lien priority in the case of delinquency as is provided for *ad valorem* property taxes. (See "SECURITY AND SOURCE OF PAYMENT—Property Taxation System" and "SECURITY AND SOURCE OF PAYMENT—Alternative Method of Tax Apportionment.")

The Special Tax is excepted from the tax rate limitation of California Constitution Article XIII A pursuant to Section 4 thereof as a "special tax" authorized by a two-thirds vote of the qualified electors as set forth in the Law. Consequently, the District has the power and is obligated to cause the levy and collection of the Special Tax in an amount determined according to the rate and method of apportionment of the Special Tax (up to the Maximum Rates) that the Board and the registered voters within the District have approved. The Special Tax Formula apportions the total debt service requirement (principal, interest, compounded interest, Sinking Fund Account Payments, and redemption premiums, if any), restoration of the Bond Reserve Fund (if required), current Expenses, and other costs each year in the District among the Taxable Land in the District. For a description of the rates and method of apportionment of the Special Tax, see "APPENDIX B—Special Tax Formula".

#### Application of Special Tax Formula

Following the initial levy of the Special Tax in fiscal year 1987-88, there were a number of inquiries from taxpayers in the District about the application of the Special Tax to rate descriptions and rate categories. Some of these inquiries resulted in litigation. All of the litigation has been settled, resulting in certain clarifications of the Special Tax Formula. As a consequence of the clarifications of the Special Tax Formula, there were adjustments and refunds made to the original levy of the Special Tax in fiscal year 1987-88. The adjusted levy of the Special Tax in fiscal year 1987-88 was \$2,656,271, approximately \$257,558 lower than the original levy after accounting for the various adjustments and refunds.

An example of such litigation involved a challenge to the School District's interpretation of the Special Tax Formula by a company involved in aggregate mining. The settlement to the litigation confirmed: (1) the Special Tax Formula grants certain exemptions to agriculturally zoned land (the School District had treated industrial reserve zoned property as industrially zoned rather than as agriculturally zoned property, but because the County Zoning Ordinance specified that industrial reserve zoning is a category of agricultural zoning within the County, certain exemptions granted by the Special Tax Formula to agriculturally zoned land will also apply to industrial reserve zoning so long as such industrial reserve zoning is treated by the County as a category of agricultural zoning.); (2) mere approval of a land use permit to mine property does not constitute approval for future development with higher tax rates within the meaning of the Special Tax Formula; (3) it is permissible for the School District to assign taxable units on a per-acre basis to real property zoned commercial or industrial upon which mining can take place under the Special Tax Formula; and (4) the Special Tax Formula allows for the application of the Special Tax to parcels with multiple zonings.

In past years, several taxpayers disputed the School District's interpretation of the Special Tax Formula as applied to property that was currently zoned for agricultural use but that was proposed for residential development. In response to these disputes, the School District agreed to recognize the exemption of agriculturally zoned property that was not currently improved with a residence. This exemption resulted in a reduction of approximately \$454,000 in Special Taxes for the affected properties in fiscal year 1995-96. The Special Tax levy for 1995-96, which reflected this adjustment in levies on agriculturally zoned property, was about \$221,000 lower than the levy for the 1994-95 tax year. All of the claims filed and inquiries made by taxpayers have concerned the correct interpretation of the Special Tax Formula. No taxpayer has questioned the authority of the School District to levy the Special Tax in accordance with the Special Tax Formula.

Also effective in fiscal year 1995-96, the School District began applying the Special Tax in such a way that limited the levy of the Special Tax on property categorized as "Future Development - Planned" to no more than five years if no approval of a tentative subdivision map, zoning, use permit or other development approval is granted. The School District also began applying the Special Tax in such a way that limited the levy of the Special Tax on property categorized as "Future Development - Approved" to no more than three years in the event that a final subdivision map had not been recorded or a building permit has not been obtained on such property. Any "Future Development - Planned" property subject to the Special Tax for five years will revert in the sixth year to its previous tax rate category and remain subject to its previous tax rate category until a tentative subdivision map, zoning, use permit or other development approval is granted for such property, at which time the property will be placed in

the "Future Development - Approved" category and taxed accordingly. Any "Future Development - Approved" property subject to the Special Tax for three years will revert in the fourth year to the "Future Development - Planned" category (unless the property had already been subject to the Special Tax for five years or more at the rate applicable to the "Future Development - Planned" category, in which event the property will revert to its tax rate category prior to "Future Development - Planned") and remain subject to such applicable tax rate category until a final subdivision map is recorded or a building permit obtained for such property, at which time the property will be returned to the "Future Development - Approved" category and taxed accordingly. The application of this policy by the School District has resulted in some reductions in the total annual Special Tax levied or collected by the District in recent years. Approximately \$1.0 million of the Special Tax levied in fiscal year 2012-13 is subject to future adjustment pursuant to this policy (see "THE TAX REPORT" herein).

#### Special Tax Analysis

The Board is to establish tax rates, up to the Maximum Rates set forth in the Special Tax Formula, to be used to levy and apportion the Special Tax against the Taxable Land within the District on an annual basis. The first levy of the Special Tax occurred in fiscal year 1987-88, commencing July 1, 1987. The following table shows a comparison of the estimated annual revenue needed from the Special Tax to cover annual bond debt service on all 1998 Authorization Bonds and all 1987 Authorization Bonds to be outstanding after the issuance of the Refunding Bonds throughout the term of all 1998 Authorization Bonds and all 1987 Authorization Bonds to be outstanding after the issuance of the Refunding Bonds with the amount of the Special Tax that could be imposed if the Maximum Rates for each rate category were applied against the Taxable Land within the District according to the existing land users and rate categories. The percentage that annual Special Taxes represent of annual net debt service on outstanding 1998 Authorization Bonds and 1987 Authorization Bonds, including the Refunding Bonds, assuming the Special Tax is levied at the Maximum Rates against existing land uses and rate categories, ranges from 102.8% to 267.3%.

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**Comparison of Estimated Maximum Annual Tax Revenues and Estimated Net Annual Debt Service  
Elk Grove Unified School District Community Facilities District No. 1**

Year Ending December 1	Net Annual Debt Service*	Annual Amount of Levy at Maximum Annual Tax Rates	Difference, Tax Levy Minus Debt Service*	Tax Levy as Percent of Debt Service*
2012	\$13,657,531	\$14,573,266	\$915,735	106.7%
2013	13,569,345	14,037,446	468,101	103.4%
2014	13,505,249	14,037,446	532,198	103.9%
2015	13,455,049	14,037,446	582,398	104.3%
2016	13,396,969	14,037,446	640,478	104.8%
2017	13,399,331	14,037,446	638,115	104.8%
2018	13,399,809	14,037,446	637,638	104.8%
2019	13,402,534	14,037,446	634,912	104.7%
2020	13,400,118	14,037,446	637,328	104.8%
2021	13,398,243	14,037,446	639,204	104.8%
2022	13,402,429	14,037,446	635,017	104.7%
2023	13,402,340	14,037,446	635,106	104.7%
2024	13,397,325	14,037,446	640,121	104.8%
2025	13,399,701	14,037,446	637,745	104.8%
2026	13,401,979	14,037,446	635,467	104.7%
2027	13,402,636	14,037,446	634,810	104.7%
2028	13,401,877	14,037,446	635,570	104.7%
2029	13,399,418	14,037,446	638,028	104.8%
2030	13,404,373	14,037,446	633,073	104.7%
2031	13,403,870	14,037,446	633,576	104.7%
2032	13,398,320	14,037,446	639,126	104.8%
2033	5,251,817	14,037,446	8,785,629	267.3%
2034	13,657,449	14,037,446	379,997	102.8%
2035	13,655,949	14,037,446	381,497	102.8%
2036	13,658,199	14,037,446	379,247	102.8%
2037	13,659,062	14,037,446	378,384	102.8%
2038	10,536,449	14,037,446	3,500,998	133.2%

Note: Subject to change based on the final debt service of the Refunding Bonds.

<sup>1</sup> Represents the sum of actual gross debt service on all outstanding 1998 Authorization Bonds and 1987 Authorization Bonds, including the Refunding Bonds. The actual revenue requirements will vary from those shown in the table depending upon the actual Expenses and tax delinquencies.

<sup>2</sup> For the year ending December 1, 2013, and all subsequent years, reflects the Special Tax as levied in fiscal year 2012-13.

The actual amount of the Special Tax that may be levied and collected during any future year will depend upon then-existing land uses and rate categories, the tax rates imposed (subject to the Maximum Rates), and the level of delinquent Special Tax installments. After the issuance of the Refunding Bonds, additional 1998 Authorization Bonds may be issued by the School District and payable from the Special Tax, including refunding bonds that might be issued in the future to refund any outstanding 1998 Authorization Bonds or 1987 Authorization Bonds. (See "ISSUANCE OF ADDITIONAL INDEBTEDNESS").

No estimates are available for the market value of the property in the District. The gross taxable assessed valuation of property in the District for fiscal year 2012-13 is \$24,480,435,085, which is approximately 170 times the aggregate principal amount of all 1998 Authorization Bonds and 1987 Authorization Bonds to be outstanding after the issuance of the Refunding Bonds, and approximately 47 times the principal amount of all 1998 Authorization Bonds and all 1987 Authorization Bonds to be outstanding after the issuance of the Refunding Bonds plus overlapping bonded tax and assessment indebtedness. This net taxable assessed valuation may not be representative of the actual market value of property in the District, however, since Article XIII A of the California Constitution limits any increase in assessed value to no more than 2% per year unless property is sold or transferred.

\* Preliminary; subject to adjustment

As a consequence, typically the assessed value for a parcel is less than the actual market value unless the parcel recently has changed ownership. However, if the actual market value of a parcel decreases, then its assessed value could exceed the value of the parcel. For a further discussion of the assessed valuation of property within the District, see "THE DISTRICT—Assessed Valuation of Property within the District." In addition to the payment of the Special Tax, the owners of property within the District will be obligated to pay *ad valorem* property taxes levied against such property and certain existing and any additional special taxes and assessments for which the property within the District may become obligated. (See "THE DISTRICT – Direct and Overlapping Bonded Debt.")

#### Proceeds of Special Tax

All proceeds of the Special Tax are to be deposited in the Special Tax Fund of the District. All money in the Special Tax Fund is to be set aside by the County Director of Finance and held by the County on behalf of the School District in the following respective special accounts in the following order of priority:

1. Bond Redemption Fund. On or before the first day of each June and December, from money in the Special Tax Fund, the County Director of Finance is to deposit in the Bond Redemption Fund the amount of money necessary to pay debt service on the Bonds on the current interest payment date.
2. Bond Reserve Fund. On or before the first day of each June and December, from the then remaining money in the Special Tax Fund, the County Director of Finance is to deposit in the Bond Reserve Fund such amount of money as shall be required to restore the Bond Reserve Fund for each such series of the Bonds to a sum equal to the Required Bond Reserve for such series of the Bonds.
3. Expense Account. The County Director of Finance shall, from the then remaining money in the Special Tax Fund, transfer to and deposit in the Expense Account a sum equal to the amount required by the School District for the payment of previously unpaid budgeted Expenses or to reimburse the School District for the payment of previously unreimbursed unbudgeted expenses.

All money remaining in the Special Tax Fund on or before December 1 of each year, after transferring all of the sums required to be deposited in the Bond Redemption Fund, the Bond Reserve Fund, and the Expense Account on or prior to such date, is to be withdrawn from the Special Tax Fund by the County Director of Finance and deposited in the Special Projects Fund maintained by the County Director of Finance and expended by the School District for the payment of costs of the acquisition and construction of the Facilities or otherwise of the benefit of the District in accordance with the Law; *provided*, that the County Director of Finance may not make any such withdrawal of money in the Special Tax Fund if and when the School District is in default under the 1998 Bond Resolution.

All proceeds of the Special Tax in each account are to be held by the County Director of Finance and applied as authorized by the 1998 Bond Resolution. (See "THE 1998 BOND RESOLUTION—Funds and Accounts.")

#### Delinquent Payments of Special Tax; Covenant for Foreclosure

The 1998 Bond Resolution provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the covenant for foreclosure described below and in the Law, is to be subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Director of Finance. The County has adopted the Teeter Plan and the District's Special Tax is subject to the Teeter Plan. See "SECURITY AND SOURCE OF PAYMENT - Property Taxation System" and "SECURITY AND SOURCE OF PAYMENT—Alternative Method of Tax Apportionment."

Pursuant to Section 53356.1 of the Law, in the event of any delinquency in the payment of the Special Tax, the School District may order the institution of a Superior Court action to foreclose the lien therefore within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandated by the Law. However, the School District has covenanted for the benefit of the owners of the 1998 Authorization Bonds and 1987 Authorization Bonds that it will review the public records of the County in connection with the collection of the Special Tax not later than August 1 of each year to determine the amount of the Special Tax collected in the prior fiscal year, and if the amount so collected is less than 90% of the amount of the Special Tax levied in such fiscal year, it will within 60 days thereafter institute foreclosure proceedings as authorized by the Law in order to enforce the lien of the delinquent installments of the Special Tax against each separate lot or parcel of land in the District, and will diligently prosecute and pursue such foreclosure

proceedings to judgment and sale. In addition, the School District has covenanted that if the School District determines on the basis of its review that any single property owner in the District is delinquent by more than \$25,000 in his or her obligation to pay the Special Tax for such fiscal year, then it will institute, prosecute, and pursue such foreclosure proceedings in the time and manner provided in the 1998 Bond Resolution against such property owner.

In the event that the sales or foreclosures of property are necessary, there could be a delay in payments to holders of the Bonds (if the Bond Reserve Fund has first been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the School District of the proceeds of sale. However, if the Special Tax is not already being levied at the Maximum Rates, the Board may increase the Special Tax on all Taxable Land within the District in order to pay all amounts due, to replenish the Bond Reserve Fund, and to pay all current Expenses. There can be no assurance that the Maximum Rates will be at all times sufficient to pay the amounts required to be paid by the 1998 Bond Resolution. (See "SPECIAL RISK FACTORS - Maximum Rates.")

No assurances can be given that the real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay the delinquent Special Tax installments.

The Law does not require the School District to purchase or otherwise acquire any lot or parcel of property sold if there is no other purchaser at such sale. The Law and the 1998 Bond Resolution do specify that the Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. Section 53356.6 of the Law requires that property sold pursuant to foreclosure under the Law be sold for not less than the amount of judgment in the foreclosure action, plus post judgment interest and authorized costs, unless the consent of the owners of 75% of the outstanding Bonds is obtained.

After the County has ordered a foreclosure action, it shall dismiss the action before judgment if the owner of the subject property (or any other person) pays all of the following amounts: the delinquent Special Taxes and all penalties, interests and costs accrued; costs of the foreclosure action; authorized attorneys fees; and the tax collector's authorized costs.

#### Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") pursuant to sections 4701 through 4717 of the State's Revenue & Taxation Code. The Teeter Plan guarantees distribution of 100% of the general and special assessments levied to the taxing entities within the respective county, including the special assessments levied on behalf of the District, with the respective county retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

The county cash position is protected by a special fund, known as the "tax loss reserve fund," which accumulates moneys from interest and penalty collections. In each fiscal year, the tax loss reserve fund is required to be funded to the amount of delinquent taxes plus 1% of that year's tax levy. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the county's general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt. The County funds its tax loss reserve fund in the amount of 25% of the County's aggregate delinquencies held at June 30 of the preceding year.

The Teeter Plan is to remain in effect unless the county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the county (which commences on July 1), the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the county. The board of supervisors may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the county if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls in that agency.

As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of the Special Tax levy no matter the delinquency rate within the District.

#### Bond Reserve Fund

The 1998 Bond Resolution requires that the County Director of Finance establish and maintain a Bond Reserve Fund in an amount equal to the Required Bond Reserve for each series of the 1998 Authorization Bonds, being the lesser of (a) 10% of the original principal amount of the 1998 Authorization Bonds, or (b) the maximum debt service in the current or any future Bond Year, or (c) 125% of the average debt service in the current and in all future Bond Years, all as determined by the School District

and specified in writing to the County Director of Finance; *provided*, that such requirement (or any portion thereof) may be satisfied by the provision of one or more surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank, the obligations insured by which insurer or issued by which bank, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter equal to "AAA" or higher assigned by Fitch Ratings or "Aaa" or higher assigned by Moody's Investors Service or "AAA" or higher assigned by Standard & Poor's.

### Property Taxation System

Local property taxation is the responsibility of various county officers. For each taxing agency located in a county, the county assessor computes the value of locally assessed taxable property. Based on the net assessed value of property and the scheduled debt service on outstanding general obligation bonds in each year, the county treasurer/tax collector computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer/tax collector prepares and mails tax bills to taxpayers and collects the taxes. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located (the District is located solely in the County). The State Board of Equalization also assesses certain special classes of property, as described later in this section.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured", and is assessed on the "unsecured roll". Property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

The treasurer-tax collector of a county prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1 and on February 1. In the County, if the first installment is not paid by 5:00 p.m. December 10, a 10% penalty attaches. If the second installment is not paid by 5:00 p.m. April 10, a 10% penalty and a \$10 cost attach. If taxes remain unpaid by June 30, the tax is deemed to be in default. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the treasurer-tax collector.

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. In the County, if taxes are not paid by the delinquency date, as stated on the bill, lien(s) is/are recorded against the assessed owner of the property, which can and will adversely affect assessee's credit.

To collect unpaid taxes, a county treasurer-tax collector may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The treasurer-tax collector may also bring a civil suit against the taxpayer for payment.

In the County, the Director of Finance is responsible for the offices of the auditor-controller, treasurer and tax collector.

### THE TAX REPORT

The Special Tax is levied against the property within the District and collected according to the rate and method of apportionment set forth in the Special Tax Formula summarized in Appendix B. The School District prepared the Tax Report, which sets forth the tax rate for each parcel within the District for fiscal year 2012-13. Pursuant to Ordinance No. 1, 2012-13 adopted by the Board on August 21, 2012, the Board approved the Tax Report and authorized the Superintendent of the School District and his designees to make changes to the Tax Report in response to appeals from taxpayers or otherwise to correct errors in the application of the Special Tax to particular parcels.

The Tax Report indicated that the amount of the Special Tax that was to be levied against property in the District for fiscal year 2012-13 was \$14,037,446. The Special Tax was apportioned by land use (or rate description) in the following manner:

Tax Levy by Land Use: Fiscal Year 2012-13  
Elk Grove Unified School District Community Facilities District No. 1

Land Use	Parcels	Taxable Units <sup>1</sup>	Tax Levy
Agricultural	2,395	895	\$ 55,730
Residential:			
Single Family	87,228	92,239	11,013,622
Duplex / Halfplex	1,933	1,378	86,682
Multi-Family / Condo /MH Park	2,659	10,174	988,213
Mobile Home	176	178	10,308
Commercial/Industrial	2,600	23,053	1,882,892
Exempt Charitable/Public	3,866	0	0
Total	100,857	127,917	\$14,037,446

<sup>1</sup> Net taxable units, after adjusting for tax rate factor, secondary taxable unit factor, and tax reduction factor.

The collection of the Special Tax for fiscal year 2012-13 is subject to the Teeter Plan adopted by the County. Under the Teeter Plan, the School District will receive 100% of the Special Tax levied on Taxable Land in the District, except any Special Tax due from property owned by government agencies and any delinquent taxes from properties on which accelerated foreclosure proceedings have been initiated. See "SECURITY AND SOURCE OF PAYMENT—Alternative Method of Tax Apportionment."

The following table shows, for each rate of category (or development status), the total number of parcels, taxable units, and tax levy in effect for fiscal year 2012-13.

Tax Levy by Rate Category: Fiscal Year 2012-13  
Elk Grove Unified School District Community Facilities District No. 1

Rate Category		Parcels	Taxable Units <sup>1</sup>	Tax Levy <sup>2</sup>
Existing		28,533	37,675	\$1,681,090
Existing Vacant	(Pre 1/26/87)	1,688	454	\$20,811
Future Approved	(1/26/87 to 6/30/98) <sup>2</sup>	46,195	54,485	6,285,848
Future Approved	(7/1/98 to 6/30/01) <sup>2</sup>	8,340	9,051	1,610,276
Future Approved	(From 7/1/01) <sup>2</sup>	15,273	17,175	3,382,244
Future Planned	(1/26/87 to 6/30/98)	484	3,209	157,026
Future Planned	(7/1/98 to 6/30/01)	29	530	41,267
Future Planned	(From 7/1/01)	315	5,339	858,885
Total		100,857	127,917	\$14,037,446

<sup>1</sup> Net taxable units, after adjusting for tax rate factor, secondary taxable unit factor, and tax reduction factor.

<sup>2</sup> Includes parcels in the "Building Permit" category.

The table on the following page shows the frequency distribution of the Special Tax levy for fiscal year 2012-13. Of the \$14,037,446 levied for fiscal year 2012-13, 8.9% was levied against parcels on which the amount of the levy was \$75 or less, and 45.3% was levied against parcels on which the amount of the levy was \$150 or less. Of the 100,857 parcels in the District, 34.1% have a fiscal year 2012-13 Special Tax levy of \$75 or less, and 77.1% have a levy of \$150 or less.

Frequency Distribution of Annual Special Tax Levy: Fiscal Year 2012-13  
Elk Grove Unified School District Community Facilities District No. 1

	\$0	\$1 - \$30	\$31 - \$75	\$76 - \$100	\$101 - \$150	\$151 - \$500	\$501 - \$1,000	\$1,001 - \$5,000	\$5,001 - \$10,000	\$10,001 - \$25,000	\$25,001 - \$50,000	\$50,000 +	Total
Number of Parcels	5,446	3,400	25,548	355	43,004	21,941	479	532	92	52	6	2	100,857
Average Annual Tax Per Taxable Parcel	\$0	\$69,725	\$1,182,169	\$32,108	\$5,071,875	\$4,353,091	\$337,762	\$1,183,170	\$654,952	\$814,847	\$177,946	\$159,802	\$14,037,446
	\$0.00	\$20.51	\$46.27	\$90.45	\$117.94	\$198.40	\$705.14	\$2,224.00	\$7,119.04	\$15,670.13	\$29,657.58	\$79,900.80	\$139.18
% of Totals													
Parcels	5.40%	3.37%	25.33%	0.35%	42.64%	21.75%	0.47%	0.53%	0.09%	0.05%	0.01%	0.00%	100.00%
Tax Revenue	0.00%	0.50%	8.42%	0.23%	36.13%	31.01%	2.41%	8.43%	4.67%	5.80%	1.27%	1.14%	100.00%
Cumulative Tax Revenue	0.00%	0.50%	8.92%	9.15%	45.28%	76.29%	78.69%	87.12%	91.79%	97.59%	98.86%	100.00%	100.00%

The following table shows the 25 largest taxpayers of the Special Tax for fiscal year 2012-13.

**25 Largest Special Taxpayers: Fiscal Year 2012-13**  
**Elk Grove Unified School District Community Facilities District No. 1**

Taxpayer	2012-2013 Special Tax Levy	% of Total 2012-2013 Levy
DPD INVS LLC	\$ 88,320.00	0.63%
MONTELENA DOUGLAS LLC	79,040.00	0.56%
ELK GROVE TOWN CENTER L P	71,481.60	0.51%
VILLAGE CAPITAL GROUP LLC	49,400.00	0.35%
CASELMAN PROPERTIES L P/CHRIS GEERTS/LOUISE P	38,200.00	0.27%
LIEBAU F JACK/CHARLENE C	34,400.00	0.25%
OAKMONT PROPERTIES II LP	30,613.10	0.22%
B/Z INVESTMENTS LLC	28,000.00	0.20%
COMERICA BANK	27,896.00	0.20%
BRUCEVILLE/LAGUNA APARTMENTS L P	26,276.40	0.19%
CAPITAL VLY PARTNERS LLC	26,160.00	0.19%
UHC ELK GROVE LIMITED PARTNERSHIP	25,440.00	0.18%
RIDGE ELK GROVE LP (LIHTC FUND 2011 4 LLC)	24,480.00	0.17%
9130 NOLAN STREET LLC	23,189.60	0.17%
EAST SACRAMENTO RANCH LLC	22,688.98	0.16%
AGAVE ASSOCIATES L P	22,560.00	0.16%
TAYLOR MORRISON CA LLC (AYLESBURY ACQUI PARENT INC)	21,920.00	0.16%
SEASONS APARTMENTS LP	21,600.00	0.15%
U S HOME CORPORATION	21,520.00	0.15%
VINEYARD SACRAMENTO LP	21,120.00	0.15%
SILVERADO FAMILY APARTMENTS LP	20,160.00	0.14%
DOUGLAS RD 105 LLC	20,080.00	0.14%
PAPPAS GATEWAY L P/PAPPAS ARIZONA L P	20,000.00	0.14%
ARBOR CREEK SR APTS/FAMILY APTS LIMITED PARTNERSHIP	19,440.00	0.14%
COSUMNES RIVER LAND LLC	19,429.60	0.14%
<b>TOTAL</b>	<b>\$803,415.28</b>	<b>5.72%</b>

One of the largest special taxpayers within the District, Village Capital Group LLC, was delinquent in the payment of its Special Tax levies for fiscal year 2011-12. The District anticipates the Village Capital Group LLC's delinquent taxes will be paid by December 2012.

As of June 30, 2012, delinquent Special Taxes were \$419,475, of which \$145,772, or 34.8%, represented property owners whose delinquent amounts exceeded \$25,000 and were subject to foreclosure. On August 9, 2012, the School District initiated judicial foreclosure proceedings against three property owners whose aggregate Special Tax delinquencies amounted to \$145,772. Delinquent Special Taxes from properties on which judicial foreclosure has been initiated are excluded from the County's Teeter Plan.

The Special Tax is levied and collected in accordance with the Special Tax Formula summarized in Appendix B. The amount of the Special Tax to be levied and collected in future years will be dependent upon then-existing land uses and rate categories, the tax rates imposed, and the level of delinquent Special Tax installments. The Special Tax has no annual inflation adjustment and no mandatory expiration date. As development occurs within the District in the future, the tax base for the Special Tax should expand. The actual level of development activity in the future will be dependent on a number of factors, including general economic factors and future governmental policies.

With respect to property within the District which is in the "Existing Vacant" rate category or any of the "Future Development"

rate categories, the owners of such property may not acquire vested rights to develop such property until after they have obtained all necessary licenses and permits and proceeded with such development. Until such owners actually acquire vested rights to proceed with development, the permissible uses of their property might be affected by future zoning changes or other land use decisions. If, as a result of any such zoning changes or other land use decisions, property which is in the "Existing Vacant" rate category or any of the "Future Development" rate categories were rezoned to a zoning category that did not allow for the proposed use of such property, and if the owner of such property had not acquired vested rights to develop such property, the tax category for such property might change to a category with a lower tax rate. Because it is anticipated that development will continue within the District, it is not anticipated that, to any significant degree, the rate categories for property would be changed in the future to categories with lower tax rates as a result of zoning or other land use decisions. However, the School District has no authority over zoning and land use decisions within the District (such authority currently being vested with the Board of Supervisors of the County for property in unincorporated areas and with the cities of Sacramento, Elk Grove, and Rancho Cordova for property in incorporated areas), and there can be no assurance that such zoning changes or land use decisions will not occur.

Of the total Special Tax levy for fiscal year 2012-13, approximately 7.2% of the total levy, or approximately \$1,011,996, was derived from parcels for which there could be a potential for future zoning or land use decisions which might result in a lowering of the Special Tax that could be imposed. The remaining 92.8% of the Special Tax levy for fiscal year 2012-13 was derived from parcels for which there is little likelihood that the Special Tax levied on such parcels would be reduced due to future zoning or land use decisions. These parcels have generally acquired vested rights to proceed with development by reason of their having obtained building permits or subdivision maps which are not subject to zoning change application.

The following table shows, for each rate of category and development status, the tax levy in effect for fiscal year 2012-13.

**Tax Levy by Rate Category and Development Status: Fiscal Year 2012-13**  
**Elk Grove Unified School District Community Facilities District No. 1**

Tax Rate Category		Developed Property	Final Map and Approved Tentative Subdivision Map Property	Tentative Subdivision Map Property	Undeveloped Property <sup>1</sup>	Total
Existing	(Pre 1/26/87)	\$1,681,090	\$0	\$0	\$20,811	\$1,701,901
Future Approved	(1/26/87 to 6/30/98)	\$6,285,848 <sup>2</sup>	\$0	\$0	\$0	\$6,285,848
Future Approved	(7/1/98 to 6/30/01)	\$1,610,276 <sup>2</sup>	\$0	\$0	\$0	\$1,610,276
Future Approved	(From 7/1/01)	\$3,154,670 <sup>2</sup>	\$227,574	\$0	\$0	\$3,382,244
Future Planned	(1/26/87 to 6/30/98)	\$0	\$0	\$157,026	\$0	\$157,026
Future Planned	(7/1/98 to 6/30/01)	\$0	\$0	\$41,267	\$0	\$41,267
Future Planned	(From 7/1/01)	\$0	\$0	\$858,885	\$0	\$858,885
Total		\$12,731,884	\$227,574	\$1,057,177	\$20,811	\$14,037,446
% of Total		90.70%	1.62%	7.53%	0.15%	100.00%
Cumulative Total		90.70%	92.32%	99.85%	100.00%	

<sup>1</sup> Property in "Existing Vacant" category.

<sup>2</sup> Both residential and commercial property with building permits approved after January 27, 1987, representing property with improvements that have been built or are under construction. Includes property within the "Building Permit" category.

A copy of the Tax Report approved by the Board, as modified by the Superintendent of the School District and his designees, is on file with the School District and available for public inspection at the office of Facilities and Planning of the School District, 9510 Elk Grove-Florin Road, Elk Grove, California 95624, telephone number (916) 686-7711. The conclusions reached in the Tax Report are subject to certain assumptions and qualifications which are set forth in the Tax Report. The information contained herein is a summary only of certain information contained in the Tax Report, and such information is qualified in its entirety by the Tax Report.



For information concerning the property within the District, see "THE DISTRICT."

## THE DISTRICT

### General Description

The District is a community facilities district organized by the Board under the Act for the purpose of providing for the acquisition, construction, and installation of certain public facilities to serve property within the District. Pursuant to the Act, the seven members of the Board of Education of the School District serve as the legislative body of the District by virtue of their election to the Board.

The boundaries of the District are coterminous with the boundaries of the School District. (See location maps attached hereto as "APPENDIX A—LOCATION MAPS FOR THE DISTRICT / SCHOOL DISTRICT.") The District encompasses an area of approximately 320 square miles, or approximately one-third of the land area of the County. Approximately 80.0% of the District, or about 256 square miles, is located within the unincorporated area of the County. Approximately 13.4% of the District, or about 43 square miles, is located within the city of Elk Grove, approximately 3.4% of the District, or about 11 square miles, is located within the city of Sacramento, and approximately 3.1% of the District, or about 10 square miles, is located in the city of Rancho Cordova.

The population of the District is estimated to be about 315,000 persons in 2012, based on an extrapolation of data provided by the U.S. Census.

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### Development within the District

The following table shows the number of building permits issued for residential units within the District since fiscal year 1986-87.

#### Historical Residential Building Permits Elk Grove Unified School District Community Facilities District No. 1

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Fiscal Year	Number of Residential Building Permits <sup>1</sup>
1986-87	2,156
1987-88	3,177
1988-89	4,507
1989-90	5,517
1990-91	2,138
1991-92	1,886
1992-93	1,738
1993-94	2,411
1994-95	1,813
1995-96	1,960
1996-97	1,927
1997-98	2,490
1998-99	3,412
1999-00	2,935
2000-01	3,597
2001-02	3,642
2002-03	5,582
2003-04	6,806
2004-05	5,118
2005-06	2,965
2006-07	1,503
2007-08	980
2008-09	680
2009-10	476
2010-11	645
2011-12	658

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<sup>1</sup> Number of residential permits represents the number of residential units for which developer fees were paid to the School District upon the issuance of building permits.

157 building permits were issued for residential units during July and August 2012, an increase of 72.5% from the 91 building permits issued for residential units during July and August 2011.

Within the District there are numerous development applications in various stages of processing which, when approved, will add approximately 72,600 taxable units to the District. In addition, the general plans for the County and for the cities of Elk Grove, Sacramento, and Rancho Cordova call for additional growth areas within the District.

### Zoning and Land Use

Zoning and land use decisions for property within the unincorporated area of the District are made by the Board of Supervisors of the County. Such decisions for property within incorporated areas of the District are made by the respective city councils of the cities of Elk Grove, Sacramento, and Rancho Cordova.

The existing zoning and land use designations reflect the manner in which property within the District currently is zoned and do

not necessarily reflect the current actual land uses within the District. The fact that property currently is within a particular zoning or land use designation does not mean that the owner of that property has a vested right to develop that property within such designation. The owner would be obligated to obtain all necessary building and other permits before proceeding with development. Such permits might not be obtained or, alternatively, the zoning or land use designation might be changed before the owner obtained a vested right to proceed with development.

The Special Tax is to be levied annually based variously upon the then-existing actual or planned use categories, zoning or land use designations. Accordingly, decisions made by the governing bodies having control over zoning and land use decisions for property within the District will affect the prospective use of the property and, therefore, the tax base for the Special Tax.

#### Assessed Valuation of Property Within the District

All property (real, personal and intangible) is taxable unless an exemption is granted by the State Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Although most taxable property is assessed by the assessor of the county in which the property is located, some special classes of property are assessed by the State Board of Equalization, as described below under the heading, "State-Assessed Property."

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of their property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed.

*State-Assessed Property.* Under the Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in the State, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The School District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the School District.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured", and is assessed on the "unsecured roll".

Shown in the following table is the assessed valuation of the various classes of property in the District in recent years.

**Historical Total Secured and Unsecured Assessed Valuation  
Elk Grove Unified School District Community Facilities District No. 1**

<u>Fiscal Year</u>	<u>Total Secured Assessed Value</u>	<u>Utility</u>	<u>Total Unsecured Assessed Value</u>	<u>Total Assessed Value</u>	<u>Percentage Change</u>
2000 - 01	\$10,542,128,831	\$8,106,770	\$316,197,319	\$10,866,432,920	
2001 - 02	\$11,787,090,991	\$7,998,633	\$342,852,231	\$12,137,941,855	11.7%
2002 - 03	\$13,448,618,672	\$8,716,381	\$352,639,679	\$13,809,974,732	13.8%
2003 - 04	\$15,474,149,883	\$8,412,988	\$367,791,109	\$15,850,353,980	14.8%
2004 - 05	\$18,617,677,631	\$9,245,899	\$402,152,681	\$19,029,076,211	20.1%
2005 - 06	\$22,583,450,382	\$8,958,758	\$418,234,266	\$23,010,643,406	20.9%
2006 - 07	\$27,690,202,693	\$8,172,007	\$483,379,301	\$28,181,754,001	22.5%
2007 - 08	\$30,719,542,570	\$4,829,516	\$541,149,834	\$31,265,521,920	10.9%
2008 - 09	\$29,850,450,150	\$4,960,766	\$601,016,052	\$30,456,426,968	-2.6%
2009 - 10	\$26,231,791,426	\$4,960,766	\$631,595,647	\$26,868,347,839	-11.8%
2010 - 11	\$25,948,086,535	\$4,960,766	\$617,875,875	\$26,570,923,176	-1.1%
2011 - 12	\$25,043,729,576	\$4,003,468	\$594,162,182	\$25,641,895,226	-3.5%
2012 - 13	\$23,878,849,478	\$3,713,624	\$597,871,983	\$24,480,435,085	-4.5%

Source: Sacramento County Department of Finance

Tax Rates

The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The following table shows *ad valorem* property tax rates for the last five years in a typical tax rate area of the District (TRA 3-117). TRA 3-117 comprises approximately 7.1% of the total secured assessed value of taxable property in the District, the largest TRA within the District.

**Typical Total Tax Rates  
TRA 3-117  
Elk Grove Unified School District Community Facilities District No. 1**

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General Tax Rate	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Los Rios Community College District	0.0066	0.0074	0.0124	0.0090	0.0192
Total	1.0066	1.0074	1.0124	1.0090	1.0192

Source: California Municipal Statistics, Inc.

Property owners within the District are subject to other special taxes and assessments levied by other taxing authorities that provide services within the District. Such non-*ad valorem* special taxes and assessments are not represented in this table.

### Direct and Overlapping Bonded Debt

*The statement of direct and overlapping bonded debt relating to the District was prepared by California Municipal Statistics, Inc. It has been included for general information purposes only. The School District has not reviewed the statement for completeness or accuracy and makes no representations in connection with the statement.*

Contained within the District's boundaries are numerous overlapping local entities providing public services. These local entities may have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds. The first column in the table below names the public agencies that have outstanding debt as of the date of the report and whose boundaries overlap the District. The second column in the table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The third column shows the corresponding portion of each overlapping entity's existing debt allocable to property within the District. The total amount of debt for each overlapping entity is not shown in the table.

In addition, property owners within the District may be subject to other special taxes and assessments levied by other taxing authorities that provide services within the District. Such non-ad valorem special taxes and assessments are not represented in this statement of direct and overlapping bonded debt.

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# Statement of Direct and Overlapping Bonded Debt (As of October 1, 2012)

## Elk Grove Unified School District Community Facilities District No. 1

2012-13 Assessed Valuation: \$24,480,435,085

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 10/1/12</u>
Los Rios Community College District	18.929%	\$ 56,293,900
<b>Elk Grove Unified School District Community Facilities District No. 1</b>	<b>100.</b>	<b>143,833,942 (1)</b>
City of Elk Grove Community Facilities Districts	100.	160,020,000
City of Rancho Cordova Community Facilities District Nos. 2003-1 and 2004-1	100.	71,100,000
Sacramento County Laguna Community Facilities District and I.A. Nos. 1 and 2	100.	25,925,000
Other Sacramento County Community Facilities Districts	100.	23,324,618
Rancho Murieta Community Services District Community Facilities District No. 1	100.	2,530,000
City of Sacramento Community Facilities District No. 2005-01	100.	11,310,000
Southgate Recreation and Park District Benefit Assessment District	84.479	4,147,919
1915 Act Bonds	4.688-100.	22,341,745
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$520,827,124</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	22.770%	\$ 75,725,874
Sacramento County Pension Obligations	22.770	218,508,368
Sacramento County Board of Education Certificates of Participation	22.770	2,121,026
Los Rios Community College District Certificates of Participation	18.929	1,155,615
City of Elk Grove General Fund Obligations	99.504	23,711,803
City of Rancho Cordova Certificates of Participation	13.316	3,048,032
City of Sacramento General Fund Obligations	9.063	65,131,476
Sacramento Metropolitan Fire District Pension Obligations	15.223	9,585,767
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>\$398,987,961</b>
Less: Sacramento County supported obligations		1,518,190
City of Sacramento supported bonds		38,368,618
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$359,101,153</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>\$919,815,085 (2)</b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$879,928,277</b>

(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

### Ratios to 2012-13 Assessed Valuation:

<b>Direct Debt (\$143,833,942).....</b>	<b>0.59%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	2.13%
Gross Combined Total Debt .....	3.76%
Net Combined Total Debt .....	3.59%

<sup>1</sup> Excludes Refunding Bonds to be sold.

<sup>2</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc., Sacramento County Department of Finance

### Value-to-Lien

The following table sets forth the distribution of assessed value-to-Special Tax Bonds lien ratios among parcels of properties subject to the Special Tax levy, based on fiscal year 2012-13 total assessed values (including exemptions) and the outstanding Special Tax Bonds, including the Refunding Bonds.

### Value-to-Lien of Special Tax Bonds Distribution Elk Grove Unified School District Community Facilities District No. 1

Assessed Value to Lien Ratio	Parcel Count	Total Assessed Value	% of Assessed Value	Lien	% of Lien	Special Tax Levy	% of Levy
0 to 1.00	84	\$552	0.00%	\$271,301	0.19%	\$26,478	0.19%
1.00 to 3.00	5	\$2,608	0.00%	\$12,263	0.01%	\$1,197	0.01%
3.00 to 5.00	5	\$4,110	0.00%	\$9,361	0.01%	\$914	0.01%
5.00 to 10.00	26	\$245,628	0.00%	\$335,674	0.23%	\$32,760	0.23%
10.00 to 20.00	125	\$3,184,776	0.01%	\$2,100,188	1.46%	\$204,968	1.46%
Over 20.00	95,166	\$24,203,131,261	99.99%	\$141,105,154	98.10%	\$13,771,131	98.10%
	95,411	\$24,206,568,935	100.00%	\$143,833,942	100.00%	\$14,037,446	100.00%

Note: Subject to change based on final par amount of the Refunding Bonds.

The following table shows assessed value-to-Special Tax Bonds-lien by property type, including the Refunding Bonds.

### Value-to-Lien of Special Tax Bonds by Property Type Elk Grove Unified School District Community Facilities District No. 1

	Parcel Count	Total Assessed Value	Special Tax Levy	Lien	Value to Lien
Single Family Residential	87,213	\$18,153,467,517	\$9,817,945	\$100,599,044	180.5
Multi-Family Residential	1,840	\$1,128,771,611	\$843,483	\$8,642,702	130.6
Agriculture	303	\$212,099,955	\$159,093	\$1,630,143	130.1
Commercial	1,184	\$2,650,741,505	\$772,306	\$7,913,396	335.0
Industrial	814	\$1,454,623,409	\$703,626	\$7,209,661	201.8
Public & Utilities	3	\$179,842	\$210	\$2,147	83.8
Recreation	24	\$47,696,765	\$63,740	\$653,106	73.0
Other	36	\$55,861,624	\$6,622	\$67,854	823.3
Vacant	3,994	\$503,126,707	\$1,670,422	\$17,115,888	29.4
	95,411	\$24,206,568,935	\$14,037,446	\$143,833,942	168.3

Note: Subject to change based on final par of the Refunding Bonds.

## ISSUANCE OF ADDITIONAL INDEBTEDNESS

In accordance with the Law and the 1998 Bond Resolution, bonds in an aggregate principal amount of up to \$205,000,000 were authorized to be issued to provide funds to pay costs of the acquisition and construction of the 1998 Facilities.

The outstanding 1998 Authorization Bonds (including the Refunding Bonds) and the 1987 Authorization Bonds are on parity, which means that they are entitled to equal benefit under the 1998 Bond Resolution and the 1987 Bond Resolution, including the security of the Special Tax. The School District has agreed not to issue additional Bonds payable from the Special Tax on parity with the outstanding 1998 Authorization Bonds and 1987 Authorization Bonds unless all of the following conditions are satisfied:

1. the issuance of such Bonds shall have been authorized under and pursuant to the Act and under and pursuant to the 1998 Bond Resolution and shall have been provided for by a Supplemental Resolution in accordance with the 1998 Bond Resolution;
2. the School District shall be in compliance with all agreements, conditions, covenants, and terms contained in the 1998 Bond Resolution and in all resolutions amending or supplementing the 1998 Bond Resolution required to be observed or performed by the School District; and
3. the proceeds that would have been available to the School District if the Special Tax had been levied and collected at its maximum rate and amount on all Taxable Land in the District during the current fiscal year, as shown by a certificate of the School District on file with the County Director of Finance, shall have produced an amount equal to at least 115% of the greatest sum in any fiscal year of the debt service on all Bonds to be outstanding after the issuance of such series of Bonds plus the debt service on all outstanding 1987 Authorization Bonds; *provided*, that nothing shall limit the issuance of any series of Bonds payable from the proceeds of the Special Tax if after the issuance and delivery of such series none of the Bonds theretofore issued will be outstanding.

The School District has no plans, at this time, to issue additional Parity Bonds after the issuance of the Refunding Bonds.

## SPECIAL RISK FACTORS

### Not General Obligation of the District or School District

The Refunding Bonds are special tax obligations of the District and the School District; the interest on, principal of, and redemption premiums, if any, upon the Refunding Bonds are payable solely from the proceeds of the Special Tax, as provided in the 1998 Bond Resolution, and the School District is not obligated to pay the Refunding Bonds except from the proceeds of the Special Tax and other sources identified in the 1998 Bond Resolution. The general fund of the School District is not liable and the full faith and credit of the School District is not pledged for the payment of the interest on or principal of or redemption premiums, if any, upon the Refunding Bonds, and no tax or assessment other than the Special Tax will ever be levied or collected to pay the interest on, or principal of, or redemption premiums, if any, upon the Refunding Bonds.

### Levy of the Special Tax

The principal source of payment of Bond Debt Service on the Refunding Bonds is the proceeds of the annual levy and collection of the Special Tax. The annual levy of the Special Tax is subject to the Maximum Rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay principal and interest on the Refunding Bonds. Other funds that might be available include funds derived from the payment of delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular taxed parcels and the amount of the levy of the Special Tax, and the Special Tax is expressly prohibited by the Law and the California Constitution from being based on assessed valuation. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of the debt service on the Refunding Bonds, and certainly not a direct relationship.



The Special Tax levied in any particular tax year on a taxed parcel will be based upon the revenue needs and the application of the Special Tax Formula. Application of the Special Tax Formula will, in turn, be dependent upon certain development factors with respect to each taxed parcel by comparison with similar development factors with respect to the other taxed parcels within the District. Thus, the following are some of the factors which might cause the levy of the Special Tax on any particular taxed parcel to vary from the Special Tax that might otherwise be expected:

- Reduction in the number of taxed parcels, for such reasons as acquisition of taxed parcels by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining taxed parcels (if the Special Tax is not already being levied at the Maximum Rates).
- Failure of the owners of taxed parcels to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels (if the Special Tax is not already being levied at the Maximum Rates).
- Development of a taxed parcel more rapidly than development of other taxed parcels, thereby resulting in the application of development factors in the Special Tax Formula to the parcel and resulting in an increased tax burden on the taxed parcel (if the Special Tax is not already being levied at the Maximum Rates).

#### Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district, and the bonds issued by such district.

Under provisions of the Law, special taxes are to be billed to the properties within a community facilities district which were entered on the assessment roll of the county assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such special tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These special tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of special taxes in the future. See "SECURITY AND SOURCE OF PAYMENT -- Delinquent Payments of Special Taxes; Covenant for Foreclosure" for a discussion of the provisions which apply, and procedures which the School District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

#### Collection of Special Taxes

In order to pay Bond Debt Service on the Refunding Bonds, it is necessary that the Special Tax levied against land within the District be paid in a timely manner. The 1998 Bond Resolution provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described below and in the Act, is to be subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Director of Finance. See "SECURITY AND SOURCE OF PAYMENT—Property Taxation System and SECURITY AND SOURCE OF PAYMENT—Alternative Method of Tax Apportionment."

Pursuant to the Act, in the event of any delinquency in the payment of the Special Tax, the School District may order the institution of a superior court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory. However, the School District has covenanted for the benefit of the owners of the Bonds that it will review the public records of the County in connection with the collection of the Special Tax not later than August 1 of each year to determine the amount of the Special Tax collected in the prior fiscal year, it will not later than 60 days thereafter institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installments of the Special Tax against each separate lot or parcel of land in the District, and will diligently prosecute and pursue such foreclosure proceedings to judgment and sale. In addition, the School District covenants that if the School District determines on the basis of its review that any single property owner in the District is delinquent by more than \$25,000 in his or her obligation to pay the Special Tax for such fiscal year, then it will institute, prosecute, and pursue such foreclosure proceedings in the time and manner provided in the 1998 Bond Resolution against such property owner.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to holders of the Refunding Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the School District of the proceeds of sale. See "SECURITY AND SOURCE OF PAYMENT - Delinquent Payments of Special Tax; Covenant for Foreclosure."

#### Discontinuance of Advancement of the Special Tax

The County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District, with full tax and assessment levies instead of actual tax and assessment collections. In return the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect owners from the risk of delinquencies in the payment of special taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to a community facilities district would eliminate such protection from delinquent special taxes for such community facilities district. See "SECURITY AND SOURCE OF PAYMENT - Alternative Method of Tax Apportionment."

#### Maximum Rates

Within the limits of the Special Tax, the School District may adjust the Special Tax levied on all property within the District to provide an amount required to pay interest on and principal of and Sinking Account Payments for and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Bond Reserve Fund to the Required Bond Reserve, and to pay all current Expenses. However, the amount of the Special Tax that may be levied against particular categories of property within the District is subject to the Maximum Rates. The Board elected to levy the Special Tax at the Maximum Rates beginning in fiscal year 1990-01 and for each fiscal year thereafter through fiscal year 2012-13. There is no assurance that the Maximum Rates will at all times be sufficient to pay the amounts required to be paid by the 1998 Bond Resolution. See "SECURITY AND SOURCE OF PAMMENT—The Special Tax" and "THE TAX REPORT."

#### Concentration of Property Ownership

Failure of any significant landowner to pay the annual Special Taxes when due could result in the rapid, total depletion of the Bond Reserve prior to replenishment from the resale of the property upon a foreclosure or otherwise or prior to delinquency redemption after a foreclosure sale, if any. In that event, there could be a default in payments of the principal of and interest on the Refunding Bonds.

The only asset of each owner which constitutes security for the Bonds is his or her property holdings located within the District. See "SPECIAL RISK FACTORS—Bankruptcy" and "SECURITY AND SOURCE OF PAYMENT—Delinquent Payments of Special Tax; Covenant for Foreclosure" for a further discussion.

#### Exempt Properties

Certain properties are exempt from the Special Tax in whole or in part, in accordance with the approved formula. See "APPENDIX B—SPECIAL TAX FORMULA". In addition, the Law provides that properties or entities of the state, federal, or local government are exempt from the Special Tax; provided, however, that property within the District acquired by a public entity through a negotiated transaction, or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. In addition, the Law provides that if property subject to the Special Tax is acquired through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Law have not been tested.

The Law further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax. The Law would prohibit the Board from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the Board determined that the reduction or termination of the Special Tax "would not interfere with the timely retirement" of the Bonds.

### Zoning and Land Use Decisions

The Special Tax is to be levied annually based upon the then-existing actual use and land use designation. Decisions made by the governing bodies having control over zoning and land use decisions for property within the School District will affect the prospective use of the property and, therefore, the future tax base for the Special Tax. At the present time, the Board of Supervisors of the County have control over land use decisions for property within the County for unincorporated areas of the District, and the respective city councils of the cities of Sacramento, Elk Grove, and Rancho Cordova have control over zoning and land use decisions for District property within its jurisdiction. See “THE DISTRICT—Zoning and Land Use” herein.

### Land Values

The total assessed valuation of the District may understate or overstate the actual market value of property in the District. Article XIII A of the California Constitution limits any increase in assessed value to no more than 2% a year unless property is sold or transferred. As a consequence, assessed values are typically less than actual market values unless the property recently has changed ownership. However, no assurances as to the market value of the properties within the District can be made by the School District.

### Hazardous Substances

One of the most serious risks in terms of the potential reduction in the value of Taxable Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of Taxable Property that is realizable upon a delinquency and subsequent institution of foreclosure proceedings. See “SECURITY AND SOURCE OF PAYMENT” for more information.

### Bankruptcy

The payment of the Special Tax and the ability of the School District to foreclose the lien of a delinquent unpaid Special Tax installment may be limited by bankruptcy, insolvency, or other laws generally affecting creditors’ rights or by the laws of the State of California relating to foreclosure.

The various legal opinions to be delivered concurrently with the delivery of the Refunding Bonds (including Bond Counsel’s approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors’ rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases. Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay could increase the likelihood of a delay or default in payment of the principal of and interest on the Refunding Bonds and the possibility of delinquent Special Tax installments not being paid in full.

### No Acceleration Provision

The Refunding Bonds do not contain a provision allowing for the acceleration of the debt service of the Refunding Bonds in the event of a payment default or other default under the terms of the Refunding Bonds or the 1998 Bond Resolution.

### Land Development

Development within the District may be adversely affected by changes in general or local economic conditions, fluctuations in the real estate market, increased construction costs, development, financing and marketing capabilities of individual property owners, water shortages, and other similar factors. Development in the District may also be affected by development in surrounding areas that may compete with the District. In addition, land development operations are subject to comprehensive federal, State, and local regulations, including environmental, land use, zoning, and building requirements. There can be no assurance that land development operations within the District will not be adversely affected by these risks. The School District has not evaluated these risks. Since these are largely business risks of the type that property owners customarily evaluate individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel, the School District has undertaken the financing of the Facilities without regard to any such evaluation. Thus, the creation of the District and the issuance of the Refunding Bonds by the School District in no way implies that the School District has evaluated these risks or the reasonableness of these risks, but to the contrary the School District has made no such evaluation and is proceeding with the financing of the Facilities even though such risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of parcel values for Taxable Land.

The ability of the School District to levy the Special Tax is not dependent on the development of the properties within the District, although the rates at which the Special Tax may be levied will be affected by the pace of development. The development of the property within the District may affect the landowners' ability and willingness to pay the Special Tax and may affect the market value of the property if foreclosed for delinquent payment of the Special Tax.

### Proceedings to Reduce or Terminate Special Tax

Pursuant to the Law, proceedings could be initiated to reduce or terminate the levy of the Special Tax. However, the Act would prohibit the Board from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the Board determined that the reduction or termination of the Special Tax "would not interfere with the timely retirement" of any outstanding indebtedness secured by the Special Tax.

### Parity Taxes and Special Assessments

The Special Tax and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments currently levied or which may be levied in the future by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Tax has priority over all existing and future private liens imposed on the property. The School District, however, has no control over the ability of other entities and districts to issue indebtedness secured by a special tax or assessments payable from all or a portion of the property within the District. Special taxes imposed against property within community facilities districts established by the County of Sacramento, Rancho Murrieta Community Services District, City of Rancho Cordova, City of Sacramento, and the City of Elk Grove are on a parity with the Special Tax, as are numerous special assessments imposed against property within the District. See "THE DISTRICT—Direct and Overlapping Bonded Debt."

### Future Indebtedness

At the present time, some of the property in the District is in an undeveloped state. In order to develop any improvements on the property, the developers who ultimately build on it will need to construct improvements in addition to those being financed with the proceeds of the Bonds. The cost of these additional improvements will increase the public and private debt for which the land in the District or other land or collateral owned by the developers is security, and such increased debt could reduce the ability or willingness of the property owners to pay the Special Taxes levied against the land in the District.

### Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel of Taxable Land to pay the Special Tax even if the value is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The School District has caused a notice of the Special Tax to be recorded in the Office of the Recorder for the County against each parcel of Taxable Land. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

The Law requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

### Issuance of Additional Indebtedness

There remains \$51,935,300.75 in principal amount of unsold Bonds pursuant to the 1998 Authorization. Additional Bonds are expected to be issued in the future pursuant to the 1998 Authorization. See "ISSUANCE OF ADDITIONAL INDEBTEDNESS."

### Loss of Tax Exemption

As discussed under "LEGAL MATTERS – Tax Exemption," interest on the Refunding Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance, as a result of acts or omissions of the School District subsequent to the issuance of the Refunding Bonds in violation of the School District's covenants with respect to the Refunding Bonds. Should interest become includable in gross income, the Refunding Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Tax. See "THE REFUNDING BONDS – Redemption Provisions" herein.

### Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." (See "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES – Limitations on Revenues" for more information.) Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax." Article XIII also states that "...the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Law provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Law prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledge to repay special tax debt, unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Accordingly, although the matter is not free from doubt, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce the Special Taxes through the initiative process, if such reduction would interfere with the timely retirement of the Refunding Bonds.

The interpretation and application of Proposition 218 will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts.

## THE 1998 BOND RESOLUTION

*Certain of the provisions of the 1998 Bond Resolution are summarized below. This summary of the 1998 Bond Resolution is qualified in its entirety by the complete 1998 Bond Resolution, a copy of which is available for inspection at the office of the Superintendent of the School District, 9510 Elk Grove-Florin Road, Elk Grove, California 95624, telephone number (916) 686-7700.*

### Funds and Accounts

The 1998 Bond Resolution establishes the following funds and accounts that relate to all Bonds issued pursuant to the 1998 Bond Resolution:

*Special Tax Fund.* All proceeds of the annual Special Tax are to be deposited in the Special Tax Fund established by the 1998 Bond Resolution so long as any Bonds are outstanding. The monies in the Special Tax Fund are to be used to pay punctually interest on, principal of, and redemption premiums, if any, on the Bonds, to replenish the Bond Reserve Fund to an amount equal to the Required Bond Reserve and to pay all current Expenses. These payments are to be made, in turn, through the following separate accounts and according to the following priority: (i) Bond Redemption Fund; (ii) Bond Reserve Fund; and (iii) Expense Account.

a. *Bond Redemption Fund.* On or before the first day of each June and December, the County Director of Finance shall, from the money in the Special Tax Fund, transfer to and deposit in the Bond Redemption Fund an amount equal to the aggregate amount of interest becoming due and payable on all outstanding Bonds on such June 1 or December 1, as the case may be, and on or before the first day in December 1 in each year, the County Director of Finance shall, from the then remaining money in the Special Tax Fund, deposit in the Bond Redemption Fund an amount of money equal to the aggregate amount of principal becoming due and payable on all outstanding Serial Bonds on such December 1 plus the Sinking Fund Account Payments required to be made on such December 1 into the Sinking Fund Account; *provided*, that all of the aforesaid payments shall be made without priority of any payment over any other payment, and in the event that the money in the Bond Redemption Fund on any June 1 or December 1 is not equal to the amount of interest becoming due on all Bonds on such date or in the event that the money in the Bond Redemption Fund on any December 1 is not equal to the amount of principal of the Bonds becoming due on such date, plus the amount of the Sinking Fund Accounts Payments becoming due on such date, as the case may be, then such money shall be applied pro rata in such proportion as such interest and principal and Sinking Fund Account Payments bear to each other; and *provided further*, that no deposit need to be made into the Bond Redemption Fund if the amount of money contained therein is at least equal to the amount required by the terms of the 1998 Bond Resolution to be deposited therein at the times and in the amounts provided in the 1998 Bond Resolution.

All money in the Bond Redemption Fund shall be used and withdrawn by the County Director of Finance solely to pay the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) plus the principal of and redemption premiums, if any, on the Bonds as they shall mature or upon the prior redemption thereof, except that any money in the Sinking Fund Account shall be used only to purchase or redeem or retire Term Bonds. As used herein, "Serial Bonds" means Bonds for which no Sinking Fund Account Payments are established pursuant to the 1998 Bond Resolution; "Sinking Fund Account Payments" means payments required by the 1998 Bond Resolution to be deposited in the Sinking Fund Account established for the payment of all Term Bonds; "Sinking Fund Account" means the account established by the 1998 Bond Resolution in the Bond Redemption Fund for the payment of Term Bonds of all series of Bonds; and "Term Bonds" means Bonds which are redeemable on or before their specified maturity date or dates from Sinking Fund Account Payments established for the purpose of redeeming or paying such Bonds on or before their specified maturity date or dates.

b. *Bond Reserve Fund.* If necessary, the Bond Reserve Fund is to be replenished on or before the first day of each June and December by the County Director of Finance from moneys then remaining in the Special Tax Fund pursuant to the 1998 Bond Resolution. The County Director of Finance shall transfer any deposit in the Bond Reserve Fund (and pro rata in each separate bond reserve account, if any, established and maintained therein for each Series, on the basis of the deficiency then remaining in each such account) the amount of money that shall be required to restore the balance in the Bond Reserve Fund to an amount equal to the aggregate of the Required Bond Reserves for all Series (and as shall be required to restore the balance in each separate bond reserve account in the Bond Reserve Fund, if established, to an amount equal to the Required Bond Reserve for the Series for which such account was established). For this purpose all investments in the Bond Reserve Fund shall be valued on June 1 and December 1 of each year at the face value thereof if such investments mature within 12 months from the date of valuation, or if such investments mature within 12 months after the date of valuation, at the price at which such investments are redeemable by the holder at his or her option, if so redeemable, or if not so redeemable, at the lesser of (i) the cost of such

investments plus the amortization of any premium or minus the amortization of any discount, or (ii) the market value of such investments; *provided*, that no deposit need be made into any separate bond reserve account in the Bond Reserve Fund established for any Series if the amount contained therein is at least equal to the Required Bond Reserve for such Series, and no deposit need be made into the Bond Reserve Fund if the amount contained therein is at least equal to the aggregate of the Required Bond Reserves for all Series.

All money in each separate bond reserve account in the Bond Reserve Fund shall be used and withdrawn by the County Director of Finance solely for the purpose of paying the interest on or principal of the Bonds for which such account was established in the event there is insufficient money in the Bond Redemption Fund available for this purpose; *provided*, that as a result of any of the foregoing valuations it is determined that the amount of money in the separate bond reserve account exceeds the Required Bond Reserve for the Series for which such account was established, the County Director of Finance shall withdraw the amount of money representing such excess from such account and shall deposit such amount of money in the separate acquisition and construction account in the Acquisition and Construction Fund established for such Series until the closure of such account, and after the closure thereof, shall deposit such amount of money in the Special Tax Fund.

If the Bond Redemption Fund lacks adequate monies to pay the interest, principal, and redemption premiums, if any, and Sinking Fund Account Payments on the Bonds as they come due, the Bond Reserve Fund is to be used to make such payments pursuant to the priorities stated above. If the amount in the bond reserve account for a Series of the Bonds exceeds the Required Bond Reserve for such Series, the excess is to be deposited in the Special Tax Fund.

c. Expense Account. The County Director of Finance shall, from time-to-time, from the then-remaining money in the Special Tax Fund, transfer to and deposit in the Expense Account a sum equal to the amount required by the School District for the payment of previously unpaid budgeted Expenses, or to reimburse the School District for the payment of previously unreimbursed unbudgeted Expenses. All money in the Expense Account shall be used and withdrawn by the County Director of Finance solely for the transfer to or for the account of the School District (as specified in a written request of the School District filed with County Director of Finance) to pay budgeted Expenses as provided in the 1998 Bond Resolution, or to reimburse the School District for the payment of unbudgeted Expenses as provided in the 1998 Bond Resolution, or to pay interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money is available therefore.

All remaining money in the Special Tax Fund on or before December 1 of each year, after transferring all of the sums required to be transferred therefrom on or prior to such date by the provisions of the 1987 Bond Resolution and by the provisions of the 1998 Bond Resolution, shall be withdrawn from the Special Tax Fund by the County Director of Finance and transferred to the School District and deposited in the "Elk Grove Unified School District Community Facilities District No. 1 Special Projects Fund" maintained by the County Director of Finance and expended by the School District solely for the benefit of the District in accordance with the Law, *provided*, that the County Director of Finance shall not make any such withdrawal of money in the Special Tax Fund if and when the School District is in default under the 1998 Bond Resolution.

2. Rebate Fund. The School District is to maintain a Rebate Fund, to be held and administered by the County Director of Finance pursuant to instructions to be delivered by the School District, into which amounts which are due to be rebated to the United States of America pursuant to Section 148 of the Code and the regulations issued thereunder, are to be deposited. The School District is required to comply with the provisions of the rebate certificates relating to Section 148 of the Code. Moneys held in the Bond Rebate Fund are pledged to provide payments to the United States of America and no other person shall have claim to such moneys except as provided in such rebate certificates.

3. Acquisition and Construction Fund. Monies on deposit in the Acquisition and Construction Fund are to be used for the purpose of paying costs of the acquisition and construction of the Facilities, including the payment of costs incidental to or connected with such acquisition and construction. The 1998 Bond Resolution provides that separate Acquisition and Construction Subaccounts are to be established in the Acquisition and Construction Fund for each Series of the Bonds. Any money remaining in the separate account in the Acquisition and Construction Fund created in connection with the issuance of such Series (after the completion of the payment of the costs of the acquisition and construction of the Facilities for which such Series was issued, as set forth in a certificate of the School District filed with the County Director of Finance) shall be withdrawn by the County Director of Finance from the Acquisition and Construction Fund and deposited by the County Director of Finance in the Special Tax Fund.

4. Costs of Issuance Account. A separate account in the Acquisition and Construction Fund known as the "Costs of Issuance Account" shall be maintained by the County Director of Finance, into which account shall be deposited (in a separate subaccount to be maintained therein), as and if established by a Supplemental Resolution, the amount required to be deposited therein by the provisions of each Supplemental Resolution providing for the issuance of a Series. All money in the Costs of Issuance Account shall be applied in the manner provided by law for payment of Costs of Issuance; *provided*, that any money remaining therein or

in a separate subaccount in the Costs of Issuance Account created in connection with the issuance of such Series, as set forth in a certificate of the School District filed with the County Director of Finance) shall be withdrawn by the County Director of Finance from the Costs of Issuance Account and deposited by the County Director of Finance in the Acquisition and Construction Fund in the acquisition and construction account established and maintained for such Series.

#### Covenants of the School District

So long as any of the Bonds are outstanding and unpaid, the School District is required (through its proper officers, agents, or employees) to faithfully perform and abide by all of the covenants, undertakings, and provisions contained in the 1998 Bond Resolution or in any of the Bonds issued thereunder, including the following covenants for the benefit of the owners of the Bonds. Refer to the 1998 Bond Resolution for a complete discussion of the covenants contained in the 1998 Bond Resolution.

*Punctual Payment and Performance.* The School District will punctually pay the interest on and principal of and redemption premium, if any, to become due on every Bond issued pursuant to the 1998 Bond Resolution in strict conformity with the terms of the Law and the 1998 Bond Resolution and of the Bonds, and will faithfully observe and perform all of the agreements, conditions, covenants and terms contained therein and in all Supplemental Resolutions and in the Bonds required to be observed and performed by it.

*Against Additional Indebtedness.* The School District will not issue any evidences of indebtedness payable from the proceeds of the Special Tax except as provided in the 1998 Bond Resolution, and will not create, nor permit the creation of, any pledge, lien, charge or other encumbrance upon any money in the Special Tax Fund other than as provided in the 1998 Bond Resolution; *provided*, that the School District (consistent with and subject to the conditions and terms of the 1987 Bond Resolution) may at any time, or from time to time, issue evidences of indebtedness for any lawful purpose of the District which are payable from any money in the Special Projects Fund, so long as any payments due thereunder shall be subordinate in all respects to the use of the proceeds of the Special Tax as provided in the 1987 Bond Resolution and in the 1998 Bond Resolution. For a description of circumstances under which the Bonds or refunding Bonds may be issued, to be secured by the Special Tax, see "ISSUANCE OF ADDITIONAL INDEBTEDNESS".

*No Action to Prompt Adverse Tax Consequences.* The School District covenanted that it will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, and specifically will not take any action, or fail to take any action, that would cause the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code, "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code, or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code. To this end, the School District covenanted to comply with such sections of the Code, and the regulations issued thereunder, and the provisions of rebate certificates to be executed and delivered by the School District prior to the date of delivery of any of the Bonds.

*Adoption of a Budget.* The School District covenanted that, on or before July 1 of each year, it will adopt a budget setting forth the estimated Expenses for the year ending on the next succeeding June 30.

*Payment of Claims.* The School District covenanted that it will pay all lawful claims which, if unpaid, may become payable from the Special Tax or from any of the funds allocated to the payment of the Bonds, or which may impair the security of the Bonds.

*Protection of Security and Rights of Holders.* The School District covenanted that it will preserve and protect the security of the Bonds and the rights against all claims and demands of all persons.

*Payment of Governmental Charges and Compliance with Governmental Regulations.* The School District covenanted that it will pay all taxes, assessments, and other governmental charges or liens that may be levied upon the Facilities owed by it promptly, except that the School District shall not be required to pay any such governmental charges if the School District, in good faith, contests that the validity of the charges and sets aside reserves to cover such charges. The School District covenanted that it will observe and conform with all valid regulations of any governmental authority relative to the operation of the Facilities owned by it, except that the School District shall not be required to comply with any such regulations if the School District, in good faith, contests the application or validity of the regulations.

*Levy and Collection of Special Tax.* The School District covenanted that, so long as any Bonds are outstanding, it will annually levy the Special Tax against all Taxable Land in the District and make provision for the collection of the Special Tax in amounts which will be sufficient, after making reasonable allowances for contingencies and errors in the estimates, to yield proceeds equal



to the amounts required for compliance with the agreements, conditions, covenants, and terms contained in the 1998 Bond Resolution, and which in any event will be sufficient to pay the interest on and principal of any Sinking Fund Payments for and redemption premiums, if any, on the Bonds as they become due and payable and to replenish the Bond Reserve Fund to the Required Bond Reserve and to pay all current Expenses as they become due and payable in accordance with the provisions of the 1998 Bond Resolution. The Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected, and except as otherwise provided in the covenant described below under "Foreclosure of Special Tax Liens" and in the Law, is to be subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes.

*Foreclosure of Special Tax Liens.* The School District covenanted that it will review the public records of the County in connection with the collection of the Special Tax not later than August 1 of each year to determine the amount of the Special Tax collected in the prior fiscal year, and if the amount so collected is less than 90% of the amount of the Special Tax levied in such fiscal year, it will within 60 days thereafter institute foreclosure proceedings as authorized by the Law in order to enforce the lien of the delinquent installments of the Special Tax against each separate lot or parcel of land in the District and will diligently prosecute and pursue such foreclosure proceedings to judgment and sale. In addition, the School District covenanted that if the School District determines on the basis of its review that any single property owner in the District is delinquent by more than \$25,000 in his or her obligation to pay the Special Tax for such fiscal year, then it will institute, prosecute, and pursue such foreclosure proceedings in the time and manner provided in the 1998 Bond Resolution against such property owner.

*Continuing Disclosure.* The School District will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by the School District and dated the date of the original execution, authentication, and initial delivery of the first Bonds issued pursuant to the 1998 Bond Resolution, as originally executed and as it may be amended from time to time accordance with the terms thereof, and notwithstanding any other provision of the 1998 Bond Resolution, failure of the School District to comply with such Continuing Disclosure Certificate shall not be considered an Event of Default; *provided*, that any holder may take such action as may be necessary and appropriate, including seeking mandate or a specific performance by court order, to cause the School District to comply with its obligations under the 1998 Bond Resolution.

*Further Assurances.* The School District covenanted that it will make all further assurances as may be reasonably necessary to assure the holders of the Bonds of their rights and benefits, including without limitation the filing of all financial statements, agreements, instruments or other documents in the forms and in the locations necessary to get perfect and protect, and to continue the perfection of, the pledge of the Special Taxes provided in the 1998 Bond Resolution to the fullest extent possible under applicable law of the State.

#### Deposit and Investment of Money in Accounts and Funds

Any money in the Acquisition and Construction Fund, the Special Tax Fund, the Bond Redemption Fund, the Expense Account, and the Special Projects Fund shall (consistent with and subject to the conditions and terms of the 1987 Bond Resolution) be invested by the County Director of Finance pursuant to a request of the School District received by the County Director of Finance before making any such investment in those Investment Securities (as defined in the 1998 Bond Resolution) specified in such request of the School District that mature not later than the date on which it is estimated that such money will be required to be paid out pursuant to the 1998 Bond Resolution, and money in the Bond Reserve Fund shall be invested by the County Director of Finance in Federal Securities (as defined in the 1998 Bond Resolution) maturing not more than five years from the date of purchase by the County Director of Finance, or the final maturity of any outstanding Bonds, whichever is earlier. Any money held by the County Director of Finance in any accounts and funds established under the 1998 Bond Resolution and not otherwise invested in Investment Securities shall be deposited in time or demand deposits in any state of nationally-chartered bank or trust company, or a state or federal savings and loan association, and shall be secured at all times by such obligations as are required by law and to the fullest extent required by law.

All earnings on any money so deposited or invested which exceed the requirements of the account or fund from which such money was deposited or invested shall (subject to certain requirements concerning any "arbitrage" earnings), be deposited as follows: (i) all earnings on any money in any Acquisition and Construction Account established for any Series in the Acquisition and Construction Fund shall be deposited as and when received in such Acquisition and Construction Account, (ii) all earnings on any money in any Bond Reserve Account for any Series in the Bond Reserve Fund shall be deposited as and when received in the Acquisition and Construction Account established for such Series in the Acquisition and Construction Fund until the closure of such Acquisition and Construction Account, as set forth in a certificate of the School District filed with the County, and thereafter shall be deposited as and when received in the Special Tax Fund, and (iii) all earnings on any money in the Special Tax Fund, the Bond Redemption Fund and the Expense Account shall be deposited as and when received in the Special Tax Fund. All losses on

any such money so deposited shall be borne by the account or fund from which the deposit or investment was made.

## SACRAMENTO COUNTY INVESTMENT POOL

*This section provides a general description of the County's investment policy and current portfolio holdings. The information set forth under this section relating to the County Pool has been obtained from the Department of Finance of the County and is believed to be reliable but is not guaranteed as to accuracy or completeness. The School District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Sacramento, Office of the County Director of Finance, 700 H Street, Suite 1710, Sacramento, California 95814, Telephone (916) 874-6744.*

Most of School District's funds, including cash held in the Bond Redemption Fund and Bond Reserve Fund, are held and invested at the County in the pooled investment fund managed by the County Director of Finance (the "County Pool"), in which certain funds of the County and certain funds of other participating entities are invested pending disbursement. The County Director of Finance is the *ex officio* treasurer of each of these participating entities, which are legally required to deposit their cash receipts and revenues in the County treasury. Under State law, withdrawals are allowed only to pay for expenses, which have become due. The remaining amounts in the County Pool can be withdrawn by the depositors for whom these amounts are held, provided such withdrawals conform to legal mandates and procedures.

Each governing board of school districts and special districts within the County may allow certain withdrawals of non-operating funds for purposes of investing outside the County Pool. Some districts have from time to time authorized the County Director of Finance to purchase specified investments for certain district funds to mature on predetermined future dates when cash would be required for disbursements.

Funds held in the County Pool are invested by the County Director of Finance in accordance with State law and the County's investment policy, which is prepared by the County Director of Finance and approved by the County Board of Supervisors. A copy of the investment policy is attached as "APPENDIX D—SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY." The County Director of Finance neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The School District will maintain or cause to be maintained detailed records with respect to the applicable proceeds.

The County Pool is invested in order to earn a reasonable return while awaiting application for governmental purposes. The specific objectives for the County Pool are ranked in order of importance: safety of principal, liquidity, public trust, and maximum rate of return. The gross earned interest yield of the County Pool for the quarter ended September 30, 2012 was 0.436%, with weighted average maturity of 279 days.

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A summary description of the composition of the County Pool from the quarterly investment report is provided in the following table.

## Sacramento County Pooled Investment Fund As of September 30, 2012

Type	Interest Rate	Trading Yield	Par Value	Book Value	Market Value	Portfolio % of Market Value
Variable Rates (Muni)	0.388%	0.388%	\$ 42,011,447	\$ 42,011,447	\$ 42,011,447	1.838%
Federal Farm Credit Bonds (FFCB) Notes	1.734%	0.571%	39,925,000	41,297,002	41,141,328	1.800%
Federal Home Loan Banks (FHLB)	2.465%	0.837%	145,000,000	150,155,915	148,324,400	6.488%
Fed. Nat'l Mortgage Assoc. (FNMA) Notes	1.827%	0.988%	310,000,000	318,366,617	318,135,600	13.915%
FNMA Discount Notes	0.105%	0.105%	166,000,000	165,969,431	165,999,000	7.261%
FHLB Discount Notes	0.109%	0.109%	170,000,000	169,962,773	169,993,100	7.435%
Fed. Home Loan Mtg. Corp. (FHLMC) Notes	0.122%	0.122%	114,000,000	113,969,732	113,999,550	4.986%
FHLMC Discount Notes	1.714%	0.723%	425,000,000	434,156,622	432,645,700	18.924%
Commercial Paper (Discount)	0.200%	0.200%	467,629,000	467,381,825	467,490,865	20.448%
Certificates of Deposits/Thrift Notes	0.196%	0.196%	321,100,000	321,100,324	321,109,378	14.045%
CD-ACT Over 365/366	0.216%	0.216%	15,099,000	15,099,000	15,099,000	0.660%
Passbook Accounts	0.380%	0.380%	50,300,000	50,300,000	50,300,000	2.200%
County Pool Total	0.879%	0.447%	\$2,266,064,447	\$2,289,770,688	\$2,286,249,368	100.000%

Source: Sacramento County Department of Finance

### THE SCHOOL DISTRICT

*The information in this section concerning the operations of the School District and its finances are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Refunding Bonds is payable from the general fund of the School District. The Refunding Bonds are payable from the proceeds of the Special Tax. See "SECURITY AND SOURCE OF PAYMENT" herein.*

#### General Information

The School District was formed in 1959 through the unification of smaller school districts. The School 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 and Key Administrative Personnel

The Board governs all activities related to public education within the jurisdiction of the School District. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding source entities. The Board consists of seven members who are publicly elected from the School District at large. Each Board member is elected by the public for a four-year term of office, and elections for the Board are held every two years. The Board has the decision-making authority and is accountable for all fiscal matters relating to the School District.

The current members of the Board are set forth in the following table.

**The Board of Trustees  
Elk Grove Unified School District**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chet Madison, Sr.	President	November 2012
Alfred Rowlett	Clerk	November 2012
Jeanette Amavisca	Member	November 2014
Priscilla Cox	Member	November 2014
William Lugg, Jr.	Member	November 2012
Jacob L. Rambo	Member	November 2012
Bobbie Singh-Allen	Member	November 2014

The Superintendent of the School District is appointed by the Board and reports to the Board. The Superintendent is responsible for managing the School District's day-to-day operations and supervising the work of other key District administrators. Key members of the School District's staff are set forth on page 'iii' of this Official Statement.

Average Daily Attendance

California school districts receive a significant portion of their general purpose operating income from State appropriations under a formula known as the State revenue limit. In general, the State revenue limit for each school district is calculated by multiplying a "base revenue limit" per student by the school district's student enrollment measured in units of average daily attendance (ADA). For a further discussion of State revenue limits, see "STATE FUNDING OF PUBLIC EDUCATION" herein.

Set forth in the following table is the School District's historical and current Period 2 ADA for grades K-12 (excluding adult education and charter schools).

**Period 2 Average Daily Attendance  
Elk Grove Unified School District**

<u>Year</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13<sup>1</sup></u>
K-12	58,598	58,736	58,922	58,794	58,868

<sup>1</sup>Budgeted

Charter Schools

There are currently three charter schools operating within the School District:

- Elk Grove Charter School serves grades 7-12 with 348 ADA for fiscal year 2011-12, of which approximately 345 resided within the District
- California Montessori Project – Elk Grove Campus serves grades K-8 with 266 ADA for fiscal year 2011-12, of which approximately 238 resided within the District
- Fortune Charter School serves grades K-3 with 348 ADA for fiscal year 2011-12, of which approximately 92 resided within the District

The Elk Grove Charter School is a fiscally dependent school that operates, to a certain extent, under the financial control of the District with their financial activities presented in the School District's financial statements under the Charter School Fund (see "APPENDIX C" herein for more information). California Montessori Project – Elk Grove Campus and Fortune Charter School are fiscally independent schools whose financial reporting is separate from the School District.

To the extent charter schools draw students from School District schools and reduce School District enrollment, charter schools can adversely affect School District revenues. However, certain per-pupil expenditures of the School District also decrease based upon the number of students enrolled in charter schools. School districts are required to provide charter schools having a projected average daily attendance of at least 80 or more students within its boundaries facilities comparable to those provided to regular school district students.

#### Teacher Staffing Ratios

Set forth below are the teacher to pupil ratios for the School District for fiscal year 2010-11.

#### Teacher Staffing Ratios Elk Grove Unified School District

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<u>Grades</u>	<u>Pupil – Teacher Ratio</u>
Elementary	24.3:1
Middle	23.4:1
High School	25.8:1
Alternative	36.1:1
Special Education	12.2:1
Continuation	29.8:1

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Source: Education Data Partnership

#### Employee Relations

State law provides that employees of public school districts of the State may be divided into appropriate bargaining units which then are to be represented by an exclusive bargaining agent.

The School District has five recognized bargaining units which represent its employees. The Elk Grove Education Association (“EGEA”) is an affiliate of the California Teachers Association and represents the School District’s certificated personnel. The Psychologies & Social Workers Association (“PSWA”) is an independent union representing the School District’s psychologists and social workers. The California School Employees’ Association (“CSEA”) represents the School District’s instructional assistants and related positions. The Amalgamated Transit Union, Local 256 (“ATU”) represents the School District’s transportation personnel. The American Federation of State, County and Municipal Employees, Local 258 (“AFSCME”) represents all other non-management classified employees.

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Set forth in the following table are the number of full-time equivalents (“FTEs”) funded from the General Fund along with the contract status for each of the bargaining units.

**Bargaining Units, Number of Employees, and Contract Status**  
**Elk Grove Unified School District**

<u>CERTIFICATED</u>	<u>FTEs</u>	<u>STATUS</u>
EGEA	2,995	Settled through fiscal year 2012-13
PSWA	57	Settled through fiscal year 2012-13
<u>CLASSIFIED</u>	<u>FTEs</u>	<u>STATUS</u>
AFSCME	948	Settled for fiscal year 2011-12, in negotiations for 2012-13
ATU	119	Settled for fiscal year 2011-12, in negotiations for 2012-13
CSEA	566	Settled for fiscal year 2011-12, in negotiations for 2012-13

The School District also has 419 FTE management, confidential and administrative employees not represented by a bargaining unit.

Pension Plans

All full-time employees of the District are eligible to participate under defined benefit retirement plans maintained by agencies of the State. Certificated employees are eligible to participate in the cost-sharing multiple-employer State Teachers’ Retirement System (“STRS”). Classified employees are eligible to participate in the agent multiple-employer Public Employees’ Retirement Fund of the Public Employees’ Retirement System (“PERS”), which acts as a common investment and administrative agent for participating public entities within the State.

STRS operates under the State of California Education Code sections commonly known as the State Teachers’ Retirement Law. Membership is mandatory for all certificated employees of California public schools meeting the eligibility requirements. STRS provides retirement, disability and death benefits based on an employee’s years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty-five.

Active plan members are required to contribute 8.0% of their salary and the School District is required to contribute a statutorily determined rate (8.25% in 2011-12). The School District's contribution to STRS was \$18,486,056 for fiscal year 2010-11, was \$18,412,602 in fiscal year 2011-12, and is budgeted to be \$19,556,771 in fiscal year 2012-13.

All full-time classified employees of the School District participate in PERS, which provides retirement, disability and death benefits based on an employee’s years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and School District resolution.

Active plan members are required to contribute 7.0% of their salary and the School District is required to contribute an actuarially determined rate (10.707% in fiscal year 2011-12). The School District's contribution to PERS was \$6,959,902 for fiscal year 2010-11, was \$6,786,637 in fiscal year 2011-12, and is budgeted to be \$7,550,222 in fiscal year 2012-13. For a more complete description of the School District’s pension plan and annual contribution requirements, see “APPENDIX C” attached hereto.

The School District offered a one-time supplemental early retirement plan effective July 1, 2010. The plan was offered to members of EGEA and PSWA that met certain requirements. The executed plan includes 151 participants and requires five annual payments of \$1.5 million beginning July 2010.

### Other Post Employment Benefits

In June 2004, the Governmental Accounting Standards Board (“GASB”) pronounced Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. The pronouncement requires public agency employers providing post employment benefits other than pension to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. GASB Statement No. 45 (“GASB 45”) was effective for the School District for the fiscal year ending June 30, 2008. GASB 45 provides that agencies should establish a reserve fund and annually transfer sufficient funds to this reserve in order to pay other post employment benefits (“OPEB”) for the period of time agreed in union contracts.

The School District provides postretirement health care benefits to School District employees either hired prior to July 1, 2006 and retired from the School District with at least 10 years of service, or hired on or after July 1, 2006 and retired from the School District with at least 15 years of service, and in either case immediately entered retirement status with STRS or PERS. As of June 30, 2011, 399 retirees are receiving these benefits. For employees who retired prior to July 1, 2000, the School District pays the insurance premiums for the lowest cost health plan for the retiree and one dependent. Expenditures for post-employment health care benefits are recognized as the premiums are paid (pay-as-you-go).

In June 2007, an actuarial study was conducted to analyze liabilities associated with the School District’s retiree health program as of November 1, 2006. The study calculated the actuarial accrued liability (“AAL”) as well as the unfunded AAL to be \$33,329,761. The annual required contribution (ARC) is calculated to be \$2,276,151. Because the plan is frozen, the School District has not obtained a current actuarial valuation.

The School District’s contribution for current retirees hired prior to July 1, 2000 on a pay-as-you-go basis was \$2,191,171 for fiscal year 2010-11, was \$2,159,178 for fiscal year 2011-12, and is budgeted to be \$2,645,110 in fiscal year 2012-13.

The School District also provides health and welfare benefits as defined in Sections 3543.2 and 53200 of the Government Code through a Health and Welfare Plan for retired eligible employees of the School 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. The Elk Grove Benefits Employee Retirement Trust (“EGBERT”) was established February 20, 1996 pursuant to an agreement by and between EGEA, AFSCME, ATU, PSWA and the School District. Participation in EGBERT is limited to School District employees and School District board members who qualify pursuant to appropriate board policies, and their respective dependents. Additionally, School District employees who are not subject to the terms of a collective bargaining agreement, but who otherwise qualify for retirement health benefits pursuant to School 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 School District who retire on or after July 1, 2000. The contribution requirements of plan members and the School District are established through the negotiation process and approved by the Board.

In January 2011, an actuarial study was conducted analyzing liabilities associated with EGBERT as of December 1, 2010. The study identified EGBERT’s AAL to be \$316,262,727, the unfunded AAL to be 253,505,097, and the ARC to be \$28,250,297. The School District’s contribution for current retirees on a pay-as-you-go basis was \$10,505,887 for fiscal year 2010-11, was \$11,519,994 for fiscal year 2011-12, and is budgeted to be \$11,719,927 for fiscal year 2012-13.

## SCHOOL DISTRICT FINANCIAL INFORMATION

### Accounting Practices

The School 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 School District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The School District’s basic financial statements consist of government-wide statements and fund-based financial statements. Government-wide statements, consisting of a statement of net assets and a statement of activities, report all the assets, liabilities, revenue and expenses of the School District and are accounted for using the economic resources measurement focus and accrual basis of accounting. The fund-based financial statements consist of a series of statements that provide information about the School District’s major and non-major funds. Governmental funds, including the School District’s General Fund, special revenues funds, capital project funds and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting,

revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See “NOTE 1” in “APPENDIX C” herein for a further discussion of applicable accounting policies.

The School District’s independent auditor for the year ended June 30, 2011 is Crowe Horwath LLP, Sacramento, California. The financial statements of the School District as of and for the year ended June 30, 2011, are set forth in “APPENDIX C” attached hereto.

#### Budget and Financial Reporting Process

The School District’s General Fund finances the legally authorized activities of the School District for which restricted funds are not provided. General Fund revenues are derived from such sources as federal and State school apportionments, taxes, use of money and property, and aid from other governmental agencies.

The School District is required by provisions of the State of California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed revenues plus the carry-over fund balance from the previous year. The State of California Department of Education imposes a uniform budgeting format for school districts.

The fiscal year for all school districts is July 1 to June 30. The same calendar applies to the budgets of county offices of education, except that their budgets and reports go to the State Superintendent of Public Instruction for review. The State budget, too, is extremely important since school districts depend on it for almost all their revenue. There is a very close timing in the summer between final approval of the State budget, school finance legislation, and the adoption of local district budgets. In some years, the State budget is not approved by the deadline, which forces school districts to begin the new fiscal year with only estimates of the amount of money they will actually receive.

The school district budgeting process involves continuous planning and evaluation. Within the deadlines, school districts work out their own schedules for considering whether or not to hire or replace staff, negotiating contracts with all employees, reviewing programs, and assessing the need to repair existing or acquire new facilities. Decisions depend on the critical estimates of enrollment, fixed costs, commitments in contracts with employees as well as best guesses about how much money will be available for elementary and secondary education.

The timing of some decisions is forced by legal deadlines. For example, preliminary layoff notices to teachers must be delivered in March, with final notices in May. This necessitates projecting enrollments and determining staffing needs long before a school district will know either its final financial positions for the current year or its income for the next one.

The governing board must submit a budget to the County Superintendent by July 1, and a publicized opportunity for public participation in the budget process is required by law. There are two options for budget adoption. School districts may adopt their budgets by July 1 and then revise and readopt them by September 8 after a public hearing. Alternatively, school districts may decide, by the previous October 31, to hold public hearings before adopting their budgets by July 1. School districts choosing this option revise their revenues and expenditures after the State budget act is adopted, without a second public hearing. All school districts must perform a criteria and standards review before budget adoption. In addition, those school districts on the alternative schedule for adoption must repeat the review before their revision only if the July 1 budget was disapproved. Legislation requires criteria and standards for stringent review of school districts' finances, focusing primarily on predictions of average daily attendance, operating deficit, and reserves. The legislation also dictates when and how outside committees, or an appointed Paying Agent in emergency situations, must work with school districts. This oversight is part of an effort to reduce the number of districts in financial trouble and to increase the responsible use of tax dollars.

The county superintendents monitor all school districts' budgets, ongoing financial obligations and multi-year contracts. They have specific powers for recommending actions to revise budgets. They are not, however, authorized to abrogate existing collective bargaining agreements. School districts must review their financial position for the periods ending October 31 and January 31 in order to certify their abilities to meet commitments through the rest of the school year.

Each school district is required by the State Education Code to file these two interim reports each year by no later than December 15 and March 15. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. The county office of education must then, within 30 days, evaluate the interim reports and forward their comments to the State Department of Education and the State Controller's Office.



Included in the report is a certification by the president of the governing board of each school district that classifies the District according to its ability to meet its financial obligations. The certifications are grouped into three categories: positive certification, which designates that the school district will be able to meet its financial obligations for the remainder of the fiscal year and the following two years; a qualified certification, which means that the school district may not be able to meet its financial obligations for the remainder of the fiscal year and following two years if certain events occur; and a negative certification, which signifies that the school district will not be able to meet its financial obligations for the remainder of the fiscal year or of the following year. A certification by the governing board may be overridden by the county superintendent. If either the first or second interim report is not positive, the county superintendent may require the district to provide a third interim report by June 1 covering the period ending April 30. If not required, a third interim report is generally not prepared (though may be at the election of the district). The same calendar applies to the budgets of county offices of education, except that their budgets and reports go to the State Superintendent of Public Instruction for review.

The county superintendent must annually present a report to the governing board of the school district and the State Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty, pursuant to Education Code Section 42127.6. Any school district with a qualified or negative certification must allow the county office of education at least ten working days to review and comment on any proposed agreement made between its bargaining units and the school district before it is ratified by the board (or the state administrator). The county superintendent will notify the school district, the county board of education, the governing board and the district superintendent (or the state administrator), and each parent and teacher organization of the school district within those ten days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district. Also, pursuant to Education Code Section 42133, a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or the next succeeding fiscal year, non-voter approved debt unless the county superintendent of schools determines that the repayment of that debt by the school district is probable.

The filing status of the School District's interim reports for the past five years appears in the following table.

### Certifications of Interim Financial Reports Elk Grove Unified School District

<u>Fiscal Year</u>	<u>First Interim</u>	<u>Second Interim</u>
2007-08	Positive	Qualified
2008-09	Positive	Qualified
2009-10	Qualified	Qualified
2010-11	Qualified	Qualified
2011-12	Qualified	Qualified

Source: California Department of Education

### Financial Statements

Figures presented in summarized form herein have been gathered from the School District's financial statements. The audited financial statements of the School District for the fiscal year ending June 30, 2011, have been included in this Official Statement. See "APPENDIX C" herein. Audited financial statements for all prior fiscal years are on file with the School District and available for public inspection during normal business hours. Copies of financial statements relating to any year are available to prospective investors and or their representatives upon request by contacting the School District at the address and telephone number set forth on page "ii" of this Official Statement, or by contacting the School District's financial advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California, 95814-5609, Tel. (916) 444-5100.

The following illustration sets forth audited School District's General Fund data for fiscal years 2008-09 through 2010-11, unaudited General Fund data for fiscal year 2011-12, and budgeted data for fiscal year 2012-13.

**General Fund Activity**  
**Elk Grove Unified School District**

	<u>2008-09</u> <u>Audited</u>	<u>2009-10</u> <u>Audited</u>	<u>2010-11</u> <u>Audited</u>	<u>2011-12</u> <u>Unaudited</u>	<u>2012-13</u> <u>Budget</u>
BEGINNING BALANCE JULY 1	\$58,270,656	\$47,202,118	\$38,182,792	\$65,439,916	\$83,772,081
REVENUES					
Revenue Limit Sources	\$347,404,089	\$307,999,231	\$322,814,670	\$322,147,194	\$297,223,773
Federal Revenues	48,357,536	40,746,544	45,186,729	43,940,017	26,702,011
Other State Revenues	76,170,515	112,565,282	98,098,906	92,081,218	101,181,690
Other Local Revenues	10,252,045	8,628,543	7,759,056	12,797,949	5,766,521
TOTAL REVENUES	\$482,184,185	\$469,939,600	\$473,859,361	\$470,966,379	\$430,873,995
EXPENDITURES					
Certificated Salaries	250,808,563	\$245,259,722	\$224,199,063	\$223,676,126	\$232,602,612
Classified Salaries	68,405,971	67,701,485	60,003,619	57,659,370	58,768,373
Employee Benefits	108,144,813	112,020,862	107,434,858	113,017,365	110,570,101
Books and Supplies	14,335,591	10,148,528	11,379,375	12,561,517	13,097,539
Services, Other Operating Expenses	44,632,756	42,351,126	40,285,604	42,879,926	40,047,151
Capital Outlay	950,884	521,397	755,170	637,027	131,461
Other	2,377,239	1,097,002	2,360,637	1,035,322	561,703
TOTAL EXPENDITURES	\$489,655,817	\$479,100,120	\$446,418,326	\$451,466,654	\$455,778,940
EXCESS (DEFICIENCY)	\$(7,471,632)	(\$9,160,520)	\$27,441,035	\$19,499,725	(\$24,904,945)
OTHER FINANCING SOURCES/ USES	\$(3,596,906)	\$141,194	(\$183,911)	(\$1,167,560)	(\$1,705,797)
ENDING BALANCE JUNE 30	\$47,202,118	\$38,182,792	\$65,439,916	\$83,772,081	\$57,161,339

Actions by the School District to Address Reductions in Education Spending by the State

As a result of significant State budget shortfalls, the School District's revenue limit funding for the fiscal year has been reduced by more than \$32.0 million from fiscal year 2007-08 levels. The School District has responded to the State imposed budgetary reductions through various efforts, including reduced budget allocations for school sites, departments and several programs. Positions for certificated, classified and management have been reduced significantly.

Revenues

The School District categorizes its General Fund revenues into four primary sources: revenue limit sources, federal revenues, other state revenues and other local revenues.

*Revenue Limit Sources.* Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, the state revenue limit for a school district is calculated by multiplying a "base

revenue limit” per student by the school district’s student enrollment measured in units of ADA. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. The School District’s base revenue limit per unit of ADA was \$6,501.90 for fiscal year 2011-12 (before application of a deficit factor of 0.79398) and is budgeted to be \$6,713.90 in fiscal year 2012-13 (before application of a deficit factor of 0.77690).

School district revenue limit funding is typically accomplished by a mix of a) local property taxes, and b) State apportionments of basic and equalization aid. Generally, the State’s apportionments amount to the difference between the school district’s revenue limit and its local property tax revenues. The School District received \$66,358,215 in property tax revenues (net of transfers) in fiscal year 2011-12, representing 20.6% of the School District’s revenue limit funding, and is budgeted to receive \$69,089,204 in property tax revenues in fiscal year 2012-13, representing 23.2% of the School District’s revenue limit funding. Revenue limit sources as a whole were 68.4% of General Fund revenues in fiscal year 2011-12 and are budgeted to be 69.0% of General Fund revenues in fiscal year 2012-13.

*Federal Revenues.* The federal government provides funding for several School District programs. These federal revenues, most of which historically have been restricted, were 9.3% of General Fund revenues in fiscal year 2011-12 and are budgeted to be approximately 6.2% of General Fund revenues in fiscal year 2012-13.

*Other State Revenues.* In addition to apportionment revenues, the State provides funding for several School District programs. While the majority of these other State revenues have historically been restricted, the State budget for fiscal year 2011-12 extended spending flexibility through 2014-15 for a variety of categorical programs. These other State revenues were 19.6% of General Fund revenues in fiscal year 2011-12 and are budgeted to be approximately 23.5% of General Fund revenues in the fiscal year 2012-13. Included in other State revenues are proceeds received from the State from the California State Lottery.

*Other Local Revenues.* In addition to property taxes, School District receives additional local revenues. Revenues from other local sources were 2.7% of General Fund revenues in fiscal year 2011-12 and are budgeted to be approximately 1.3% of General Fund revenues in fiscal year 2012-13.

### Expenditures

The largest components of a school district’s general fund expenditures are certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated cost of living increases or changes in staffing levels, normal “step and column” advancements on the salary scale result in increased salary expenditures. The School District has budgeted no cost of living increases for fiscal year 2012-13.

Employee salaries and benefits were 87.3% of General Fund expenditures in fiscal year 2011-12 and are budgeted to be 88.2% of General Fund expenditures in fiscal year 2012-13.

### Short-Term Borrowings

The School District has in the past issued short-term tax and revenue anticipation notes. Proceeds from the issuance of notes by the School District have been used to reduce inter-fund dependency and to provide the School District with greater overall efficiency in the management of its funds. The School District has no outstanding short-term borrowings.

### Capitalized Lease Obligations

The School District has made use of various capital lease arrangements in the past under agreements that provide for title of items and equipment being leased to pass to the School District upon expiration of the lease period. The School District has no outstanding capital leases.

### Long-Term Borrowings

All long term bonded indebtedness of the School District as of June 30, 2011, is set forth in “APPENDIX C” attached hereto. The following table summarizes the School District’s outstanding bonded indebtedness, consisting of special tax bonds authorized pursuant to the Mello-Roos Community Facilities Act of 1982. The School District has never defaulted on any of its long-term bonded indebtedness.

#### Outstanding Special Tax Bonds Elk Grove Unified School District Community Facilities District No. 1

<u>Authorization</u>	<u>Issue</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding as of June 30, 2012</u>	<u>Debt Service in FY 2012-13</u>
1987 Authorization	Refunding Series 1995	December 2024	\$42,260,110	\$18,618,257 <sup>1</sup>	\$3,528,575
1998 Authorization	Series 1998 Bonds <sup>2</sup>	December 2028	\$28,954,336	\$20,460,320 <sup>1</sup>	\$2,830,000
1998 Authorization	Series 2001 Bonds <sup>2</sup>	December 2031	\$21,343,383	\$11,878,383 <sup>1</sup>	\$1,125,000
1998 Authorization	Series 2003 Bonds <sup>2</sup>	December 2033	\$28,000,848	\$20,885,848 <sup>1</sup>	\$1,623,763
1998 Authorization	Series 2005 Bonds	December 2035	\$43,540,000	\$40,765,000	\$2,469,394
1998 Authorization	Series 2008 Bonds	December 2038	\$31,226,133	\$31,226,133 <sup>1</sup>	\$2,063,813

<sup>1</sup>Excludes accreted value on the capital appreciation bonds

<sup>2</sup>To be refunded in part with the proceeds of the Refunding Bonds

### COUNTY ECONOMIC PROFILE

*The boundaries of the District include the City of Elk Grove and some of the unincorporated areas of the County. The information in this section concerning the City of Elk Grove and the County are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the Refunding Bonds are a debt of such entities. The Refunding Bonds are payable from the proceeds of the Special Tax. See “SECURITY AND SOURCE OF PAYMENT” herein.*

### General Information

Based on data compiled by DataQuick Information Systems, the median sale price of a single-family home in the County was \$173,000 in August 2012, an increase of approximately 8.8% from \$159,000 in August 2011. The median sale price of a single-family home in the City of Elk Grove was \$229,500 in August 2012, an increase of approximately 8.5% from \$211,500 in August 2011.

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## Population

The following table displays estimated population data as of January 1<sup>st</sup> for the past three years for the County.

### Historical Population City of Elk Grove and Sacramento County

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Elk Grove	153,015	154,440	155,937
Sacramento County	1,418,788	1,427,961	1,435,153

Source: State Department of Finance

## Unemployment

The following table contains a summary of the City of Elk Grove's unemployment data seasonally unadjusted.

### Historical Unemployment City of Elk Grove

	<u>Annual 2008</u>	<u>Annual 2009</u>	<u>Annual 2010</u>	<u>Annual 2011</u>	<u>August 2012<sup>1</sup></u>
Total Labor Force	35,500	35,300	35,200	34,900	35,300
# Employed	33,500	32,000	31,500	31,500	32,200
# Unemployed	2,100	3,200	3,600	3,400	3,100
Unemployment Rate	5.8%	9.1%	10.4%	9.8%	8.7%

<sup>1</sup>Preliminary

Source: State Employment Development Department

The following table contains a summary of the County's unemployment data seasonally unadjusted.

### Historical Unemployment Sacramento County

	<u>Annual 2008</u>	<u>Annual 2009</u>	<u>Annual 2010</u>	<u>Annual 2011</u>	<u>August 2012<sup>1</sup></u>
Total Labor Force	684,800	675,600	682,000	681,300	680,300
# Employed	609,000	594,100	595,200	604,600	607,400
# Unemployed	75,800	81,500	86,700	76,700	72,900
Unemployment Rate	11.1%	12.1%	12.7%	11.3%	10.7%

<sup>1</sup>Preliminary.

Source: State Employment Development Department

## Major Employers

The following table provides a listing of 25 major employers in the County, listed by number of employees.

### Major Employers Sacramento County

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	<u>Company</u>	<u># of Employees</u>
1	State of California	70,937
2	Sacramento County	11,300
3	UC Davis Health System	8,580
4	Sutter Health Sacramento Sierra Region	6,958
5	Mercy/Catholic Healthcare West	6,942
6	Intel Corp.	6,515
7	Kaiser Permanente	6,367
8	Elk Grove Unified School District	5,619
9	San Juan Unified School District	4,600
10	Sacramento City Unified School District	4,500
11	City of Sacramento	4,000
12	Raley's Family of Fine Stores	3,824
13	Los Rios Community College District	3,153
14	Sacramento Veterans Affairs Medical Center	2,785
15	Health Net of California, Health Net Federal Services	2,544
16	California State University Sacramento	2,342
17	Wells Fargo & Co.	1,953
18	Sacramento Municipal Utility District	1,859
19	Aerojet	1,650
20	Folsom Cordova Unified School District	1,564
21	Delta Dental of California	1,328
22	Franklin Templeton Investments	1,000
23	Eskaton	936
24	Siemens Industry, Mobility Division	850
25	The Sacramento Bee	846

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Source: 2011 Sacramento Business Journal

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### Taxable Sales

Total taxable sales reported during calendar year 2010 in the City of Elk Grove were approximately \$1,336,535,000, a 3.1% increase from the total taxable sales of approximately \$1,296,072,000 reported during calendar year 2009. Data for calendar year 2011 is not yet available.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Elk Grove is presented in the following table, rounded to the nearest thousand.

#### Taxable Retail Sales City of Elk Grove

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Sales Tax Permits	2,366	2,435	2,578	2,275	2,363
Taxable Sales (in thousands)	\$1,717,771	\$1,705,377	\$1,528,877	\$1,296,072	\$1,336,535

Source: State Board of Equalization

Total taxable sales reported during the calendar year 2010 in the County were approximately \$16,904,528,000, a 2.1% increase from the total taxable sales of approximately \$16,563,853,000 reported during calendar year 2009. Data for calendar year 2011 is not yet available.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table, rounded to the nearest thousand.

#### Taxable Retail Sales Sacramento County

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Sales Tax Permits	35,406	35,023	35,547	31,644	32,789
Taxable Sales (in thousands)	\$21,140,386	\$20,560,510	\$19,331,847	\$16,563,853	\$16,904,528

Source: State Board of Equalization

### STATE FUNDING OF PUBLIC EDUCATION

*The information in this section concerning State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable only from the proceeds of the Special Tax levied by the School District for the payment thereof. See "SECURITY AND SOURCE OF PAYMENT" herein.*

*The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the School District nor the Underwriter assume any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.*

### Revenue for Public Education

**Sources of Revenue.** The State's K-12 education system is supported primarily from State revenues, mostly sales and income taxes. The availability of State funds for public education is a function of constitutional provisions affecting school district

revenues and expenditures (see “CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES”). As a result, changes in State revenues may affect appropriations made by the State to school districts. State revenue sources for school districts are supplemented with local property taxes, federal aid, local miscellaneous funds, and the California State Lottery.

In recent years, approximately 58% of all funds for California K-12 public education came from the State budget, which is required to be proposed by the Governor by January 10 and adopted by June 15 of each year (although the State often is late adopting the budget). Approximately 21% of funding for K-12 education comes from local property taxes. The State Constitution limits property taxes to one percent of the value of property; property taxes may only exceed this limit to repay voter approved debt.

Statewide, approximately 13% of school districts’ revenues come from the federal government, and about 6% come from local miscellaneous sources. The latter category includes items such as food sales, money for debt repayment, interest on reserves and, in some cases, more significant sources such as developer fees and parcel taxes. Developer fees are fees that school districts can levy on new residential or commercial development within their boundaries to finance the construction or renovation of school facilities. Many school districts also seek grants or contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses. School districts that still have unused school buildings or sites can lease or sell them for miscellaneous income as well. A significant number of school districts have secured the required two-thirds approval from local voters to levy special taxes on parcels or residences and/or have won voter approval, with either a two-thirds vote or a 55% majority, to sell general obligation bonds or to establish special taxing districts for the construction of schools. Use of such taxes is restricted by law.

The final revenue source for school districts is the California State Lottery. Approved by voters in late 1984, the lottery generates about 1% of total school revenues. Every three months the Lottery Commission calculates 34% of lottery proceeds for all public education institutions, the minimum according to the lottery law. Every K-14 school district receives the same amount of lottery funds per pupil from the State, which may be spent for any instructional purpose, excluding capital projects.

No other source of general purpose revenue is currently permitted for schools. Proposition 13 eliminated the possibility of raising additional *ad valorem* property taxes for general school support, and the courts have declared that fees may not be charged for school-related activities other than for busing services.

*The State Revenue Limit.* The State Revenue Limit was first instituted in 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district, community college district or county board of education is entitled to receive from State and local sources. Each school district has its own target amount of funding from State funds and local property taxes per average daily attendance. ADA is the average number of pupils attending school over the year. This target is known as revenue limit, and the funding from this calculation forms the bulk of all school districts’ income. The State Legislature usually grants annual cost-of-living adjustments (COLAs) to revenue limits. The exact amount depends on whether the school district is an elementary, high school or a unified school district.

Apportionments for revenue limits are calculated three times a year for each school district, community college district and county board of education. The first calculation is performed for the February 20th First Principal Apportionment (based on Period 1 ADA determined in December), the second calculation for the June 25th Second Principal Apportionment (based on Period 2 ADA determined in April), and the final calculation for the end of the year Annual Apportionment (also based on Period 2 ADA). Calculations are reviewed by the county and submitted to the State Department of Education with respect to school districts and to the Chancellor of the California Community Colleges with respect to community college districts, which, respectively, reviews the calculations for accuracy, calculates the amount of state aid owed to such school district or community college district, as the case may be, and notifies the State Controller of the amount, who then distributes the state aid.

School districts that receive their revenue limit income entirely from property taxes are called “basic aid” school districts. These school districts are permitted to keep all their property tax money (even if it exceeds their revenue limit). As guaranteed in the State Constitution, the State must apportion \$120 per pupil to all school districts. However, the categorical aid (see below) that basic aid school districts receive counts toward this requirement. The District is not a basic aid district.

#### Distribution of Revenue for School Districts

*General Purpose.* The largest part of each school district’s revenue funds general operating expenses associated with providing education, including salaries, benefits, supplies, textbooks and regular maintenance. As previously mentioned, the Revenue Limit



governs the amount each school district receives. Each school district also receives some State and federal money for special programs, special costs, or categories of children with particular educational needs, called “categorical aid.”

*Categorical Aid.* This special support goes into a school district's General Fund, but its expenditure is restricted to the purpose for which it is granted. About seventy-five percent (75%) of the total money generated for education is for general purposes, and about twenty-five percent (25%) is for categorical aid. The complex allocation system is adjusted somewhat by the State Legislature almost every year, with unpredictable effects on individual school districts.

There are a number of major federal and State categorical aid programs. Some allocations come automatically to school districts, while others require an application. Some programs are based on the characteristics of the children or families in a particular school district, such as gifted and talented, non-English speaking, migrant, low income or handicapped students. Other programs are for specific activities or expenses, such as transportation, textbooks or childcare. Each year a large amount of aid is allocated directly to the State Teachers' Retirement System (STRS) fund. For the past several years, supplemental grants have been directed to equalizing school districts' income from revenue limits plus specific categoricals. Most of the federal funds flow through the California Department of Education, which retains a certain percentage for administration.

In terms of dollars and the number of children served, the largest categorical aid program is special education under the Individuals with Disabilities Education Act. According to court decisions and federal and California law, school districts are responsible for the appropriate education of each handicapped child from age 3 to 21 who lives within their boundaries. The allocations do not cover the cost of educating them. School districts are required to contribute a certain amount of general purpose funds for Special Education, and many spend much more. This is known as “encroachment.”

*School Facilities.* Growing enrollments and/or aging facilities require school districts to build or make major renovations to school buildings. The income from developer fees on residential or commercial property is insufficient to fund all facilities costs. General obligation bond moneys issued by a two-thirds voter approval may only be used for purchase or improvement of real property; general obligation bond moneys issued by 55% voter approval (pursuant to Proposition 39) can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities. See “CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES” herein. Mello-Roos taxes can be used for this as well as for ongoing maintenance or purchase of needed equipment. A majority of voters has regularly approved state bond measures for the construction or reconstruction of schools.

#### State IOUs and Deferrals

In recent years, fiscal stress and difficulties in achieving a balanced State budget have resulted in actions that include the State issuing IOUs (defined below) to its creditors, and the deferral of school funding.

On July 2, 2009, as a result of declines in State revenues commencing in fiscal year 2008-09, the State Controller began to issue registered warrants (or “IOUs”) for certain lower priority State obligations in lieu of warrants (checks) which could be immediately cashed. The registered warrants, the issuance of which did not require the consent of recipients, bore interest. With enactment of an amended budget in late July, 2009, the State was able to call all its outstanding registered warrants for redemption on September 4, 2009. The issuance of state registered warrants in 2009 was only the second time the State has issued state registered warrants to such types of state creditors since the 1930s.

Furthermore, commencing in fiscal year 2008-09, to better manage its cash flow in light of declining revenues, the State has enacted several statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year, in order to more closely align the State's revenues with its expenditures. This technique has been used several times through the enactment of budget bills in fiscal years 2008-2009 through 2012-13. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. For fiscal year 2012-13, enacted K-12 inter-year deferrals total \$7.4 billion; however, should a proposed tax initiative to be considered by voters at a November 2012 election fail, inter-year deferrals would increase to \$9.5 billion.

Fiscal stress and cash pressures currently facing the State may continue or become more difficult, and continuing declines in State tax receipts or other results of the current economic recession may materially adversely affect the financial condition of the State.

## The 2011-12 State Budget

*The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the District nor the Underwriters assume any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.*

**Adopted Budget.** On June 30, 2011, the Governor signed into law the 2011-12 State budget (the "2011-12 State Budget"). The 2011-12 State Budget, including previously enacted legislation, closed a projected \$26.6 billion budget gap through \$15.0 billion in expenditure reductions, \$0.9 billion in revenue increases and \$2.9 billion in other solutions, which, combined with an increased State revenue forecast of \$8.3 billion, resulted in a budgeted State general fund reserve of \$543 million at the end of fiscal year 2011-12.

**Funding for K-12 Education.** The 2011-12 State Budget included total funding of \$64.1 billion for all K-12 education programs (\$34.7 billion from the State's general fund and \$29.4 billion from other funds). The 2011-12 State Budget funded the Proposition 98 minimum funding requirement at \$48.7 billion, of which \$32.9 billion was budgeted from the State general fund.

The 2011-12 State Budget included a series of trigger reductions in the event the State's revenues were less than forecast. As part of the second series of such trigger reductions, had State revenues fallen short of projections by more than \$2 billion in fiscal year 2011-12, up to \$1.5 billion in reductions to school district revenue limit funding would have been implemented, with a corresponding reduction to the minimum school year length by seven days. In December 2012, the State announced, based on revised revenue estimates, trigger cuts for K-12 education totaling \$79.6 million.

## The 2012-13 State Budget

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**Adopted Budget.** On June 27, 2012, the Governor signed the fiscal year 2012-13 State budget (the "2012-13 Budget"). The 2012-13 Budget closes a \$15.7 billion budget gap and builds a reserve of nearly \$1 billion with (i) \$8.1 billion in expenditure reductions, (ii) \$6 billion in increased revenues (which assumes the approval by the voters of the Governor's tax initiative, "The Schools and Local Public Safety Protection Act", at a November 2012 election) and (iii) \$2.5 billion from certain loan and transfer measures.

The Schools and Local Public Safety Protection Act proposes to temporarily increase the personal income tax on the State's wealthiest taxpayers for seven years and increase the sales tax by 0.25% for four years. The measure would generate an estimated \$8.5 billion in revenues through fiscal year 2012-13.

The 2012-13 Budget contains the following spending reduction measures:

- Reformation of existing K-14 education mandates claim process by providing a block grant as an alternative. For non-school mandates, provides a multiyear suspension of most mandates to provide greater flexibility to local governments. (\$720 million savings)
- Creation of framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services. Assets transferred to schools will offset State general fund costs. (\$1.5 billion savings)
- Other adjustments including using a fiscal year 2011-12 over-appropriation of the minimum guarantee to prepay Proposition 98 funding required by a court settlement. (\$1.9 million savings)

State general fund revenues (including transfers) are budgeted to be approximately \$95.9 billion in fiscal year 2012-13, an increase of 10.4% from a revised fiscal year 2011-12 State general fund revenues and transfers of \$86.8 billion. State general fund expenditures are budgeted to be \$91.4 billion in fiscal year 2012-13, an increase of 5.0% from a revised \$87.0 billion figure for fiscal year 2011-12.

The following table identifies historical and budgeted State general fund revenues and expenditures.

### State General Fund under the 2012-13 Budget

	2011-12 <u>Revised</u> (Millions)	2012-13 <u>Budget</u> (Millions)
Prior-year Fund Balance	(\$2,685)	(\$2,882)
Revenues and Transfers	<u>86,830</u>	<u>95,887</u>
Total Resources Available	84,145	93,005
Expenditures	<u>87,027</u>	<u>91,338</u>
Ending Fund Balances	(\$2,882)	\$1,667
Encumbrances	719	719
Reserve	(3,601)	948

Source: The California Department of Finance

*K-12 Education.* The 2012-13 Budget includes Proposition 98 funding of \$53.6 billion, of which \$36.8 billion is from the State general fund. This funding level assumes passage of The Schools and Local Public Safety Protection Act, which increases Proposition 98 funding by \$2.9 billion in fiscal year 2012-13.

Other significant K-12 funding adjustments include:

- *Redevelopment Agency Asset Liquidation* – An increase of \$1.3 billion in local property taxes for fiscal year 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies. The increase in local revenue reduces Proposition 98 State general fund contribution by an identical amount.
- *Proposition 98 Adjustments* – A decrease of approximately \$630 million due to (i) eliminating the hold-harmless adjustment provided to schools from the elimination of the sales tax gasoline in 2010-11, and (ii) using a consistent current value methodology to rebench the guarantee for the exclusion of child care programs, the inclusion of special education mental health services, as well as new and existing property tax shifts. Additionally, the 2012-13 Budget reduces current year appropriations for a number of different programs by \$220.1 million, backfilling them with one-time Proposition 98 general fund, which achieves State general fund savings by an identical amount.
- *Quality Education Investment Act* – A decrease of \$450 million State general fund for fiscal year 2012-13. The over-appropriation in fiscal year 2011-12 will be used to repay the \$450 million required to be provided on top of the minimum guarantee in fiscal year 2012-13 pursuant to the *California Teachers Association v. Schwarzenegger* settlement agreement.
- *Deferrals* – An increase of \$2.1 billion Proposition 98 State general fund to reduce K-12 inter-year deferrals to \$7.4 billion.
- *Charter Schools* – An increase of \$53.7 billion Proposition 98 State general fund for charter schools categorical programs to fund growth in enrollment. Additionally, legislation expands the ability of school districts to convey surplus property to charter schools, while also increasing financial assistance by allowing county treasurers to provide them with short-term cash loans, and by authorizing charter schools to utilize temporary revenue anticipation note borrowings.
- *Mandate Block Grant* – An increase of \$86.2 million over the fiscal year 2011-12 funding level to provide a total of \$166.6 million for K-12 mandates through a new voluntary block grant.
- *Child Care Costs* – Savings of \$294.3 million in non-Proposition 98 State general fund through various cost-reduction measures, including reduction of provider contracts across the board and suspension of statutory COLA.

If The Schools and Local Public Safety Protection Act is not approved by voters in November 2012, automatic trigger cuts of approximately \$5.4 billion for K-14 schools would be implemented effective January 1, 2013. Such trigger cuts equate to a reduction in funding of approximately \$457 per ADA. To accommodate this mid-year reduction, school districts are authorized (subject to collective bargaining) to reduce the school year to 160 days for fiscal years 2012-13 and 2013-14, 15 days shorter than the 175 instructional days currently required.

#### Litigation Challenging State Funding of Education

On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los

Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the City and County of San Francisco (the “CSBA Petition”). The petitioners allege that the 2011-12 Budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately \$2.1 billion. The CSBA Petition seeks an order from the Court compelling the State Treasurer, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution.

The District is not a party to the CSBA Petition. The District cannot predict whether any of the plaintiffs listed in the CSBA Petition will be successful, what the potential remedies would be or the State’s response to any such remedies. The District makes no representation with regards to how any final court decision with respect to the CSBA Petition would affect the financial status of the District or the State.

#### Future Budgets

The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools as budgeted. Continued State budget shortfalls in future fiscal years could have an adverse financial impact on the District.

For more information on the State Budget, please refer to the State Department of Finance’s website at [www.dof.ca.gov](http://www.dof.ca.gov) and to the Legislative Analyst’s Office’s website at [www.lao.ca.gov](http://www.lao.ca.gov).

### CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES

#### Limitations on Revenues

*Article XIII A of the California Constitution.* Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one-percent limitation does not apply to ad valorem taxes levied to pay interest and redemption charges on: (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the bond proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restored value of the damaged property. The California courts have upheld the constitutionality of this procedure, as described below. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain

improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place. A drop in assessed valuation would not result in any long-term loss of taxes levied to pay the District’s bonds, but would instead cause the County to raise the rate of *ad valorem* taxes to generate revenues sufficient for the payment of principal of and interest on such bonds.

*Article XIIC and Article XIID of the California Constitution.* On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIC establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer-tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are restricted as to use and are neither pledged nor available to pay the Bonds.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

#### Expenditures and Appropriations

*Article XIIB of the California Constitution.* In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual “appropriations limit” or “Gann Limit” imposed by Article XIIB of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State, and each local government entity, has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district's revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years. If the State's aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State's contribution to school and college districts.

*Future Initiatives.* Articles XIII A, XIII B, XIII C, and XIII D, and Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

## LEGAL MATTERS

### Legal Opinion

The legal opinion of Lozano Smith, A Professional Law Corporation, Sacramento, California, Bond Counsel, approving the validity of the Refunding Bonds will be made available to purchasers at the time of original delivery and is attached in substantially final form as "APPENDIX F—PROPOSED FORM OF OPINION OF BOND COUNSEL." Lozano Smith will also pass upon certain legal matters for the District as its general counsel.

### Tax Exemption

*Opinion of Bond Counsel.* In the opinion of Lozano Smith, A Professional Law Corporation, Sacramento, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the Refunding Bonds. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Refunding Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Refunding Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Refunding Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Refunding Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Refunding Bonds who purchase the Refunding Bonds after the initial offering of a substantial amount of such maturity. Owners of such Refunding Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Refunding Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Refunding Bond (said term being the shorter of the Refunding Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Refunding Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Refunding Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Refunding Bond premium is not deductible for federal income tax purposes. Owners of premium Refunding Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Refunding Bonds.

In the further opinion of Bond Counsel, interest on the Refunding Bonds is exempt from California personal income taxes.

Owners of the Refunding Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Refunding Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Refunding Bonds other than as expressly described above.

#### No Litigation

At the time of delivery of the Refunding Bonds, the School District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending with respect to which the School District has been served with process or threatened, which:

- in any way questions the powers of the Board or the School District, or
- in any way questions the validity of any proceeding taken by the Board in connection with the issuance of the Refunding Bonds, or
- wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions contemplated by the purchase contract with respect to the Refunding Bonds, or
- which, in any way, could adversely affect the validity or enforceability of the resolutions of the Board adopted in connection with the formation of the Community Facilities District or the issuance of the Refunding Bonds, the Paying Agent Agreement, the Escrow Agreement, the Continuing Disclosure Certificate or the purchase contract with respect to the Refunding Bonds, or
- to the knowledge of the School District, which in any way questions the exclusion from gross income of the recipients thereof of the interest on the Bonds for federal income tax purposes, or
- in any other way questions the status of the Refunding Bonds under State tax laws or regulations.

#### RATING

Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of The McGraw-Hill Companies, Inc., has assigned a municipal bond rating of "BBB+" to the Refunding Bonds. Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from S&P at the following address: Standard & Poor's Financial Services LLC, 55 Water Street, New York, New York 10041. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency,

circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Refunding Bonds.

#### FINANCIAL ADVISOR

Government Financial Strategies inc. has been employed by the District to perform financial advisory services in relation to the sale and delivery of the Refunding Bonds. Government Financial Strategies inc., in its capacity as financial advisor, has read and participated in drafting certain portions of this Official Statement. Government Financial Strategies inc. has not, however, independently verified nor confirmed all of the information contained within this Official Statement. Government Financial Strategies inc. will not participate in the underwriting of the Refunding Bonds. Fees charged by Government Financial Strategies inc. are not contingent upon the sale of the Refunding Bonds.

#### INDEPENDENT AUDITORS

The financial statements of the School District as of June 30, 2011, and for the fiscal year then ending, have been audited by Crowe Horwath LLP, Sacramento, California (the "Auditor"), and are set forth in "APPENDIX C — THE FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2011" attached hereto. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for fiscal year 2010-11 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 30, 2011.

#### UNDERWRITING

The Refunding Bonds were sold to \_\_\_\_\_ (the "Underwriter") pursuant to a bond purchase agreement by and among the School District and the Underwriter for \$\_\_\_\_\_, an amount equal to the principal amount of the Refunding Bonds, plus an original issue premium of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_, at a true interest cost (TIC%) to the School District of \_\_\_\_\_%.

The Underwriter has certified the initial offering prices or yields stated on the cover page to this Official Statement. The Underwriter may offer and sell the Refunding Bonds to certain dealers (including dealers depositing Refunding Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices. The reoffering prices may be changed from time to time by the Underwriter.

#### CONTINUING DISCLOSURE

The School District has covenanted for the benefit of the holders and Beneficial Owners of the Refunding Bonds to provide certain financial information and operating data relating to the School District and the District (the "Annual Report"), by not later than 180 days after the end of the fiscal year, commencing with the report for the 2011-12 fiscal year (which is due no later than December 27, 2012), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of certain enumerated events will be filed by the School District with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. The specific nature of the information to be contained in the Annual Report or the notices are set forth in "APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Within the past five years, the School District has made all required disclosure in a timely manner.



## ADDITIONAL INFORMATION

Additional information concerning the School District, the District, the Refunding Bonds or any other matters concerning the sale and delivery of the Refunding Bonds may be obtained from the School District by contacting the School District at the address and telephone number set forth on page “iii” of this Official Statement, or by contacting the Financial Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100, facsimile telephone (916) 444-5109.

The execution and delivery of this Official Statement by the School District has been duly authorized by its governing board.

## ELK GROVE UNIFIED SCHOOL DISTRICT

By: \_\_\_\_\_  
Steven M. Ladd, Ed.D.  
Superintendent

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## APPENDIX A

### LOCATION MAPS FOR THE DISTRICT / SCHOOL DISTRICT

# Boundary Map

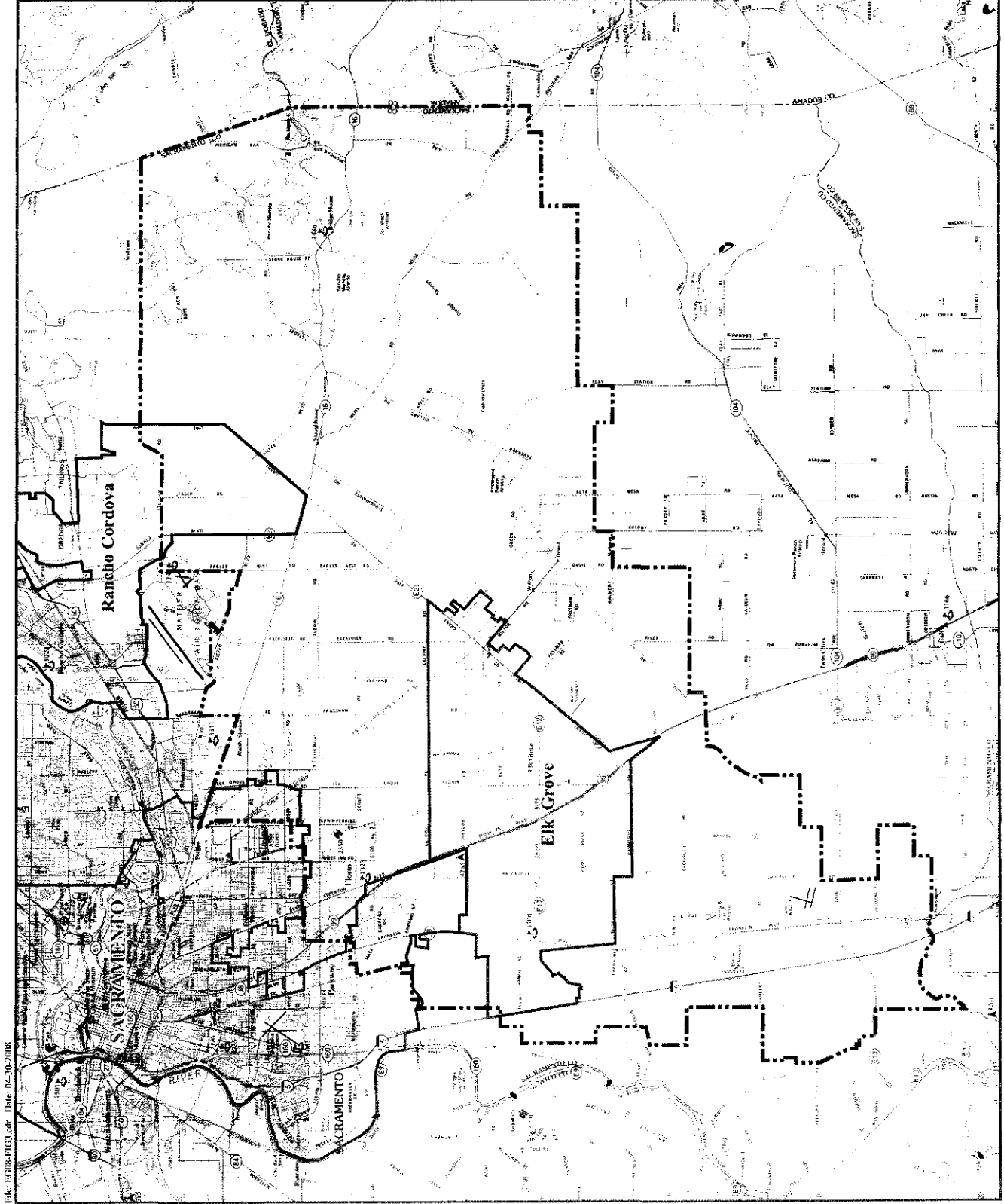
Elk Grove Unified  
School District

May 2008



Legend:

- Elk Grove Unified School District Territorial Boundary
- Elk Grove City Limits
- Rancho Cordova City Limits
- Sacramento City Limits



APPENDIX B  
SPECIAL TAX FORMULA

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX  
ELK GROVE UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 1, AS AMENDED**

1. Description of Taxable Units. The basic unit for taxing purposes is a single family detached house on a single lot for all lots and parcels, whether currently existing or not, allowed by the underlying zoning of the City or County. All other land uses are compared to the single family residences in determining the number of taxable units assigned.
  - a. Single Family Parcel: The single family parcel is assigned one taxable unit.
  - b. Duplex/Halfplex Units: A duplex or one halfplex dwelling unit parcel is assigned one-half (1/2) taxable unit per dwelling unit.
  - c. Mobile Homes: A separate parcel on which there is a mobile home is treated as a single family unit and assigned one taxable unit.
  - d. Multi-Family Units: Each multi-family unit is assigned 0.60 taxable units. This category also includes each space for mobile homes in mobile home parks or mobile home subdivisions.
  - e. Commercial/Industrial Property: Developed or constructed commercial or industrial development is assigned 4 taxable units per acre. Commercial and industrial property that is not yet developed, and for which no building permits have been issued, will be assigned three (3) taxable units initially and then will be assigned four (4) taxable units after a building permit is issued.
  - f. Agricultural Zones/Agricultural Residential: This is agricultural land as defined by the City or County zone classifications. This land is exempt (see below) or considered as a Single Family Parcel at a lower density if there is a residence on the property. The taxable units are assigned at the rate of one (1) taxable unit per parcel with a residence. Additional residences on the same parcel will be taxed an additional 0.60 taxable unit per residence.
2. Maximum Tax Rates Per Taxable Unit To June 30, 1998:
  - a. Existing Development Property: This category includes (1) all existing properties, lots and parcels in any land use category located within the District which have received building permits on or before the date the Elk Grove Unified School District adopted the resolution January 26, 1987, authorizing the Mello-Roos election, and (2) undeveloped lots or parcels although zoned but where no requests for land use entitlements had been filed with the City or County planning department as of January 26, 1987. All taxable units in this category are to be taxed at one hundred percent (100%) of the existing development tax rate. Except as provided herein, the maximum tax rate will be \$3.82 per taxable unit per month (\$45.84 per year). Existing Development Property will be changed to the Future Development Category, when, as of June 30 of any year, any request for change in a land use entitlement has been filed with the City or County Planning Department.
  - b. Future Development Property: This category is further divided into two sub-categories, Approved or Planned. Except as provided herein, the maximum tax rate will be \$9.82 per taxable unit per month (\$117.84 per year).
    - (1) Approved: This category represents all properties that have received the final discretionary approval<sup>1</sup> for a change in land use entitlement from either the City Council or County Board of Supervisors or their respective Planning Commissions after the date the Elk Grove Unified School District adopted the resolution January 26, 1987, authorizing the Mello-Roos election. All taxable units in this subcategory are to be taxed at one hundred percent (100%) of the future development tax rate.
    - (2) Planned: This category includes property that is proposed for development by means of applications for various land use entitlements including a tentative subdivision map. This category does not include property that is in the Approved category described above. All taxable units in this sub-category are to be taxed at forty percent (40%) of

---

<sup>1</sup> Final approval is defined to be the final discretionary approval by the City Council or County Board of Supervisors or their respective Planning Commissions before a building permit can be issued. On commercial and industrial property, issuance of building permits shall be deemed final approval. Should an approval be reversed prior to the issuance of a building permit, an adjustment will be made to reflect the decision as of June 30 each year.

the future development tax rate.

The District recognizes that as the development process continues, property in the Future Development category will change from one use to another or from one subcategory to the other. As these changes occur, the District will maintain records and as of June 30 each year, will determine and assign the proper category and number of taxable units. It is also possible that Agricultural Lands or other property made exempt pursuant to this tax plan may be rezoned to some other use. These changes will also be reevaluated once annually on the same date.

3. Maximum Tax Rates Per Taxable Unit After June 30, 1998.

- a. Existing Development: All properties within the District which were assigned to the Existing Development category prior to June 30, 1998, shall remain in the Existing Development category at the maximum rate of \$3.82 per taxable unit per month (\$45.84 per year) unless changed to a Future Development category after that date. As these changes occur, the District will maintain records and as of June 30 each year will determine and assign the proper category and number of units and apply the post-June 30, 1998, tax rate set forth in Paragraph 3.d, or the post June 30, 2001, tax rate set forth in Paragraph 3.e.
- b. Future Development, Approved (1/26/87 through 6/30/98): All properties within the District which were assigned to the Future Development, Approved category between January 26, 1987, and June 30, 1998, shall remain in the Future Development, Approved category at the maximum rate of \$9.82 per taxable unit per month (\$117.84 per year) unless changed to a different category pursuant to the provisions of this Paragraph 3 after June 30, 1998. As such changes occur, the District will maintain records and make reassignments as set forth immediately above on each subsequent June 30 and apply the post-June 30, 1998, tax rate set forth in Paragraph 3.d., or the post June 30, 2001, tax rate set forth in Paragraph 3.e.
- c. Future Development, Planned (1/26/87 through 6/30/98): All properties within the District which were assigned to the Future Development, Planned category between January 26, 1987, and June 30, 1998, and remain there as of June 30, 1998, shall remain in the Future Development, Planned category at the maximum rate of forty percent (40%) of the Future Development, Approved rate of \$9.82 per taxable unit per month (\$117.84 per year) until changed, as follows:
  - (1) All properties within the Future Development, Planned category prior to or on June 30, 1998, which change in status to the Future Development, Approved Category on or before June 30, 1999, shall thereafter be taxed at a maximum Future Development, Approved rate of one hundred percent (100%) of \$9.82 per taxable unit per month (\$117.84 per year);
  - (2) All properties within the Future Development, Planned category prior to or on June 30, 1998, which change in status to the Future Development, Approved category after June 30, 1999, shall thereafter be taxed at a maximum Future Development, Approved rate of \$15.00 per taxable unit per month (\$180.00 per year), or which change in status to the Future Development, Approved category after June 30, 2001, shall thereafter be taxed at a maximum Future Development, Approved rate of \$16.67 per taxable unit per month (\$200.00 per year).
- d. Existing and Future Approved Development Changing After June 30, 1998: Existing and Future Development, Approved which change to a different category after June 30, 1998, shall pay:
  - (1) If placed in a Future Development, Planned category, a maximum tax rate of forty percent (40%) of the post-June 30, 1998, Future Development, Approved tax rate of \$15.00 per taxable unit per month (\$180.00 per year) until changed to the Future Development, Approved category;
  - (2) When placed in the Future Development, Approved category, one hundred percent (100%) of the post-June 30, 1998, Future Development, Approved tax rate of \$15.00 per taxable unit per month (\$180.00 per year).
- e. Existing and Future Approved Development Changing After June 30, 2001: Existing and Future Development, Approved which change to a different category after June 30, 2001, shall pay:
  - (1) If placed in a Future Development, Planned category, a maximum tax rate of forty percent (40%) of the post- June 30, 2001, Future Development, Approved tax rate of \$16.67 per taxable unit per month (\$200.00 per year) until changed to the Future Development, Approved category;
  - (2) When placed in the Future Development, Approved category, one hundred percent (100%) of the post-June 30, 2001, Future Development, Approved tax rate of \$16.67 per taxable unit per month (\$200.00 per year).

4. Appeals, Exemptions and Reductions.

- a. Agricultural Zoned Land: All Agricultural Zoned lands shall be exempt unless residences exist on the property. If residences exist on property with Agricultural Zoning, the lot or parcel upon which the residence is located will be charged the Agricultural Residential unit rate.
- b. Public and Charitable Group-Owned Land: Existing Property which is publicly owned, open space, common areas, churches, schools, and hospitals is exempt from the Special Tax whenever such property meets the exemptions from Ad Valorem property taxation and no residential dwelling units are located on such property. After June 30, 1998, property which is publicly owned by federal, state or local governments (the " Public Agencies") as of that date and has never been previously subject to the Special Tax, and property which is thereafter acquired by such Public Agencies as publicly owned property shall be exempt from the Special Tax so long as such property remains publicly owned or otherwise exempted by this tax plan.
- c. Senior Citizen/Disabled Exemptions: A property owner shall have the option of applying for a Senior Citizen/Disabled Exemption which would allow the tax to be reduced by seventy percent (70%) for each exempt dwelling unit if the following conditions exist:
  - (1) The property owner shows evidence that the dwelling unit is occupied by a citizen who is at least 65 years of age or disabled.
  - (2) The applicant shows evidence of ownership of the property.
  - (3) The applicant must show evidence that no student age children resided in the dwelling unit during the previous 24 months.
  - (4) The application shall be filed annually.
  - (5) The exemption is allowed only for the exempted residence; all other dwelling units are subject to the tax.
  - (6) If the applicant is a landlord, then he or she must certify that the entire reduced tax will be reflected in the rent for the exempted dwelling unit(s) only.

5. Definitions.

- a. City: The City of Sacramento or its successor entities with land use powers.
- b. County: The County of Sacramento or its successor entities with land use powers.
- c. District, School District, or Community Facilities District: Collectively, the Elk Grove Unified School District Community Facilities District #1.
- d. Taxable Year: July 1 to June 30 each year.

6. Chart.

**ELK GROVE U.S.D.  
PROPOSED MAXIMUM SPECIAL TAXES  
PER TAXABLE UNIT**

	Maximum Special Taxes Based on Period During Which Parcel Status is Classified or Reclassified			
Existing or Future Development - Approved	Prior to 1/26/1987	1/26/1987 - 6/30/1998	7/1/1998 - 6/30/2001	After 6/30/2001
Per Month	\$ 3.82	\$ 9.82	\$ 15.00	\$ 16.67
Per Year	\$ 45.94	\$ 117.84	\$ 180.00	\$ 200.00
<b>Future Development - Planned</b>				
Development Classified as Future Development Planned during a given period	<b>40 Percent (40%) of Future Development - Approved</b> [The exact amount is dependent on the date a taxable unit is placed in Future Development - Planned category.]			



APPENDIX C

THE FINANCIAL STATEMENTS OF THE DISTRICT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**Elk Grove, California**

**FINANCIAL STATEMENTS**  
**June 30, 2011**

**ELK GROVE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2011**

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**ELK GROVE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2011**

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ELK GROVE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2011

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## INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise Elk Grove Unified School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective change in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the District restated its beginning net assets to correct an error in the recognition of accreted interest on certain bonds at July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011 on our consideration of Elk Grove Unified School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITORS' REPORT

(Continued)

Management's Discussion and Analysis and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule and the Schedule for Other Postemployment Benefits Funding Progress, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposes of forming an opinion on the financial statements that collectively comprise Elk Grove Unified School District's basic financial statements. The accompanying financial and statistical information listed in the Table of Contents, including the Schedule of Expenditure of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Elk Grove Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Crowe Horwath LLP

Sacramento, California  
November 30, 2011



**Members of the Board:**  
Jeanette J. Amavisca  
Pollyanna Cooper-LeVangie  
Priscilla S. Cox  
Pamela A. Irey  
William H. Lugg, Jr.  
Chet Madison, Sr.  
Al Rowlett

**Steven M. Ladd, Ed. D.**  
Superintendent

Unified School District

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

(916) 686-7700

## **Management's Discussion and Analysis**

The Management's Discussion and Analysis is reflecting the 2010/2011 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 District operates 64 schools, consisting of 39 elementary schools (grades K-6), 9 middle schools (grades 7-8), 9 comprehensive high schools (grades 9-12), 3 continuation high schools, 1 special education school, 1 adult school, 1 independent study program, and 1 charter school. The District serves a diverse student population and students speak more than 72 languages.

During the last decade Elk Grove Unified School District was one of the fastest growing school districts in the nation. The current housing crisis and recession has slowed the District's growth dramatically. 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%.

For the 2010/11 school year the District employed on a regular basis 3,414 certificated employees, and 2,228 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 fixed 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 assets, 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 assets are one indicator of whether its financial position is improving or declining.

### Statement of Net Assets

The *Statement of Net Assets* for the 2010/11 year shows the District's net assets as \$717,885,173. 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 2009/10 to 2010/11.

Statement of Net Assets		
	June 30, 2010	June 30, 2011
Assets other than capital	\$ 174,651,107	\$ 210,332,706
Capital assets net of accumulated depreciation	<u>787,273,354</u>	<u>760,770,443</u>
<b>Total assets</b>	<b><u>961,924,461</u></b>	<b><u>971,103,149</u></b>
Liabilities other than long term	44,381,907	46,204,534
Long term liabilities	<u>170,817,841</u>	<u>207,013,442</u>
<b>Total liabilities</b>	<b><u>215,199,748</u></b>	<b><u>253,217,976</u></b>
<b>Ending Net Assets</b>	<b>\$ 746,724,713</b>	<b>\$ 717,885,173</b>

# Statement of Activities

<b>Governmental Activities</b>		
<b><u>Revenues</u></b>	June 30, 2010	June 30, 2011
Program Revenue:		
Charges for services	\$5,371,583	\$5,339,083
Operating grants & contributions	122,441,549	142,778,376
Capital grants & contributions	2,796,257	16,796,288
Taxes:		
Levied for general purpose	73,010,928	70,027,405
Levied for debt service	14,452,548	14,436,057
Levied for other specific purposes	557,852	717,325
Other Revenue:		
Federal and State aid	302,002,059	303,089,321
Interest and investment earnings	306,024	(10,872)
Interagency	1,898,090	2,687,253
Other	7,556,534	6,279,501
<b>Total Revenue</b>	<b>\$530,393,424</b>	<b>\$562,139,737</b>
<b><u>Expenses</u></b>		
Instruction	\$368,885,540	\$349,500,945
Instruction-related services	51,113,187	46,382,909
Pupil services	52,203,171	49,995,404
General administration	27,345,095	25,620,597
Plant services	49,610,836	46,826,347
Enterprise activities	(141)	18,050
Interest on long-term liabilities	8,372,370	10,653,967
Other outgo	14,505,850	21,758,241
<b>Total Expenses</b>	<b>\$572,035,908</b>	<b>\$550,756,460</b>
Change in Net Assets	(\$41,642,484)	\$11,383,277
Net Assets – Beginning	788,367,197	746,724,713
Restatement (see Note 13 of financial statements)		(40,222,817)
<b>Net Assets – Ending</b>	<b>\$746,724,713</b>	<b>\$717,885,173</b>

## Financial Condition of the General Fund

In 2010/11 Elk Grove Unified School District received a negative statutory cost of living allowance (COLA) from the State of -0.39%. The State then applied a deficit of 17.963% to the total revenue limit. Instead of receiving \$6,383.90 per ADA as the District should have received, the District received a net of \$5,216.65 per ADA for the 2010/11 school year. This is approximately \$575 less per ADA than what was received in 2007/08. Revenue limit income is the major component of the District's unrestricted income and 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, 2010	June 30, 2011
Revenues	\$469,939,600	\$473,859,361
Expenditures	(478,958,924)	(446,602,237)
<b>Difference</b>	<b>\$ ( 9,019,326)</b>	<b>\$27,257,124</b>

General Fund Change in Fund Balance			
	Restricted	Unrestricted	Total
June 30, 2010	<u>\$17,530,561</u>	<u>\$20,652,231</u>	<u>\$38,182,792</u>
June 30, 2011	<u>18,627,544</u>	<u>46,812,372</u>	<u>65,439,916</u>
<b>Change</b>	<b>\$1,096,983</b>	<b>\$ 26,160,141*</b>	<b>\$ 27,257,124</b>

## General Fund Revenues

More than sixty-five percent of the District's General Fund revenue is generated from the District's Revenue Limit. The revenue limit 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.

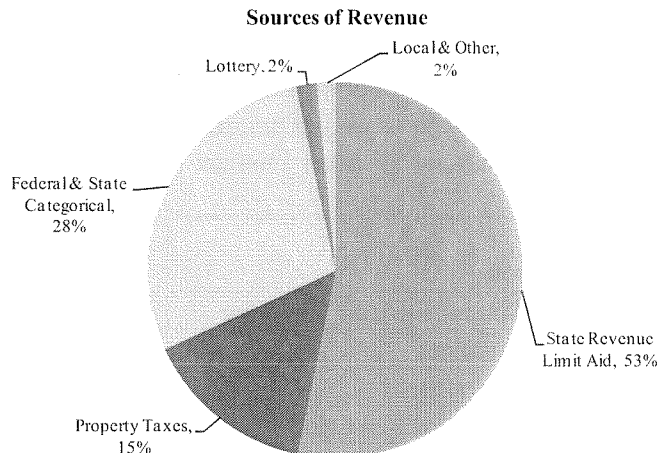
The second biggest source of revenue is state categorical income that must be spent for specific state determined programs. Categorical programs amounts to twenty-eight percent of the district's income. The two largest categorical programs are funding for a portion of Special Education services and the K-3 Class-Size Reduction program.

In 2010-11 the Federal government provided one-time Education Jobs Funding. A majority of the District employee groups were provided a portion (45%) of these funds as one-time, off schedule compensation.

The District's total resources for expenditures include a "beginning balance", which represents the unexpended balance from the prior year. During the 2010/11 school year, the District's ending fund balance increased by a little more than \$27 million. This increase was due in large part to the set aside of revenue limit deferral funds and receipt of one time revenues for Mandated Cost reimbursements.

## General Fund Sources

Sources Available	
State Aid	\$252,758,865
Property Taxes	70,055,805
Total Revenue Limit	<b>322,814,670</b>
Federal Revenue	45,186,729
Lottery	8,806,114
Other State Revenue	89,592,792
Local Revenue	7,759,056
<b>Total Revenue</b>	<b>\$473,859,361</b>
Beginning Fund Balance	38,182,792
<b>Total General Fund Sources</b>	<b>\$512,042,153</b>

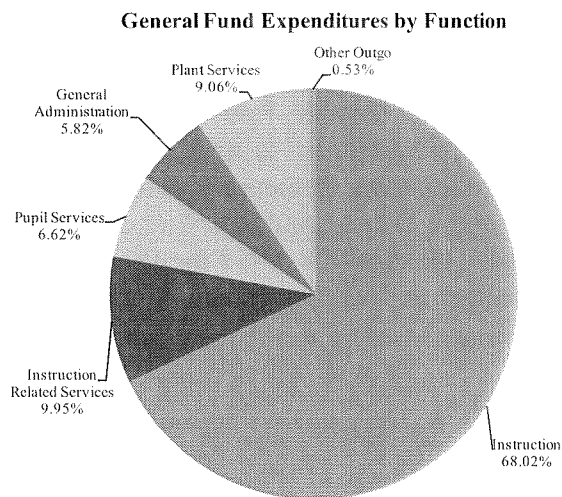
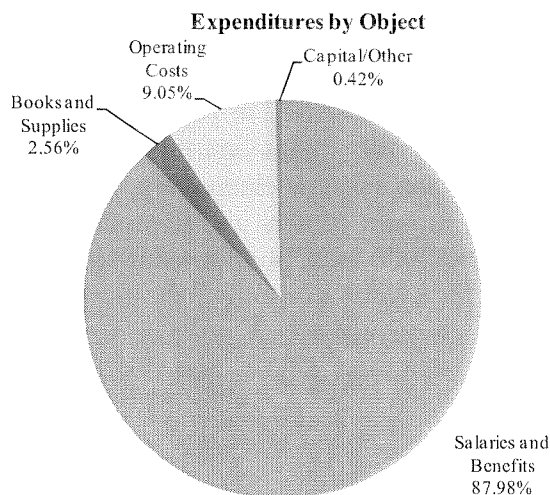


## General Fund Expenditures

Employee salary and benefit costs consume 87.98% of the District's general fund expenditures. Over 68% of the District's expenditures go directly to the classroom for instructional purposes. 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 granting 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.

10/11 General Fund Expenditures	
Salaries and Benefits	\$391,637,547
Books and Supplies	11,379,373
Operating Costs	40,285,604
Capital/Other	3,115,807
<b>Total Expenditures</b>	<b>\$446,418,326</b>
Restricted Ending Fund Balance	\$18,627,544
Designated Reserves*	46,812,372
<b>Total Ending Fund Balance</b>	<b>\$65,439,916</b>

\* Unrestricted Ending Fund Balance is comprised of the unrestricted undesignated amount and the designated reserves.



\*Includes \$1.5 million for Supplemental Early Retirement Program (SERP) payment; adjusted General Administration 5.48%.

## 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. Follow is a summary of fund balances for all other District funds:

<b>Fund Name</b>	<b>June 30, 2010 Ending Balance</b>	<b>June 30, 2011 Ending Balance</b>	<b>Change in Fund Balance</b>
Charter School Special Revenue	\$1,171,794	\$1,259,302	\$87,508
Adult Education	1,802,891	2,509,995	707,104
Child Development	82,307	76,245	(6,062)
Cafeteria Special Revenue	1,498,929	1,080,760	(418,169)
Deferred Maintenance	3,196,817	3,118,349	(78,468)
Capital Facilities	15,700,927	23,066,340	7,365,413
County School Facilities	21,088,631	13,285,059	(7,803,572)
Special Reserve for Capital Outlay	139,628	168,675	29,047
Capital Projects	23,441,244	32,378,035	8,936,791
Debt Service	11,734,884	11,725,226	(9,658)

## 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, reconfirmed the establishment of Elk Grove Unified School District Community Facilities District 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 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. 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 has been issued to date from the 1998 Authorization. The total principal amount of outstanding special tax bonds that are repaid by the special tax levied on taxable land in the District is \$149,041,479. Over the next 5 to 8 years, the District is projecting a need to construct 2-3 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 speed 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 76% 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 14%, land improvements are almost 4% and equipment is 2%.

### **Factors Bearing on the District's Future**

For the 5<sup>th</sup> year in a row, school districts across California are reeling from the impact of state budget cuts and an U.S. economy struggling with the effects of the greatest recession since the Great Depression. Uncertainty about the future of public education funding is further exacerbated by unpredictable financial markets and growing concern regarding an economic debt crisis in Europe and a downgrade of the U.S. debt. Speculation abounds as to whether the country is at risk of heading back into a recession. School districts are watching the impact of the federal Budget Control Act of 2011, which authorizes incremental increases to the nation's debt ceiling through 2012, in exchange for a reduction of the national deficit by \$2.5 trillion over 10 years. Where those cuts will come from has yet to be decided. However, there is much speculation over the potential impact the cuts may have on Title I, Title III, Individuals with Disabilities Act (IDEA) and other federal education funding streams.

In California, unemployment rates have decreased slightly in the past few months, but in September California's unemployment rate was 11.9 percent, significantly higher than the national average of 9.1 percent. Some of this is due to the state's demographic profile – a larger share of the state's population is in the 15-25 year old age group. California also had a greater exposure to the housing bust than most states.

A significant impact on the California economy is the State's ongoing budget problems. The California State budget has been a disaster for the past four years. There is an imbalance between revenues and expenditures that has gone unresolved by the lack of action by the legislature and the governor.

The 2011/2012 signed State budget called for flat funding and assumed an additional \$4 billion more in general fund revenues than anticipated in the Governor's May revise. Since the budget was signed, revenues have fallen shorter than predicted, according to School Services of California. The budget also includes \$2.1 billion in deferrals to public education and a \$5.1 billion transfer of sales tax revenue subject to Proposition 98 guarantee to cities and counties. The budget moves child development programs out of Prop 98, meaning that they are not subject to Prop 98 minimum guarantee in the future.

Finally, the signed state budget also includes "triggered cuts" should revenues fall short, recognizing the possibility of mid-year cuts. Triggers will go into effect based on forecasts released in November 2011 by the Legislative Analyst's Office (LAO) and in December 2011 by the Governor's Department of Finance (DOF). Should the forecasts fall \$2 billion or more short, then additional reductions of up to \$1.5 billion (4 percent) in school district revenue limits, \$248 million in home-to-school transportation, and \$72 million to community colleges are triggered. At the time of this writing, the possibility of mid-year cuts appears ever more likely, unless new legislation is passed to circumvent the triggers.

Our District, like every other school district in the state has experienced draconian cuts to our operating budget and our programs. The 2012/2013 year may likely be the fifth year in a row that California's school districts will undergo revenue reductions from the state. The District has cut its budget by \$110 million over the past four years.

For the 2008/2009 budget, the District made \$20 million in cuts and used \$21 million in ending-fund balance and reserve funds to keep as many people working as possible during the school year. For 2009/2010 instead of the state solving a \$41 billion shortfall, a large portion of it was "deferred" until the next budget year. The revenue limit for districts was deficiated by the state by over 18%. In addition to this deficit all districts were hit with a one-time reduction of \$250.22 per ADA. In 2009/2010 EGUSD made \$24 million in cuts and used \$26 million in federal stimulus money to keep as many people as possible working during the school year. In 2010/2011, in addition to the \$20 million in employee concessions, EGUSD reduced its operating budget by an additional \$40 million.

In 2011/2012 Elk Grove Unified School District (EGUSD) reduced its operating budget by \$8 million in order to address an ongoing structural deficit. Due to three years of state deficits the district now faces \$90 million in deferrals from the state by the end of June 2012.

We face these budget reductions at a time when technology and the Common Core Standards are driving change. As we look towards the future we will need to financially prepare for the reallocation of funds currently used to survive for the adoption of new textbooks in order to align with the new standards. Whether we use the traditional printed textbook or one that is digital is a question that will need to be addressed as we move forward.

In Elk Grove Unified we believe we are preparing our students for college and careers in the 21<sup>st</sup> century. Understanding how to leverage technology in the classroom is part of that discussion. 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 do this by helping our primary and intermediate students master reading, language and number sense. We teach them to learn to work and play in collaboration with each other. We introduce them to new ideas and concepts, and stretch their boundaries. Children begin to apply 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.



## **BASIC FINANCIAL STATEMENTS**

ELK GROVE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 90,488,582
Receivables	114,124,439
Prepaid expenditures	4,396,605
Stores inventory	1,323,080
Non-depreciable capital assets (Note 4)	157,799,981
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>602,970,462</u>
Total assets	<u>971,103,149</u>
<b>LIABILITIES</b>	
Accounts payable	19,557,130
Deferred revenue	12,316,404
Unpaid claims and claim adjustment expenses (Note 5)	14,331,000
Long-term liabilities (Note 6):	
Due within one year	7,875,117
Due after one year	<u>199,138,325</u>
Total liabilities	<u>253,217,976</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	588,270,429
Restricted (Note 7)	100,942,466
Unrestricted	<u>28,672,278</u>
Total net assets	<u>\$ 717,885,173</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, 2011

		Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	Expenses				
Governmental activities (Note 4):					
Instruction	\$ 349,500,945	\$ 1,292,668	\$ 72,037,219	\$ 16,796,288	\$ (259,374,770)
Instruction-related services:					
Supervision of instruction	14,619,031	168,899	13,021,091		(1,429,041)
Instructional library, media and technology	2,368,302	12,198	262,598		(2,093,506)
School site administration	29,395,576	109,774	4,951,543		(24,334,259)
Pupil services:					
Home-to-school transportation	10,272,009	295,853	3,854,340		(6,121,816)
Food services	19,682,813	1,403	15,510,463		(4,170,947)
All other pupil services	20,040,582	100,579	8,067,227		(11,872,776)
General administration:					
Data processing	5,899,027	896	5,687		(5,892,444)
All other general administration	19,721,570	40,825	4,877,609		(14,803,136)
Plant services	46,826,347	2,200,892	9,982,186		(34,643,269)
Enterprise activities	18,050	3,842	19,296		5,088
Interest on long-term liabilities	10,653,967				(10,653,967)
Other outgo	21,758,241	1,111,254	10,189,117		(10,457,870)
Total governmental activities	<u>\$ 550,756,460</u>	<u>\$ 5,339,083</u>	<u>\$ 142,778,376</u>	<u>\$ 16,796,288</u>	<u>(385,842,713)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					70,027,405
Taxes levied for debt service					14,436,057
Taxes levied for other specific purposes					717,325
Federal and state aid not restricted to specific purposes					303,089,321
Interest and investment earnings					(10,872)
Interagency revenues					2,687,253
Miscellaneous					6,279,501
Total general revenues					<u>397,225,990</u>
Change in net assets					<u>11,383,277</u>
Net assets, July 1, 2010, as previously reported					746,724,713
Restatement (Note 13)					<u>(40,222,817)</u>
Net assets, July 1, 2010, as restated					<u>706,501,896</u>
Net assets, June 30, 2011					<u>\$ 717,885,173</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Capital Facilities Fund	Capital Projects Fund for Blended Component Units	All Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments:					
Cash in County Treasury	\$ 1,709,613	\$ 1,443,464	\$ 28,386,924	\$ 19,912,079	\$ 51,452,080
Cash with Fiscal Agent	49,482		7,283,484	11,660,505	18,993,471
Cash on hand and in banks	10,767			139,675	150,442
Cash in revolving fund	140,000			13,381	153,381
Cash awaiting deposit	184,659	111,787		150	296,596
Receivables	110,857,586	14,971	53,046	3,182,833	114,108,436
Prepaid expenditures	1,908,510			3,100	1,911,610
Due from other funds	1,635,992	21,500,541	9,857	1,297,538	24,443,928
Stores inventory	486,153			836,927	1,323,080
Total assets	<u>\$ 116,982,762</u>	<u>\$ 23,070,763</u>	<u>\$ 35,733,311</u>	<u>\$ 37,046,188</u>	<u>\$ 212,833,024</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 14,119,285	\$ 3,570	\$ 3,333,848	\$ 1,601,623	\$ 19,058,326
Deferred revenue	12,117,932			198,472	12,316,404
Due to other funds	25,305,629	853	21,428	2,022,482	27,350,392
Total liabilities	<u>51,542,846</u>	<u>4,423</u>	<u>3,355,276</u>	<u>3,822,577</u>	<u>58,725,122</u>
Fund balances:					
Nonspendable	2,534,663			853,408	3,388,071
Restricted	18,204,697	23,066,340	32,378,035	29,630,255	103,279,327
Assigned	35,156,881			2,739,948	37,896,829
Unassigned	9,543,675				9,543,675
Total fund balances	<u>65,439,916</u>	<u>23,066,340</u>	<u>32,378,035</u>	<u>33,223,611</u>	<u>154,107,902</u>
Total liabilities and fund balances	<u>\$ 116,982,762</u>	<u>\$ 23,070,763</u>	<u>\$ 35,733,311</u>	<u>\$ 37,046,188</u>	<u>\$ 212,833,024</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 ASSETS

June 30, 2011

Total fund balances - Governmental Funds \$ 154,107,902

Amounts reported for governmental activities in the statement of net assets 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 \$1,076,711,618 and the accumulated depreciation is \$315,941,175 (Note 4). 760,770,443

Unamortized costs are recognized in the period they are incurred (governmental funds) and debt issue costs are amortized over the life of the debt (government-wide). Unamortized costs included in prepaid expense: 2,484,195

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, 2011 consisted of (Note 6):

Mello-Roos bonds	\$ (149,041,479)	
Accreted interest on bonds	(42,402,524)	
Supplemental Employee Retirement Plan	(6,311,284)	
Post-retirement employee benefits (Note 9)	(389,758)	
Compensated absences	<u>(8,868,397)</u>	(207,013,442)

Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds. (458,839)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Net assets for the Self-Insurance Fund total: 7,994,914

Total net assets - governmental activities \$ 717,885,173

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, 2011**

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Capital Projects Fund for Blended Component Units</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Revenue limit sources:					
State apportionment	\$ 253,430,596			\$ 1,354,091	\$ 254,784,687
Local sources	<u>69,384,074</u>				<u>69,384,074</u>
Total revenue limit	<u>322,814,670</u>			<u>1,354,091</u>	<u>324,168,761</u>
Federal sources	45,186,729			19,612,461	64,799,190
Other state sources	98,098,906			21,156,805	119,255,711
Other local sources	<u>7,759,056</u>	<u>\$ 5,149,244</u>	<u>\$ 915,516</u>	<u>20,404,426</u>	<u>34,228,242</u>
Total revenues	<u>473,859,361</u>	<u>5,149,244</u>	<u>915,516</u>	<u>62,527,783</u>	<u>542,451,904</u>
Expenditures:					
Certificated salaries	224,199,063			4,039,937	228,239,000
Classified salaries	60,003,619	54,193	1,025,206	8,965,072	70,048,090
Employee benefits	107,434,858	24,006	412,408	6,017,330	113,888,602
Books and supplies	11,379,375		228,610	9,933,828	21,541,813
Contract services and operating expenditures	40,285,604	176,005	3,833,582	2,607,435	46,902,626
Capital outlay	755,170		1,929,447	6,962,328	9,646,945
Other outgo	2,360,637			70,412	2,431,049
Debt service:					
Principal retirement				5,295,148	5,295,148
Interest				<u>8,335,887</u>	<u>8,335,887</u>
Total expenditures	<u>446,418,326</u>	<u>254,204</u>	<u>7,429,253</u>	<u>52,227,377</u>	<u>506,329,160</u>
Excess (deficiency) of revenues over (under) expenditures	<u>27,441,035</u>	<u>4,895,040</u>	<u>(6,513,737)</u>	<u>10,300,406</u>	<u>36,122,744</u>
Other financing sources (uses):					
Operating transfers in	1,974,068	3,470,373	17,806,976	5,458,741	28,710,158
Operating transfers out	<u>(2,157,979)</u>	<u>(1,000,000)</u>	<u>(2,356,448)</u>	<u>(23,251,417)</u>	<u>(28,765,844)</u>
Total other financing sources (uses)	<u>(183,911)</u>	<u>2,470,373</u>	<u>15,450,528</u>	<u>(17,792,676)</u>	<u>(55,686)</u>
Net change in fund balances	27,257,124	7,365,413	8,936,791	(7,492,270)	36,067,058
Fund balances, July 1, 2010	<u>38,182,792</u>	<u>15,700,927</u>	<u>23,441,244</u>	<u>40,715,881</u>	<u>118,040,844</u>
Fund balances, June 30, 2011	<u>\$ 65,439,916</u>	<u>\$ 23,066,340</u>	<u>\$ 32,378,035</u>	<u>\$ 33,223,611</u>	<u>\$ 154,107,902</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, 2011**

Net change in fund balances - Total Governmental Funds \$ 36,067,058

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 assets (Note 4). \$ 10,472,174

Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4). (36,975,085)

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 assets for the Self-Insurance Fund is: (2,140,125)

Debt issued at a premium or discount is recognized as an other financing source or use in the governmental funds, but premium or discount is amortized as interest in the statement of net assets. (75,457)

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 assets (Note 6). 5,295,148

Accreted interest is an expense that is not recorded in the governmental funds (Note 6). (2,179,707)

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: 7,496

In government funds, expenses related to the supplemental employee retirement program 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). (84,980)

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). (581,066) (24,683,781)

Change in net assets of governmental activities \$ 11,383,277

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

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND**  
**SELF-INSURANCE FUND**  
**June 30, 2011**

**ASSETS**

Cash and investments:	
Cash in County Treasury	\$ 19,157,119
Cash on hand and in banks	285,493
Receivables	16,003
Prepaid expenditures	800
Due from District	<u>2,998,084</u>
 Total assets	 <u>22,457,499</u>

**LIABILITIES**

Accounts payable	39,965
Unpaid claims and claim adjustment expenses	14,331,000
Due to District	<u>91,620</u>
 Total liabilities	 <u>14,462,585</u>

**NET ASSETS**

Total net assets, restricted	<u><u>\$ 7,994,914</u></u>
------------------------------	----------------------------

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 ASSETS - PROPRIETARY FUND**

**SELF-INSURANCE FUND**

**For the Year Ended June 30, 2011**

Operating revenues:	
Self-insurance premiums	<u>\$ 2,940,414</u>
Operating expenses:	
Classified salaries	201,046
Employee benefits	85,235
Books and supplies	2,735
Provision for unpaid claims and claim adjustment expenses	<u>4,947,595</u>
Total operating expenses	<u>5,236,611</u>
Operating loss	(2,296,197)
Non-operating revenue:	
Interest income	100,046
Other income	340
Interfund transfers in	<u>55,686</u>
Total non-operating revenue	<u>156,072</u>
Change in net assets	(2,140,125)
Net assets, July 1, 2010	<u>10,135,039</u>
Net assets, June 30, 2011	<u><u>\$ 7,994,914</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, 2011**

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 2,981,258
Cash paid for salaries and benefits	(286,281)
Cash paid for services and supplies	(5,570)
Cash paid for claims	<u>(4,947,595)</u>
Net cash used in operating activities	<u>(2,258,188)</u>
Cash flows provided by investing activities:	
Interest income received	<u>100,046</u>
Cash flows from financing activities:	
Cash received from District	20,501,725
Other income	<u>340</u>
Net cash provided by financing activities	<u>20,502,065</u>
Increase in cash and investments	18,343,923
Cash and investments, July 1, 2010	<u>1,098,689</u>
Cash and investments, June 30, 2011	<u><u>\$ 19,442,612</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,296,197)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Decrease (increase) in:	
Receivables	40,844
Prepaid expenditures	(800)
Decrease in:	
Accounts payable	<u>(2,035)</u>
Total adjustments	<u>38,009</u>
Net cash used in operating activities	<u><u>\$ (2,258,188)</u></u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
TRUST AND AGENCY FUNDS  
June 30, 2011

	<u>Trust Funds</u>			<u>Agency Fund</u>	
	<u>Scholar- ship Fund</u>	<u>Deferred Compen- sation Fund</u>	<u>Total Trust</u>	<u>Student Body</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and investments (Note 2):					
Cash on hand and in banks	\$ 53,695		\$ 53,695	\$ 4,277,049	\$ 4,330,744
Investments		\$ 23,677,246	23,677,246		23,677,246
Stores inventory				29,735	29,735
Total assets	<u>53,695</u>	<u>23,677,246</u>	<u>23,730,941</u>	<u>4,306,784</u>	<u>28,037,725</u>
<b>LIABILITIES</b>					
Due to students/student groups				<u>4,306,784</u>	<u>4,306,784</u>
<b>NET ASSETS</b>					
Restricted (Note 7)	<u>\$ 53,695</u>	<u>\$ 23,677,246</u>	<u>\$ 23,730,941</u>	<u>\$ -</u>	<u>\$ 23,730,941</u>

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 - FIDUCIARY FUNDS**

**TRUST FUNDS**

**For the Year Ended June 30, 2011**

	<u>Scholarship Fund</u>	<u>Deferred Compensation Fund</u>	<u>Total</u>
Revenues:			
Other local sources	\$ 67,150	\$ 5,545,961	\$ 5,613,111
Expenditures:			
Contract services and operating expenditures	<u>68,234</u>	<u>1,942,980</u>	<u>2,011,214</u>
Net change in fund balances	(1,084)	3,602,981	3,601,897
Fund balances, July 1, 2010	<u>54,779</u>	\$ 20,074,265	<u>20,129,044</u>
Fund balances, June 30, 2011	<u>\$ 53,695</u>	<u>\$ 23,677,246</u>	<u>\$ 23,730,941</u>

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

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC 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 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 change in the fund financial statements to focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets 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 Assets and the Statement of Revenues, Expenditures and Change in Fiduciary Net Assets at the fund financial statement level.

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Statement of Net Assets 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 or account groups, 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. The District's accounts are organized into three broad categories which, in aggregate include seven fund types as follows:

#### A - Governmental Fund Types

##### 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 BASIC FINANCIAL STATEMENTS

(Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation - Fund Accounting (Continued)

##### A - Governmental Fund Types (Continued)

##### 2 - Special Revenue Funds:

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

##### 3 - Debt Service Fund:

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

##### 4 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This classification includes the Capital Facilities, Capital Projects for Blended Component Units, State School Facilities and Special Reserve for Capital Outlay Funds.

##### B - Proprietary Fund Type

##### 1 - Internal Service Fund:

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

##### C - Fiduciary Fund Types

##### 1 - Expendable Trust Funds:

The Expendable Trust Funds are used to account for assets held by the District as Trustee. The District maintains two trust funds: the Scholarship Fund, which is used to provide financial assistance to students of the District; and the Deferred Compensation Trust Fund, which accounts for a voluntary deferred compensation plan for employees.

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation - Fund Accounting (Continued)

#### C - Fiduciary Fund Types (Continued)

#### 2 - Agency Funds:

Agency Funds are used to account for the various funds for which the District has an agency relationship with the activity of the fund. This classification consists of the Student Body Funds. 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.



## ELK GROVE UNIFIED SCHOOL DISTRICT

### NOTES TO BASIC 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.

##### Compensated Absences

Compensated absences benefits totaling \$8,868,397 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.

##### Deferred 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 deferred revenue until earned.

## ELK GROVE UNIFIED SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenditures and stores inventory reflect the portion of net assets represented by revolving fund cash, prepaid expenditures and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues represents the portion of net assets restricted to specific program expenditures. The restriction for special revenues represents the portion of net assets restricted for special purposes. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for debt service represents that portion of net assets which the District plans to expend on debt repayment. The restriction for self-insurance represents the portion of net assets restricted for self-insured workers' compensation claims. The restriction for scholarships represents fund balance which is to be used to provide financial assistance to students of the District. The restriction for deferred compensation represents fund balance that will be used for deferred compensation for current employees.

##### 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 assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

**ELK GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC 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, 2011, 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, 2011, no such designation 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, 2011, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

## ELK GROVE UNIFIED SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Custodial Relationships

The balance sheet 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. The District's deferred compensation investment and liability is also recorded in the Fiduciary Funds.

##### Deferred Compensation

The District has established a voluntary deferred compensation plan for its employees. The agreements provide for periodic payroll deductions from the participating employees.

##### 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 BASIC FINANCIAL STATEMENTS**

(Continued)

**2. CASH AND INVESTMENTS**

Cash and investments at June 30, 2011 are reported at fair value and consisted of the following:

	<u>Rating</u>	<u>2011</u>
Cash:		
Cash in County Treasury		\$ 70,609,199
Cash with Fiscal Agent		18,993,471
Cash on hand and in banks		4,766,679
Revolving cash fund		153,381
Cash awaiting deposit		<u>296,596</u>
Total cash		<u>94,819,326</u>
Investments:		
Money Market	**	5,087,939
Mutual Funds	**	<u>18,589,307</u>
Total investments		<u>23,677,246</u>
Total cash and investments		<u><u>\$ 118,496,572</u></u>
Reconciliation to Statement of Net Assets and Statement of Fiduciary Net Assets:		
Governmental Activities		\$ 90,488,582
Fiduciary Activities		<u>28,007,990</u>
Total		<u><u>\$ 118,496,572</u></u>

\*\* The ratings are not available.

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, 2011.

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 2. CASH AND INVESTMENTS (Continued)

#### Cash with Fiscal Agent

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

#### Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2011, the carrying amount of the District's accounts was \$4,290,060 and the bank balance was \$5,243,500. \$606,801 of the bank balance was FDIC insured and \$4,366,974 remained uninsured.

#### 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, 2011, the District had no significant interest rate risk related to cash and investments held.

	<u>Fair Value</u>	<u>Maturity Less Than One Year</u>
Investment maturities:		
Money Market	\$ 5,087,939	\$ 5,087,939
Mutual Funds	<u>18,589,307</u>	<u>18,589,307</u>
	<u>\$ 23,677,246</u>	<u>\$ 23,677,246</u>

#### 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.

#### Concentration of Investment Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2011, the District had the following investments that represents more than five percent of the District's net investments:

Money Market	21%
Mutual Funds	79%

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC 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, 2011 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 1,635,992	\$ 25,305,629
Capital Facilities	21,500,541	853
Capital Projects for Blended Component Units	9,857	21,428
Non-Major Funds:		
Charter Schools	76,912	3,181
Adult Education	158,129	181,411
Child Development	189,464	420,321
Cafeteria	155,399	1,409,920
Deferred Maintenance	717,634	
State School Facilities		7,649
Proprietary Fund:		
Self-Insurance	<u>2,998,084</u>	<u>91,620</u>
Total	<u>\$ 27,442,012</u>	<u>\$ 27,442,012</u>

#### Interfund Transfers

Interfund transfers for the 2010-2011 fiscal year were as follows:

Transfer from the General Fund to the Adult Education Fund for apportionment funding.	\$ 800,000
Transfer from the General Fund to the Adult Education Fund for CalWorks apportionment funding.	439,864
Transfer from the General Fund to the Deferred Maintenance Fund to return funds to Deferred Maintenance.	717,634
Transfer from the General Fund to the Child Development Fund to pay for Cal Safe Support Services, interest and employee separation costs.	85,120
Transfer from the General Fund to the Charter Schools Fund for Federal Education Job funds.	59,675

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 3. INTERFUND TRANSACTIONS (Continued)

#### Interfund Transfers (Continued)

Transfer from the General Fund to the Workers' Compensation - Self Insurance Fund for CPR/First Aid Certification.	\$ 55,686
Transfer from the Capital Facilities Fund to the State School Facilities Fund to augment Pleasant Grove High School agriculture building funding.	1,000,000
Transfer from the Capital Projects for Blended Component Units Fund to the State School Facilities Fund to augment AD-UP house at Cosumnes Oaks High School.	1,819,016
Transfer from the Capital Projects for Blended Component Units Fund to the State School Facilities Fund for Miwok Village assessment.	5,000
Transfer from the Capital Projects for Blended Component Units Fund to the State School Facilities Fund to augment the Pleasant Grove High School agriculture building.	475,000
Transfer from the Capital Projects Fund to the State School Facilities Fund to restore OPSC savings to 100% for project.	57,432
Transfer from the Charter School Fund to the General Fund for indirect costs.	895
Transfer from the Adult Education Fund to the General Fund for indirect support.	136,313
Transfer from the Child Development Fund to the General Fund for indirect costs.	235,070
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	884,156
Transfer from the Deferred Maintenance Fund to the General Fund to start up the Special Projects crew.	717,634
Transfer from the State School Facilities Fund to the Capital Projects for Blended Component Units Fund to return Cosumnes River Elementary School front end funding.	10,000,000
Transfer from the State School Facilities Fund to the Capital Projects for Blended Component Units Fund to return COHS/EPMS funding.	3,375,000
Transfer from the State School Facilities Fund to the Capital Projects for Blended Component Units Fund to return Kennedy Elementary School project front end funding.	2,755,648
Transfer from the State School Facilities Fund to the Capital Facilities Fund to return Elk Grove Charter School front end funding.	2,279,634
Transfer from the State School Facilities Fund to the Capital Facilities Fund to return Cosumnes River Elementary School funding.	953,739
Transfer from the State School Facilities Fund to the Capital Projects for Blended Component Units Fund to return Culinary Arts front end funding.	900,000



**ELK GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**3. INTERFUND TRANSACTIONS (Continued)**

Interfund Transfers (Continued)

Transfer from the State School Facilities Fund to the Capital Facilities Fund to return Kennedy Elementary School front end funding.	\$ 237,000
Transfer from the State School Facilities Fund to the Capital Projects Fund to close completed projects.	5
Transfer from the Capital Projects for Blended Component Units Fund to the Mello-Roos Administrative Fund for excess special tax monies.	<u>776,323</u>
	<u><u>\$ 28,765,844</u></u>

**4. CAPITAL ASSETS**

A schedule of changes in capital assets for the year ended June 30, 2011 is shown below:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions and Transfers</u>	<u>Balance June 30, 2011</u>
Non-depreciable:				
Land	\$ 147,585,221			\$ 147,585,221
Work in progress	45,134,782	\$ 4,156,754	\$ (39,076,776)	10,214,760
Depreciable:				
Improvement of sites	42,756,154	9,536,273		52,292,427
Buildings	805,602,336	34,873,782		840,476,118
Equipment	<u>25,461,680</u>	<u>982,141</u>	<u>(300,729)</u>	<u>26,143,092</u>
Totals, at cost	<u>1,066,540,173</u>	<u>49,548,950</u>	<u>(39,377,505)</u>	<u>1,076,711,618</u>
Less accumulated depreciation:				
Improvement of sites	10,777,343	2,067,876		12,845,219
Buildings	251,728,955	33,341,620		285,070,575
Equipment	<u>16,760,521</u>	<u>1,565,589</u>	<u>(300,729)</u>	<u>18,025,381</u>
Total accumulated depreciation	<u>279,266,819</u>	<u>36,975,085</u>	<u>(300,729)</u>	<u>315,941,175</u>
Capital assets, net	<u>\$ 787,273,354</u>	<u>\$ 12,573,865</u>	<u>\$ (39,076,776)</u>	<u>\$ 760,770,443</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 36,975,085</u>
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# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 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, 2011, 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 2010-11 settled claims did not exceed the coverage level provided by the Fund and no claims were made of the excess coverage.

The claims liability of \$14,331,000 at June 30, 2011 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 4 percent.

Changes in the District's unpaid claims and claim adjustment expenses for the years ended June 30, 2011 and June 30, 2010 was as follows:

	Unpaid Claims and Claim Adjustment Expenses July 1	Incurred Claims	Claims Payments	Unpaid Claims and Claim Adjustment Expenses June 30
2010/2011	<u>\$ 14,331,000</u>	<u>\$ 4,947,595</u>	<u>\$ (4,947,595)</u>	<u>\$ 14,331,000</u>
2009/2010	<u>\$ 12,712,000</u>	<u>\$ 6,144,541</u>	<u>\$ (4,525,541)</u>	<u>\$ 14,331,000</u>

### 6. LONG-TERM LIABILITIES

#### Mello-Roos Bonds Payable

A summary of Mello-Roos Bonds payable at June 30, 2011 follows:

Series	Interest Rate	Balance July 1, 2010	Current Year Maturities	Balance June 30, 2011
1995	4.0% to 6.5%	\$ 20,750,493	\$ 1,104,474	\$ 19,646,019
1998	4.0% to 8.0%	23,605,771	1,620,674	21,985,097
2001	3.0% to 3.6%	14,018,383	1,050,000	12,968,383
2003	2.1% to 4.6%	22,945,847	1,015,000	21,930,847
2005	4.0% to 4.6%	41,790,000	505,000	41,285,000
2009	6.75%	<u>31,226,133</u>		<u>31,226,133</u>
		<u>\$154,336,627</u>	<u>\$ 5,295,148</u>	<u>\$149,041,479</u>

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 6. LONG-TERM LIABILITIES (Continued)

#### Mello-Roos Bonds Payable (Continued)

The Series 1995, 1998, 2001, 2003, 2005 and 2009 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 Serial Bonds mature serially in varying amounts during the succeeding years through December 2039.

The annual requirements to amortize the Mello-Roos Bonds payable outstanding as of June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,207,538	\$ 8,414,566	\$ 13,622,104
2013	4,713,009	8,927,534	13,640,543
2014	4,574,144	9,064,900	13,639,044
2015	4,470,988	9,168,854	13,639,842
2016	4,374,901	9,262,942	13,637,843
2017-2021	25,419,612	42,539,711	67,959,323
2022-2026	23,756,520	44,785,369	68,541,889
2027-2031	14,781,497	52,917,126	67,698,623
2032-2036	30,517,137	37,217,397	67,734,534
2037-2040	<u>31,226,133</u>	<u>9,041,498</u>	<u>40,267,631</u>
	<u>\$ 149,041,479</u>	<u>\$ 231,339,897</u>	<u>\$ 380,381,376</u>

#### Supplemental Employee Retirement Plan Liability

During 2010, the District provided the option of a one-time Supplemental Employee Retirement Plan ("SERP") to the 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.

**ELK GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**6. LONG-TERM LIABILITIES (Continued)**

Supplemental Employee Retirement Plan Liability (Continued)

The annual requirements to amortize the SERP liability outstanding as of June 30, 2011 are as follows:

Year Ending June 30,	
2012	\$ 1,577,821
2013	1,577,821
2014	1,577,821
2015	<u>1,577,821</u>
	<u>\$ 6,311,284</u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2011 is shown below:

	Balance July 1, 2010	Restatement (Note 13)	Additions	Deductions	June 30, 2011	Amounts Due Within One Year
Mello-Roos bonds	\$ 154,336,627			\$ 5,295,148	\$ 149,041,479	\$ 5,207,538
Accreted Interest on bonds		\$ 40,222,817	\$ 2,666,531	486,824	42,402,524	
Supplemental Employee Retirement Plan	7,889,105			1,577,821	6,311,284	1,577,821
Post-retirement employee benefits (Note 9)	304,778		2,276,151	2,191,171	389,758	389,758
Compensated absences	<u>8,287,331</u>		<u>581,066</u>		<u>8,868,397</u>	<u>700,000</u>
Totals	<u>\$ 170,817,841</u>	<u>\$ 40,222,817</u>	<u>\$ 5,523,748</u>	<u>\$ 9,550,964</u>	<u>\$ 207,013,442</u>	<u>\$ 7,875,117</u>

Payments on the Mello-Roos bonds are made from the Mello-Roos Administrative Fund. 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.

**ELK GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**7. NET ASSETS / FUND BALANCES**

Restricted net assets consisted of the following at June 30, 2011:

	<u>Governmental Funds</u>
Restricted for revolving cash fund	\$ 153,381
Restricted for prepaid expenditures	4,395,805
Restricted for stores inventory	1,323,080
Restricted for unspent categorical program revenues	18,204,697
Restricted for special revenues	7,191,243
Restricted for capital projects	61,614,625
Restricted for debt service	64,721
Restricted for self-insurance	<u>7,994,914</u>
	<u>\$ 100,942,466</u>
	<u>Fiduciary Funds</u>
Restricted for scholarships	\$ 53,695
Restricted for deferred compensation	<u>23,677,246</u>
	<u>\$ 23,730,941</u>

Fund balances, by category, at June 30, 2011 consisted of the following:

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Capital Projects for Blended Component Units Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:					
Revolving cash fund	\$ 140,000			\$ 13,381	\$ 153,381
Prepaid expenditures	1,908,510			3,100	1,911,610
Stores inventory	<u>486,153</u>			<u>836,927</u>	<u>1,323,080</u>
Subtotal nonspendable	<u>2,534,663</u>			<u>853,408</u>	<u>3,388,071</u>
Restricted:					
Unspent categorical revenues	18,204,697			1,102,494	19,307,191
Capital projects		\$ 23,066,340	\$ 32,378,035	13,453,734	68,898,109
Special revenues				3,348,801	3,348,801
Debt service				<u>11,725,226</u>	<u>11,725,226</u>
Subtotal restricted	<u>18,204,697</u>	<u>23,066,340</u>	<u>32,378,035</u>	<u>29,630,255</u>	<u>103,279,327</u>
Assigned:					
Board assigned	35,156,881			2,739,948	37,896,829
Unassigned:					
Designated for economic uncertainty	<u>9,543,675</u>				<u>9,543,675</u>
Total fund balances	<u>\$ 65,439,916</u>	<u>\$ 23,066,340</u>	<u>\$ 32,378,035</u>	<u>\$ 33,223,611</u>	<u>\$154,107,902</u>

## ELK GROVE UNIFIED SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 8. EMPLOYEE RETIREMENT SYSTEMS

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

##### Plan Description and Provisions

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

###### *Plan Description*

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

###### *Funding Policy*

Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707% 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, 2009, 2010 and 2011 were \$5,232,291, \$7,129,421 and \$6,959,902, 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.

**ELK GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**8. EMPLOYEE RETIREMENT SYSTEMS (Continued)**

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

*Funding Policy*

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2010-2011 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, 2009, 2010 and 2011 were \$20,370,842, \$20,604,707 and \$18,486,056, respectively, and equal 100% of the required contributions for each year.

**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, 2011, 399 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, 2011, expenditures of \$2,191,171 were recognized for post-employment health care benefits.

# ELK GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 9. POST-RETIREMENT EMPLOYEE BENEFITS (Continued)

#### 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	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	2,276,151
Contributions made	<u>(2,191,171)</u>
Increase in net OPEB obligation	84,980
Net OPEB obligation - beginning of year	<u>304,778</u>
Net OPEB obligation - end of year	<u><u>\$ 389,758</u></u>

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, 2011 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, 2009	\$ 2,276,151	98%	\$ 199,365
June 30, 2010	\$ 2,276,151	95%	\$ 304,778
June 30, 2011	\$ 2,276,151	96%	\$ 389,758

#### 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.



## ELK GROVE UNIFIED SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 9. POST-RETIREMENT EMPLOYEE BENEFITS (Continued)

##### Funded Status and Funding Progress (Continued)

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-seven years.

#### 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.

## ELK GROVE UNIFIED SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 10. ELK GROVE BENEFITS EMPLOYEE RETIREMENT TRUST (Continued)

##### Plan Description (Continued)

See Elk Grove Benefits Employee Retirement Trust audited financial statements for the year ended December 31, 2010 for more discussion of EGBERT.

#### 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. The following is a summary of financial information of CSAC Excess Insurance Authority at June 30, 2010, the most current information available:

Total assets	\$ 546,764,817
Total liabilities	\$ 428,407,212
Total net assets	\$ 118,357,605
Total revenue	\$ 416,002,742
Total expenses	\$ 443,438,510

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.

##### 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. The following is a summary of financial information of Schools Insurance Authority at June 30, 2010, the most current information available:

Total assets	\$ 101,105,311
Total liabilities	\$ 41,804,380
Total net assets	\$ 59,300,931
Total revenue	\$ 43,906,093
Total expenses	\$ 37,968,010

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 BASIC FINANCIAL STATEMENTS**

(Continued)

#### **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. RESTATEMENT**

During the year ended June 30, 2011 District management determined that accreted interest on certain Capital Appreciation Mello Roos Bonds had not been accrued since the issuance of the related bonds, totaling \$40,222,817 at June 30, 2010. Accordingly, Long-Term Liabilities were increased and Net Assets were decreased by this amount as of July 1, 2010.

#### **14. 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, 2011**

	<u>Budget</u>			<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Revenue limit sources:				
State apportionment	\$ 231,964,026	\$ 253,430,596	\$ 253,430,596	
Local sources	<u>74,480,349</u>	<u>69,060,448</u>	<u>69,384,074</u>	\$ 323,626
Total revenue limit	<u>306,444,375</u>	<u>322,491,044</u>	<u>322,814,670</u>	<u>323,626</u>
Federal sources	25,597,052	62,752,199	45,186,729	(17,565,470)
Other state sources	91,462,024	100,747,447	98,098,906	(2,648,541)
Other local sources	<u>4,335,364</u>	<u>9,356,175</u>	<u>7,759,056</u>	<u>(1,597,119)</u>
Total revenues	<u>427,838,815</u>	<u>495,346,865</u>	<u>473,859,361</u>	<u>(21,487,504)</u>
Expenditures:				
Certificated salaries	208,781,173	226,224,696	224,199,063	2,025,633
Classified salaries	60,405,435	65,092,317	60,003,619	5,088,698
Employee benefits	106,725,195	108,530,838	107,434,858	1,095,980
Books and supplies	10,695,196	25,473,958	11,379,375	14,094,583
Contract services and operating expenditures	41,002,516	49,629,837	40,285,604	9,344,233
Capital outlay	129,693	497,354	755,170	(257,816)
Other outgo	<u>3,364,689</u>	<u>2,089,526</u>	<u>2,360,637</u>	<u>(271,111)</u>
Total expenditures	<u>431,103,897</u>	<u>477,538,526</u>	<u>446,418,326</u>	<u>31,120,200</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(3,265,082)</u>	<u>17,808,339</u>	<u>27,441,035</u>	<u>9,632,696</u>
Other financing sources (uses):				
Operating transfers in	1,415,285	1,473,539	1,974,068	500,529
Operating transfers out	<u>(3,336,179)</u>	<u>(1,715,724)</u>	<u>(2,157,979)</u>	<u>(442,255)</u>
Total other financing sources (uses)	<u>(1,920,894)</u>	<u>(242,185)</u>	<u>(183,911)</u>	<u>58,274</u>
Net change in fund balance	(5,185,976)	17,566,154	27,257,124	9,690,970
Fund balance, July 1, 2010	<u>38,182,791</u>	<u>38,182,792</u>	<u>38,182,792</u>	
Fund balance, June 30, 2011	<u>\$ 32,996,815</u>	<u>\$ 55,748,946</u>	<u>\$ 65,439,916</u>	<u>\$ 9,690,970</u>

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

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

For the Year Ended June 30, 2011

Schedule of Funding Progress							
Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Pre-2000 Plan</u>							
6/30/2009	November 1, 2006	\$ -	\$33.3 million	\$33.3 million	0%	\$ -	0%
6/30/2010	November 1, 2006	\$ -	\$33.3 million	\$33.3 million	0%	\$ -	0%
6/30/2011	November 1, 2006	\$ -	\$33.3 million	\$33.3 million	0%	\$ -	0%

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

# 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, 2011 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Capital outlay	257,816

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, 2011

ASSETS

	Charter Schools Fund	Adult Education Fund	Child Develop- ment Fund	Cafeteria Fund	Deferred Maintenance Fund	State School Facilities Fund	Mello-Roos Adminis- trative Fund	Special Reserve for Capital Outlay Fund	Total
Cash in County Treasury	\$ 1,331,464	\$ 2,017,781	\$ 14,567	\$ 27,874	\$ 2,449,806	\$ 13,841,650	\$ 60,395	\$ 168,542	\$ 19,912,079
Cash with Fiscal Agent							11,660,505		11,660,505
Cash on hand and in banks		46,585		93,090					139,675
Cash in revolving fund				13,381					13,381
Cash awaiting deposit				150					150
Receivables	203,002	671,939	582,567	1,689,563	1,657	29,646	4,326	133	3,182,833
Prepaid expenditures		3,100							3,100
Due from other funds	76,912	158,129	189,464	155,399	717,634				1,297,538
Stores inventory				836,927					836,927
Total assets	<u>\$ 1,611,378</u>	<u>\$ 2,897,534</u>	<u>\$ 786,598</u>	<u>\$ 2,816,384</u>	<u>\$ 3,169,097</u>	<u>\$ 13,871,296</u>	<u>\$ 11,725,226</u>	<u>\$ 168,675</u>	<u>\$ 37,046,188</u>

LIABILITIES AND  
FUND BALANCES

Liabilities:									
Accounts payable	\$ 289,220	\$ 206,128	\$ 151,235	\$ 325,704	\$ 50,748	\$ 578,588			\$ 1,601,623
Deferred revenue	59,675		138,797						198,472
Due to other funds	<u>3,181</u>	<u>181,411</u>	<u>420,321</u>	<u>1,409,920</u>		<u>7,649</u>			<u>2,022,482</u>
Total liabilities	<u>352,076</u>	<u>387,539</u>	<u>710,353</u>	<u>1,735,624</u>	<u>50,748</u>	<u>586,237</u>			<u>3,822,577</u>
Fund balances:									
Nonspendable		3,100		850,308					853,408
Restricted	3,705	1,024,062	74,727	230,452	3,118,349	13,285,059	\$ 11,725,226	\$ 168,675	29,630,255
Assigned	<u>1,255,597</u>	<u>1,482,833</u>	<u>1,518</u>						<u>2,739,948</u>
Total fund balances	<u>1,259,302</u>	<u>2,509,995</u>	<u>76,245</u>	<u>1,080,760</u>	<u>3,118,349</u>	<u>13,285,059</u>	<u>11,725,226</u>	<u>168,675</u>	<u>33,223,611</u>
Total liabilities and fund balances	<u>\$ 1,611,378</u>	<u>\$ 2,897,534</u>	<u>\$ 786,598</u>	<u>\$ 2,816,384</u>	<u>\$ 3,169,097</u>	<u>\$ 13,871,296</u>	<u>\$ 11,725,226</u>	<u>\$ 168,675</u>	<u>\$ 37,046,188</u>

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

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, 2011

	Charter Schools Fund	Adult Education Fund	Child Develop- ment Fund	Cafeteria Fund	Deferred Maintenance Fund	State School Facilities Fund	Mello-Roos Adminis- trative Fund	Special Reserve for Capital Outlay Fund	Total
Revenues:									
Revenue limit sources:									
State apportionment	\$ 1,354,091								\$ 1,354,091
Federal sources	(59,675)	\$ 1,958,787	\$ 3,026,403	\$ 14,686,946					19,612,461
Other state sources	332,458	1,003,414	1,787,954	1,353,630		\$ 16,679,349			21,156,805
Other local sources	7,355	801,135	446,640	4,507,415	\$ 13,064	131,658	\$ 14,468,112	\$ 29,047	20,404,426
Total revenues	1,634,229	3,763,336	5,260,997	20,547,991	13,064	16,811,007	14,468,112	29,047	62,527,783
Expenditures:									
Certificated salaries	1,057,846	1,403,235	1,578,856						4,039,937
Classified salaries	124,583	1,085,870	968,549	6,786,070					8,965,072
Employee benefits	277,338	934,263	1,103,841	3,701,888					6,017,330
Books and supplies	98,939	350,779	326,401	8,455,225		702,484			9,933,828
Contract services and operating expenditures					71,859				2,607,435
Capital outlay	46,795	385,636	1,139,462	875,706	19,673	87,977			6,962,328
Other outgo				263,115		6,679,540	70,412		70,412
Debt service:									5,295,148
Principal retirement									8,335,887
Interest									
Total expenditures	1,605,501	4,159,783	5,117,109	20,082,004	91,532	7,470,001	13,701,447		52,227,377
Excess (deficiency) of revenues over (under) expenditures	28,728	(396,447)	143,888	465,987	(78,468)	9,341,006	766,665	29,047	10,300,406
Other financing sources (uses):									
Operating transfers in	59,675	1,239,864	85,120		717,634	3,356,448			5,458,741
Operating transfers out	(895)	(136,313)	(235,070)	(884,156)	(717,634)	(20,501,026)	(776,323)		(23,251,417)
Total other financing sources (uses)	58,780	1,103,551	(149,950)	(884,156)		(17,144,578)	(776,323)		(17,792,676)
Net change in fund balances	87,508	707,104	(6,062)	(418,169)	(78,468)	(7,803,572)	(9,658)	29,047	(7,492,270)
Fund balances, July 1, 2010	1,171,794	1,802,891	82,307	1,498,929	3,196,817	21,088,631	11,734,884	139,628	40,715,881
Fund balances, June 30, 2011	\$ 1,259,302	\$ 2,509,995	\$ 76,245	\$ 1,080,760	\$ 3,118,349	\$ 13,285,059	\$ 11,725,226	\$ 168,675	\$ 33,223,611

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

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

For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
<b><u>Student Body Funds</u></b>				
<b><u>Elk Grove High School</u></b>				
Assets:				
Cash on hand and in banks	\$ 191,380	\$ 1,041,754	\$ 1,015,036	\$ 218,098
Inventory	<u>10,819</u>	<u>7,508</u>	<u>12,925</u>	<u>5,402</u>
	<u>\$ 202,199</u>	<u>\$ 1,049,262</u>	<u>\$ 1,027,961</u>	<u>\$ 223,500</u>
Liabilities:				
Due to students/student groups	<u>\$ 202,199</u>	<u>\$ 1,049,262</u>	<u>\$ 1,027,961</u>	<u>\$ 223,500</u>
<b><u>Florin High School</u></b>				
Assets:				
Cash on hand and in banks	\$ 309,298	\$ 375,494	\$ 412,245	\$ 272,547
Inventory	<u>1,457</u>	<u>22,074</u>	<u>22,386</u>	<u>1,145</u>
	<u>\$ 310,755</u>	<u>\$ 397,568</u>	<u>\$ 434,631</u>	<u>\$ 273,692</u>
Liabilities:				
Due to students/student groups	<u>\$ 310,755</u>	<u>\$ 397,568</u>	<u>\$ 434,631</u>	<u>\$ 273,692</u>
<b><u>Franklin High School</u></b>				
Assets:				
Cash on hand and in banks	\$ 296,796	\$ 1,162,263	\$ 1,108,708	\$ 350,351
Inventory	<u>50,073</u>	<u>50,073</u>	<u>50,073</u>	<u>50,073</u>
	<u>\$ 296,796</u>	<u>\$ 1,212,336</u>	<u>\$ 1,158,781</u>	<u>\$ 350,351</u>
Liabilities:				
Due to students/student groups	<u>\$ 296,796</u>	<u>\$ 1,212,336</u>	<u>\$ 1,158,781</u>	<u>\$ 350,351</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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Student Body Funds</u></b>				
(Continued)				
<u>Laguna Creek High School</u>				
Assets:				
Cash on hand and in banks	\$ 336,546	\$ 590,891	\$ 591,776	\$ 335,661
Inventory	12,456	48,793	46,696	14,553
	<u>\$ 349,002</u>	<u>\$ 639,684</u>	<u>\$ 638,472</u>	<u>\$ 350,214</u>
Liabilities:				
Due to students/student groups	<u>\$ 349,002</u>	<u>\$ 639,684</u>	<u>\$ 638,472</u>	<u>\$ 350,214</u>
<u>Monterey Trail High School</u>				
Assets:				
Cash on hand and in banks	\$ 236,917	\$ 536,031	\$ 567,373	\$ 205,575
Inventory		41,750	41,750	
	<u>\$ 236,917</u>	<u>\$ 577,781</u>	<u>\$ 609,123</u>	<u>\$ 205,575</u>
Liabilities:				
Due to students/student groups	<u>\$ 236,917</u>	<u>\$ 577,781</u>	<u>\$ 609,123</u>	<u>\$ 205,575</u>
<u>Pleasant Grove High School</u>				
Assets:				
Cash on hand and in banks	\$ 282,917	\$ 976,872	\$ 993,449	\$ 266,340
Inventory	2,479	60,240	60,592	2,127
	<u>\$ 285,396</u>	<u>\$ 1,037,112</u>	<u>\$ 1,054,041</u>	<u>\$ 268,467</u>
Liabilities:				
Due to students/student groups	<u>\$ 285,396</u>	<u>\$ 1,037,112</u>	<u>\$ 1,054,041</u>	<u>\$ 268,467</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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Student Body Funds</u></b>				
(Continued)				
<u>Sheldon High School</u>				
Assets:				
Cash on hand and in banks	\$ 398,869	\$ 847,114	\$ 832,026	\$ 413,957
Inventory	<u>6,822</u>	<u>43,762</u>	<u>47,683</u>	<u>2,901</u>
	<u>\$ 405,691</u>	<u>\$ 890,876</u>	<u>\$ 879,709</u>	<u>\$ 416,858</u>
Liabilities:				
Due to students/student groups	<u>\$ 405,691</u>	<u>\$ 890,876</u>	<u>\$ 879,709</u>	<u>\$ 416,858</u>
<u>Valley High School</u>				
Assets:				
Cash on hand and in banks	\$ 86,324	\$ 458,486	\$ 430,102	\$ 114,708
Inventory	<u></u>	<u>67,204</u>	<u>64,663</u>	<u>2,541</u>
	<u>\$ 86,324</u>	<u>\$ 525,690</u>	<u>\$ 494,765</u>	<u>\$ 117,249</u>
Liabilities:				
Due to students/student groups	<u>\$ 86,324</u>	<u>\$ 525,690</u>	<u>\$ 494,765</u>	<u>\$ 117,249</u>
<u>Cosumnes Oaks High School</u>				
Assets:				
Cash on hand and in banks	\$ 64,827	\$ 647,125	\$ 583,816	\$ 128,136
Inventory	<u></u>	<u>10,070</u>	<u>10,070</u>	<u></u>
	<u>\$ 64,827</u>	<u>\$ 657,195</u>	<u>\$ 593,886</u>	<u>\$ 128,136</u>
Liabilities:				
Due to students/student groups	<u>\$ 64,827</u>	<u>\$ 657,195</u>	<u>\$ 593,886</u>	<u>\$ 128,136</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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Student Body Funds</u></b>				
(Continued)				
<u>Edward Harris, Jr. Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 65,883	\$ 196,273	\$ 212,172	\$ 49,984
Inventory		27,624	27,624	
	<u>\$ 65,883</u>	<u>\$ 223,897</u>	<u>\$ 239,796</u>	<u>\$ 49,984</u>
Liabilities:				
Due to students/student groups	<u>\$ 65,883</u>	<u>\$ 223,897</u>	<u>\$ 239,796</u>	<u>\$ 49,984</u>
<u>Toby Johnson Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 200,174	\$ 331,887	\$ 294,397	\$ 237,664
Inventory		37,915	37,915	
	<u>\$ 200,174</u>	<u>\$ 369,802</u>	<u>\$ 332,312</u>	<u>\$ 237,664</u>
Liabilities:				
Due to students/student groups	<u>\$ 200,174</u>	<u>\$ 369,802</u>	<u>\$ 332,312</u>	<u>\$ 237,664</u>
<u>Joseph Kerr Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 139,213	\$ 211,529	\$ 208,545	\$ 142,197
Inventory	83	14,100	14,106	77
	<u>\$ 139,296</u>	<u>\$ 225,629</u>	<u>\$ 222,651</u>	<u>\$ 142,274</u>
Liabilities:				
Due to students/student groups	<u>\$ 139,296</u>	<u>\$ 225,629</u>	<u>\$ 222,651</u>	<u>\$ 142,274</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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Student Body Funds</u></b>				
(Continued)				
<u>Harriet Eddy Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 45,714	\$ 141,431	\$ 169,386	\$ 17,759
Inventory		41,715	41,715	
	<u>\$ 45,714</u>	<u>\$ 183,146</u>	<u>\$ 211,101</u>	<u>\$ 17,759</u>
Liabilities:				
Due to students/student groups	<u>\$ 45,714</u>	<u>\$ 183,146</u>	<u>\$ 211,101</u>	<u>\$ 17,759</u>
<u>James Rutter Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 30,828	\$ 243,953	\$ 236,896	\$ 37,885
Inventory	313	25,032	24,812	533
	<u>\$ 31,141</u>	<u>\$ 268,985</u>	<u>\$ 261,708</u>	<u>\$ 38,418</u>
Liabilities:				
Due to students/student groups	<u>\$ 31,141</u>	<u>\$ 268,985</u>	<u>\$ 261,708</u>	<u>\$ 38,418</u>
<u>Katherine L. Albiani Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 95,299	\$ 361,531	\$ 348,063	\$ 108,767
Inventory		30,788	30,788	
	<u>\$ 95,299</u>	<u>\$ 392,319</u>	<u>\$ 378,851</u>	<u>\$ 108,767</u>
Liabilities:				
Due to students/student groups	<u>\$ 95,299</u>	<u>\$ 392,319</u>	<u>\$ 378,851</u>	<u>\$ 108,767</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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Student Body Funds</u></b>				
(Continued)				
<u>Samuel Jackman Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 16,344	\$ 84,480	\$ 67,745	\$ 33,079
Inventory	781	5,824	6,149	456
	<u>\$ 17,125</u>	<u>\$ 90,304</u>	<u>\$ 73,894</u>	<u>\$ 33,535</u>
Liabilities:				
Due to students/student groups	<u>\$ 17,125</u>	<u>\$ 90,304</u>	<u>\$ 73,894</u>	<u>\$ 33,535</u>
<u>Pinkerton Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 71,591	\$ 217,353	\$ 250,961	\$ 37,983
Inventory		16,769	16,769	
	<u>\$ 71,591</u>	<u>\$ 234,122</u>	<u>\$ 267,730</u>	<u>\$ 37,983</u>
Liabilities:				
Due to students/student groups	<u>\$ 71,591</u>	<u>\$ 234,122</u>	<u>\$ 267,730</u>	<u>\$ 37,983</u>
<u>T. R. Smedberg Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 131,255	\$ 212,997	\$ 199,586	\$ 144,666
Inventory		29,193	29,193	
	<u>\$ 131,255</u>	<u>\$ 242,190</u>	<u>\$ 228,779</u>	<u>\$ 144,666</u>
Liabilities:				
Due to students/student groups	<u>\$ 131,255</u>	<u>\$ 242,190</u>	<u>\$ 228,779</u>	<u>\$ 144,666</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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Student Body Funds</u></b>				
(Continued)				
<u>Elementary and Other Schools</u>				
Assets:				
Cash on hand and in banks	\$ 1,012,151	\$ 3,275,708	\$ 3,126,167	\$ 1,161,692
Inventory				
	<u>\$ 1,012,151</u>	<u>\$ 3,275,708</u>	<u>\$ 3,126,167</u>	<u>\$ 1,161,692</u>
Liabilities:				
Due to students/student groups	<u>\$ 1,012,151</u>	<u>\$ 3,275,708</u>	<u>\$ 3,126,167</u>	<u>\$ 1,161,692</u>
<b><u>Total Agency Funds</u></b>				
Assets:				
Cash on hand and in banks	\$ 4,012,326	\$ 11,913,172	\$ 11,648,449	\$ 4,277,049
Inventory	35,210	641,955	647,430	29,735
	<u>\$ 4,047,536</u>	<u>\$ 12,555,127</u>	<u>\$ 12,295,879</u>	<u>\$ 4,306,784</u>
Liabilities:				
Due to students/student groups	<u>\$ 4,047,536</u>	<u>\$ 12,555,127</u>	<u>\$ 12,295,879</u>	<u>\$ 4,306,784</u>

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

# ELK GROVE UNIFIED SCHOOL DISTRICT

## ORGANIZATION

June 30, 2011

Elk Grove Unified School District was established in 1959. The District is a political subdivision of the State of California. The District is located in an area around the community of Elk Grove in Sacramento County, California. There were no changes in District boundaries during the current year. The District currently operates thirty-nine elementary schools, eight middle schools and eight high schools as well as three continuation high schools, one special education school, one adult school, one independent study school and one charter school.

The Board of Education of Elk Grove Unified School District is composed of seven members. Although all seven members are elected at large, the District is divided into seven geographical areas and the Board members representing an area must reside within its boundaries. The Board and the Cabinet manage and control the affairs of the District.

### GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Priscilla S. Cox	President	November 2012
Chet Madison, Sr.	Clerk	November 2014
Pollyanna Cooper-LeVangie	Member	November 2014
Pamela A. Ireby	Member	November 2012
William Lugg, Jr.	Member	November 2012
Jeanette J. Amavisca	Member	November 2012
Alfred Rowlett	Member	November 2014

### ADMINISTRATION

Steven M. Ladd, Ed. D.  
Superintendent

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

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

Richard Fagan  
Associate Superintendent, Finance and School Support

Robert Pierce  
Associate Superintendent, Facilities and Planning

Nancy Lucia  
Associate Superintendent, Education Services

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**For the Year Ended June 30, 2011**

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	4,127	4,127
First through Third	13,090	13,084
Fourth through Eighth	22,856	22,807
Special Education	765	800
Home and Hospital	<u>6</u>	<u>9</u>
Total Elementary	<u>40,844</u>	<u>40,827</u>
Secondary:		
Regular Classes	16,897	16,726
Special Education	428	457
Continuation Education	740	712
Home and Hospital	<u>13</u>	<u>15</u>
Total Secondary	<u>18,078</u>	<u>17,910</u>
Classes for Adults:		
Not currently enrolled	<u>297</u>	<u>343</u>
Total District	<u><u>59,219</u></u>	<u><u>59,080</u></u>
Charter School - Non Classroom-Based:		
Secondary Education	<u><u>300</u></u>	<u><u>309</u></u>

See accompanying notes to  
supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2011

	Statutory 1986-87 Minutes Require- ment	Reduced 1986-87 Minutes Require- ment	Statutory 1982-83 Minutes Require- ment	Reduced 1982-83 Actual Minutes	2010-11 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
<b><u>DISTRICT</u></b>								
Kindergarten	36,000	35,000	31,500	30,625	35,000	175	166	In Compliance
Grade 1	50,400	49,000	40,250	39,132	49,580	175	166	In Compliance
Grade 2	50,400	49,000	40,250	39,132	49,580	175	166	In Compliance
Grade 3	50,400	49,000	40,250	39,132	49,580	175	166	In Compliance
Grade 4	54,000	52,500	42,000	40,833	52,576	175	166	In Compliance
Grade 5	54,000	52,500	42,000	40,833	52,576	175	166	In Compliance
Grade 6	54,000	52,500	42,000	40,833	52,576	175	166	In Compliance
Grade 7	54,000	52,500	42,000	40,833	59,389	175	166	In Compliance
Grade 8	54,000	52,500	42,000	40,833	59,389	175	166	In Compliance
Grade 9	64,800	63,000	52,500	51,042	63,035	175	N/A	In Compliance
Grade 10	64,800	63,000	52,500	41,042	63,035	175	N/A	In Compliance
Grade 11	64,800	63,000	52,500	51,042	63,035	175	N/A	In Compliance
Grade 12	64,800	63,000	52,500	51,042	63,035	175	N/A	In Compliance

**CHARTER SCHOOL (NON-CLASSROOM BASED)**

Grade 7	54,000	N/A	N/A	N/A	N/A	178	N/A	N/A
Grade 8	54,000	N/A	N/A	N/A	N/A	178	N/A	N/A
Grade 9	64,800	N/A	N/A	N/A	N/A	178	N/A	N/A
Grade 10	64,800	N/A	N/A	N/A	N/A	178	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, 2011**

<b>Federal Catalog Number</b>	<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass- Through Entity Identifying Number</b>	<b>Federal Expend- itures</b>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: Basic Local Assistance	13379	\$ 9,197,161
84.027A	Special Education: Preschool Local Entitlement	13682	434,476
84.173	Special Education: Preschool Grant	13430	201,513
84.173A	Special Education: Preschool Staff Development	13431	3,921
84.391	Special Education: ARRA IDEA Part B, Sec 611, Preschool Local Entitlement	15002	210,238
84.391	Special Education: ARRA IDEA Part B, Sec 611, Basic Local Assistance	15003	2,912,534
84.392	Special Education: ARRA IDEA Part B, Sec 619, Preschool Grants	15000	<u>142,684</u>
	Subtotal Special Education Cluster		<u>13,102,527</u>
	NCLB: Title I Cluster:		
84.010	NCLB: Title I: Basic Grants Low-Income and Neglected	13797	8,216,106
84.389	NCLB: Title I: ARRA, Title I, Basic Grants Low-Income and Neglected	15005	5,414,443
84.389	NCLB: Title I: ARRA, Title I, Part D, Local Delinquent Programs	15009	<u>387</u>
	Subtotal NCLB: Title I Cluster		<u>13,630,936</u>
	Educational Technology State Grants Cluster:		
84.318	NCLB: Title II: Part D, Enhancing Ed. Thr. Tech.	14334	83,268
84.318	NCLB: Title II: Part D, Enhancing Ed. Thr. Tech.	14368	64,572
84.386	NCLB: Title II: ARRA, Part D, Enhancing Ed. Thr. Tech.	15019	182,801
84.386	NCLB: Title II: ARRA, Part D, Enhancing Ed. Thr. Tech.	15126	<u>33,679</u>
	Subtotal Educational Technology State Grants Cluster		<u>364,320</u>
	Education of Homeless Children and Youth Cluster:		
84.196A	Title X: McKinney-Vento Homeless Assistance Grant	13697	56,236
84.387	NCLB: ARRA Title X, McKinney-Vento Homeless Assistance	15007	<u>103,524</u>
	Subtotal Education of Homeless Children and Youth Cluster		<u>159,760</u>

(Continued)

**ELK GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**

(Continued)

**For the Year Ended June 30, 2011**

<b>Federal Catalog Number</b>	<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass- Through Entity Identifying Number</b>	<b>Federal Expend- itures</b>
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
84.366	NCLB: Title II: Part B, CaMSP	14512	\$ 845,242
84.367	NCLB: Title II: Teacher Quality	14341	1,650,225
84.365	Title III: Immigrant Education Program	14346	59,679
84.365	Title III: Limited English Proficient Student Program	10084	956,784
84.002A	Adult Education: Adult Basic Education	14508	238,216
84.002A	Adult Education: English Literacy & Civics Ed.	14109	217,909
84.002A	Adult Education: Institutionalized Adults	13971	70,794
84.002A	Adult Education: ASE/GED	13978	23,301
84.394	ARRA: State Fiscal Stabilization Fund	25008	3,709,889
84.410	Education Jobs Fund	25152	4,808,859
84.181	Special Education: IDEA Early Intervention Grants	23761	53,605
84.186	NCLB: Title IV, Part A: Drug Free Schools	13453	57,318
84.048	Vocation and Applied Technology Secondary II C	13924	308,278
84.048	Vocational Programs: Post Secondary & Adult II C	13923	97,895
84.158	Workability II Transitions Partnership	10006	153,052
84.060A	Indian Education	10011	39,885
84.215X	Teaching American History	-	248,638
84.287	21st Century Schools	14681	1,072,813
84.357A	NCLB: Title I: Reading First Program	14328	235,543
84.357	NCLB: Title I: Title I Part B, Reading First Pilot Project, Special Education Teachers	14911	441,068
84.213	NCLB: Title I: Even Start Family Literacy	13001	133,285
84.243	Perkins IV Tech Prep Grant	14899	90,924
84.390A	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	-	40,438
84.184E	Safe and Drug-Free Schools and Communities National Programs	-	145,372
84.334A	Gear Up	10088	<u>156,845</u>
Total U.S. Department of Education			<u>43,113,400</u>

U.S. Department of Labor - Passed through California Department  
of Education

SETA Cluster:			
17.258	SETA: One Stop Adult	-	324,918
17.258	SETA: Workforce Skills Preparation Services	-	451,483
17.259	SETA: One Stop Universal Services	-	54,779
17.259	SETA: One Stop Out of School Services	-	272,916
17.260	SETA: One Stop Dislocated Workers	-	51,289
17.269	SETA: Employment Training Program (ETP)	-	<u>22,352</u>
Subtotal SETA Cluster			<u>1,177,737</u>
Total U.S. Department of Labor			<u>1,177,737</u>

(Continued)

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**  
(Continued)  
**For the Year Ended June 30, 2011**

<b>Federal Catalog Number</b>	<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass- Through Entity Identifying Number</b>	<b>Federal Expend- itures</b>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
	Child Development Cluster:		
93.596	Child Development: Federal Child Care Center Based	13609	\$ 321,462
93.713	Child Development: ARRA, Infant toddler Resource	15011	<u>349</u>
	Subtotal Child Development Cluster		<u>321,811</u>
93.778	Medi-Cal Billing Option (DHS)	10013	603,591
93.600	Head Start	10016	2,704,592
93.674	Chafee Foster Care Independence Program	-	<u>111,977</u>
	Total U.S. Department of Health and Human Services		<u>3,741,971</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	National School Lunch Program	13390	14,686,946
10.551	Cancer Prevention	-	<u>327,504</u>
	Total U.S. Department of Agriculture		<u>15,014,450</u>
<u>U.S. Department of Defense</u>			
**	NJROTC	-	15,909
**	Air Force ROTC	-	<u>66,554</u>
	Total U.S. Department of Defense		<u>82,463</u>
	Total Federal Programs		<u>\$ 63,130,021</u>

\*\* Program administered by the Department of Defense, which will not provide Federal Catalog Number.

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, 2011**

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, 2011**

	(Budgeted) 2012	2011	2010	2009
<u>General Fund</u>				
Revenues and other financing sources	\$ 409,721,380	\$ 475,833,429	\$ 474,654,838	\$ 483,594,192
Expenditures	401,725,382	446,418,326	480,439,668	489,655,817
Other uses and transfers out	<u>1,232,784</u>	<u>2,157,979</u>	<u>3,234,496</u>	<u>5,006,913</u>
Total outgo	<u>402,958,166</u>	<u>448,576,305</u>	<u>483,674,164</u>	<u>494,662,730</u>
Change in fund balance	<u>\$ 6,763,214</u>	<u>\$ 27,257,124</u>	<u>\$ (9,019,326)</u>	<u>\$ (11,068,538)</u>
Ending fund balance	<u>\$ 72,203,130</u>	<u>\$ 65,439,916</u>	<u>\$ 38,182,792</u>	<u>\$ 47,202,118</u>
Available reserves	<u>\$ 9,500,000</u>	<u>\$ 9,543,675</u>	<u>\$ 13,922,795</u>	<u>\$ 10,147,123</u>
Designated for economic uncertainties	<u>\$ 9,500,000</u>	<u>\$ 9,543,675</u>	<u>\$ 10,639,009</u>	<u>\$ 9,865,054</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,283,786</u>	<u>\$ 282,069</u>
Available reserves as percentages of total outgo	<u>2.4%</u>	<u>2.1%</u>	<u>2.9%</u>	<u>2.1%</u>
<u>All Funds</u>				
Total long-term liabilities (as restated)	<u>\$ 199,138,325</u>	<u>\$ 207,013,442</u>	<u>\$ 211,040,658</u>	<u>\$ 206,107,691</u>
Average daily attendance at P-2 (excluding adult and Charter School)	<u>58,927</u>	<u>58,922</u>	<u>58,736</u>	<u>58,598</u>

The General Fund fund balance has increased by \$7,169,260 over the past three years. The fiscal year 2011-2012 budget, as originally adopted, projects an increase of \$6,763,214. 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 surplus during the 2011-12 fiscal year.

Total long-term liabilities have increased by \$905,751 over the past two years, as shown in Note 6 to the basic financial statements.

Average daily attendance has increased by 324 over the past two years. An increase of 5 ADA is projected for the 2011-12 fiscal year.

See accompanying notes to  
supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2011

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or 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 EXPENSES**  
**For the Year Ended June 30, 2011**

	<u><b>School Readiness</b></u>
Revenues	
Other local sources	<u>\$ 440,432</u>
Expenses:	
Certificated salaries	165,898
Classified salaries	73,232
Employee benefits	81,339
Books and supplies	37,716
Contract services and operating expenditures	58,457
Indirect costs	<u>23,790</u>
Total expenses	<u>440,432</u>
Net income	<u><u>\$ -</u></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, 2011.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 64,799,190
Add: State Fiscal Stabilization Funds spent from prior year awards	84.394	858,951
Less: Medi-Cal Billing Funds not spent	93.778	<u>(2,528,120)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 63,130,021</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

This schedule provides trend information on District's financial condition over the past three years and its anticipated condition for the 2011-2012 fiscal year.

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 Expenses

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, 2011, the District did not adopt this program.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

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

We have audited the compliance of Elk Grove Unified School District 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, 2011. Compliance with the requirements of state laws and regulations is the responsibility of Elk Grove Unified School District's management. Our responsibility is to express an opinion on Elk Grove Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of Elk Grove Unified School District's compliance with those requirements.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Regular and Special Day Classes	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No, see below
Public Hearing Requirements - Receipt of Funds	1	Yes
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
After School Education and Safety Program		
General requirements	4	Yes
After School	4	Yes
Before School	5	No, see below

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contemporaneous Records of Attendance, for charter schools	1	No, see below
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	3	No, see below

The School District is not a County Office of Education; therefore, we did not perform any procedures related to County Office of Education Instructional Time Incentives.

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

The 2010-2011 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2011. Accordingly, we could not perform the portions of the audit steps (a), (b) and (c) of Section 19837 of the 2010-2011 Audit Guide relating to the comparison of tested data from the 2010-2011 fiscal year to the 2010-2011 School Accountability Report Cards.

The District does not participate in Option Two of the Class Size Reduction Program; therefore, we did not perform any procedures related to CSR - Option Two.

The District does not have only one school serving grades K through 3; therefore, we did not perform any procedures relating to one school serving grades K through 3.

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 Contemporaneous Records of Attendance, Mode of Instruction and Annual Instructional Minutes - Classroom-Based, for charter schools.

As described in Finding 2011-04 in the accompanying Schedule of Audit Findings and Questioned Costs, Elk Grove Unified School District did not comply with requirements regarding Excuse Note Documentation. Compliance with such requirements is necessary, in our opinion, for Elk Grove Unified School District to comply with state laws and regulations applicable to Attendance Accounting and Reporting requirements.

In our opinion, except for the noncompliance with Excuse Note Documentation identified in the Schedule of Audit Findings and Questioned Costs as Finding 2011-04, Elk Grove Unified School District complied with the state laws and regulations referred to above for the year ended June 30, 2011. Further, based on our examination, for items not tested, nothing came to our attention to indicate the Elk Grove Unified School District had not complied with the state laws and regulations.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

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. We did not audit the District's response and, accordingly, express no opinion on it.

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



Crowe Horwath LLP

Sacramento, California  
November 30, 2011



**INDEPENDENT AUDITORS' 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**

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

We have audited the financial statements of Elk Grove Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2011-01, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness. We also noted other matters involving internal control that we have communicated to management as identified in the accompanying Schedule of Audit Findings and Questioned Costs as Findings 2011-02 and 2011-03.

**INDEPENDENT AUDITORS' 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**

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(Continued)

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*.

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. We did not audit the District's responses and, accordingly, express no opinion on them.

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



Crowe Horwath LLP

Sacramento, California  
November 30, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE FIRST 5 SACRAMENTO COUNTY PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH A  
PROGRAM-SPECIFIC AUDIT**

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

Compliance

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, 2011. Compliance with the requirements of laws, regulations, contracts and grants applicable to its First 5 Sacramento County Program is the responsibility of Elk Grove Unified School District's management. Our responsibility is to express an opinion on Elk Grove Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America 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 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. Our audit does not provide a legal determination of Elk Grove Unified School District's compliance with those requirements.

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, 2011.

Internal Control Over Compliance

The management of Elk Grove Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the First 5 Sacramento Program. In planning and performing our audit, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the First 5 Sacramento County Program, 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE FIRST 5 SACRAMENTO COUNTY PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH A  
PROGRAM-SPECIFIC AUDIT**

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(Continued)

Internal Control Over Compliance (Continued)

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management and First 5 Sacramento County and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

Sacramento, California  
November 30, 2011

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

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

Compliance

We have audited Elk Grove Unified School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2011. Elk Grove Unified School District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Elk Grove Unified School District's management. Our responsibility is to express an opinion on Elk Grove Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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. Our audit does not provide a legal determination on Elk Grove Unified School District's compliance with those requirements.

In our opinion, Elk Grove Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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(Continued)

Internal Control Over Compliance (Continued)

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

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

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

  
Crowe Horwath LLP

Sacramento, California  
November 30, 2011

## **FINDINGS AND RECOMMENDATIONS**

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

Year Ended June 30, 2011

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

	<u>      </u> Yes	<u>  X  </u> No
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**FEDERAL AWARDS**

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A, 84.391, 84.392	Special Education Cluster (including ARRA)
84.010, 84.389	NCLB: Title I Cluster (including ARRA)
84.394	ARRA: State Fiscal Stabilization Funds
10.555	National School Lunch Program
93.600	Head Start
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,893,901

Auditee qualified as low-risk auditee?        Yes   X   No

**STATE AWARDS**

Internal control over state programs:

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

Type of auditors' 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, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2011-01 MATERIAL WEAKNESS - LONG-TERM LIABILITIES (30000)**

Criteria

Accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting.

Condition

The District did not recognize accreted interest on outstanding General Obligation Bonds.

Effect

The District's long-term liabilities were understated.

Cause

The District did not establish the requisite internal control procedures.

Fiscal Impact

While there is no impact on the District's ending fund balances, the District's long-term liabilities on the Statement of Net Assets were understated by \$40,222,817 at June 30, 2010.

Recommendation

The District should establish the requisite internal control procedures to maintain adequate records regarding accreted interest.

Corrective Action Plan

The District has spreadsheets that calculate the accreted interest on each General Obligation Bond issue, and has established procedures to ensure that the appropriate adjustments are made at the end of each fiscal year.

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS**  
(Continued)

**2011-02 DEFICIENCY - ACCRUED VACATION (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 more than two years of vacation.

Condition

Approximately 600 employees have vacation accrued in excess of the limits specified by the District policies, totaling approximately 12,780 hours of excess vacation.

Effect

Increased liability for the District, to be paid in future years.

Cause

Lack of enforcement of accrual policy.

Fiscal Impact

Not determinable.

Recommendation

All employees should be required to take some number of vacation hours/days each year. District's vacation accrual policy should be enforced. Also, the District should consider a policy that vacation accrual will stop once an employee has reached a maximum permitted by the current 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 the maximum level.

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS**  
(Continued)

**2011-03 DEFICIENCY - STUDENT BODY ACCOUNTING (30000)**

Criteria

Internal Controls – Safeguarding of assets

Condition

At E. Harris Middle School there is no formal approval process for documenting approval of revenue producing activities. Physical inventories of the student store are performed however there is no sign-off indicating preparer or reviewer. Student store register tapes are not being reconciled to cashier's drawer counts. There is no evidence of review over the monthly report of activity or profit and loss statements for the various clubs.

At Ellen Feickert Elementary School there is not a process in place for documenting approval of revenue producing activities. There is no evidence of review over the monthly report of activity for the various clubs. There is no indication that bank reconciliations are reviewed by a person independent of preparation or done in a timely manner. Cash deposits are not supported by receipts or tally sheets detailing the number of items sold. Cash disbursement request forms are not utilized to document approval of disbursements prior to checks being issued. An invoice was paid directly with cash receipts collected instead of going through the cash disbursement process.

At Arlene Hein Elementary School there is no formal approval process for documenting approval of revenue producing activities. There is no evidence of review over the monthly report of activity for the various clubs. There is no indication that bank reconciliations are reviewed by a person independent of preparation in a timely manner. Cash deposits are not supported by receipts or tally sheets detailing the number of items sold. Cash disbursement request forms are not utilized to document approval of disbursements prior to checks being issued. For the transaction selected, a supporting invoice or receipt was not retained with the disbursement issued.

At Cosumnes Oaks High School there is no evidence of review over monthly report of activity for the various clubs or of the profit and loss statements for the various clubs. There is no evidence of review of the student store inventory count. The purchase of the lawn mower does not promote the general welfare of the student population.

At Helen Carr Costello Elementary School cash receipt books are not utilized to track the initial collection of cash. There is no indication that cash deposits are reconciled to supporting documentation. No indication that bank reconciliations are prepared or reviewed by a person independent of preparation in a timely manner. Cash deposits are not performed in a timely manner.

At Rio Cazadero High School no reconciliation of student store activity including sales, inventory and purchases had been performed. No evidence of review over the monthly report of activity for the various clubs. There is no evidence of approval of fundraising activities.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

**2011-03 DEFICIENCY - STUDENT BODY ACCOUNTING (30000) (Continued)**

Effect

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

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendations

- Revenue producing activities should be approved by the principal and documented in writing.
- The inventory count should be signed by the preparer and reviewer as evidence of review.
- A reconciliation of register tapes to cash in the cash drawer should be performed.
- Evidence of review of the monthly activity or profit and loss statements should be documented.
- Bank reconciliations should include evidence of review, by someone other than preparer.
- Cash deposits should be supported by receipts or tally sheets.
- All invoices should go through the normal cash disbursement or payment process.
- Approval of payment should be documented before checks are issued.
- Invoice or other support should be maintained for checks issued.
- Items purchased with ASB funds should promote the general welfare of the students.
- Receipt book(s) should be used upon collection of cash.
- Cash deposits should be performed timely.
- A reconciliation of sales to cash received and reconciliation of sales to inventory remaining should be performed and reviewed.
- Revenue producing activities should be approved by the principal and documented in writing.

Corrective Action Plan

The District has administered District-wide guidelines along with Fiscal Crisis Management Assistance Team (FCMAT). Additionally, District staff has performed site visits to go over proper handling of ASB monies and ASB accounting.

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2011**

**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, 2011**

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

**2011-04 ATTENDANCE (40000)**

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the State.

Condition

At Helen Carr Castello Elementary School one student was marked present per teacher's attendance roster and in the attendance summary report for one day of a four day absence. However, an absence note supported the student's absence for all four days.

Effect

The extrapolated effect of the error is an overstatement of 0.49 ADA.

Cause

Attendance procedures are manual in nature and proper internal controls are not implemented.

Fiscal Impact

The extrapolated ADA impact is below 0.50 ADA, therefore District is not required to revise Second Period Report for the finding.

Recommendation

We recommend that the attendance clerk reconcile absence notes with attendance records to ensure attendance is accurately recorded.

Corrective Action Plan

District staff will continue to perform site visits to review attendance implications and help ensure that attendance is not claimed for students who were absent.

**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**

**ELK GROVE UNIFIED SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**  
**Year Ended June 30, 2011**

<b>Finding/Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
<p>2010-1</p> <p>Several employees have vacation accrued in excess of the limits specified by the District policies.</p> <p>All employees should be required to take some vacation hours/days each year. District's vacation accrual policy should be enforced. Also, the District should consider a policy that vacation accrual will stop once an employee has reached a maximum permitted by the current policy.</p>	Not implemented.	See current year Finding 2011-01
<p>2010-2</p> <p>At Katherine Albiani Middle School, physical inventories of the student store is performed but not reviewed.</p> <p>At Calvine Continuation High School, the site does not have procedures in place for approving revenue - producing activities. In addition, monthly reconciliations and financial statements are not reviewed by an individual independent of the preparation of the reconciliation and financial statements.</p> <p>The District should administer District-wide guidelines to ensure cash receipts and disbursements are accounted for accurately and record retention at each site is consistent.</p>	Not implemented.	See current year Finding 2011-02.



APPENDIX D

SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY

SACRAMENTO COUNTY

# **Annual Investment Policy of the Pooled Investment Fund**

CALENDAR YEAR 2012

**I. Authority**

Under the Sacramento County Charter, the Board of Supervisors established the position of Director of Finance and by ordinance will annually review and renew the Director of Finance's authority to invest and reinvest all the funds in the County Treasury.

**II. Policy Statement**

This Investment Policy (Policy) establishes cash management and investment guidelines for the Director of Finance, who is responsible for the stewardship of the Sacramento County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code and this Policy. All portfolio activities will be judged by the standards of the Policy and its investment objectives. Activities that violate its spirit and intent will be considered contrary to the Policy.

**III. Standard of Care**

The Director of Finance is the Trustee of the Pooled Investment Fund and therefore, a fiduciary subject to the prudent investor standard. The Director of Finance, employees involved in the investment process, and members of the Sacramento County Treasury Oversight Committee (Oversight Committee) shall refrain from all personal business activities that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California state law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the Director of Finance shall act with care, skill, prudence, and diligence to meet the aims of the investment objectives listed in Section IV, Investment Objectives.

**IV. Investment Objectives**

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance.

**A. Safety of Principal**

The preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.

**B. Liquidity**

As a second objective, the Pooled Investment Fund should remain sufficiently flexible to enable the Director of Finance to meet all operating requirements that may be reasonably anticipated in any depositor's fund.

**C. Public Trust**

In managing the Pooled Investment Fund, the Director of Finance and the authorized investment traders should avoid any transactions that might impair public confidence in Sacramento County and the participating local agencies. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

**D. Maximum Rate of Return**

As the fourth objective, the Pooled Investment Fund should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein. For comparative purposes, the State of California Local Agency Investment Fund (LAIF) will be used as a performance benchmark. The Pooled Investment Fund quarterly performance benchmark target has been set at or above LAIF's yield. This benchmark was chosen because LAIF's portfolio structure is similar to the Pooled Investment Fund.

**V. Pooled Investment Fund Investors**

The Pooled Investment Fund investors are comprised of Sacramento County, school and community college districts, districts directed by the Board of Supervisors, and independent special districts whose treasurer is the Director of Finance. Any local agencies not included in this category are subject to California Government Code section 53684 and are referred to as outside investors.

**VI. Implementation**

In order to provide direction to those responsible for management of the Pooled Investment Fund, the Director of Finance has established this Policy and will provide it to the Oversight Committee and render it to legislative bodies of local agencies that participate in the Pooled Investment Fund. In accordance with California Government Code section 53646, et seq., the Board of Supervisors shall review and approve this Policy annually.

This Policy provides a detailed description of investment parameters used to implement the investment process and includes the following: investable funds; authorized instruments; prohibited investments; credit requirements; maximum maturities and concentrations; repurchase agreements; Community Reinvestment Act Program; criteria and qualifications of broker/dealers and direct issuers; investment guidelines, management style and strategy; Approved Lists; and calculation of yield and costs.

## **VII. Internal Controls**

The Director of Finance shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. To assist in implementation and internal controls, the Director of Finance has established an Investment Group and a Review Group.

The Investment Group, which is comprised of the Director of Finance and his/her designees, is responsible for maintenance of the investment guidelines and Approved Lists. These guidelines and lists can be altered daily, if needed, to adjust to the ever-changing financial markets. The guidelines can be more conservative or match the policy language. In no case can the guidelines override the Policy.

The Review Group, which is comprised of the Director of Finance and his/her designees, is responsible for the monthly review and appraisal of all the investments purchased by the Director of Finance and staff. This review includes bond proceeds, which are invested separately from the Pooled Investment Fund and are not governed by this Policy.

The Director of Finance shall establish a process for daily, monthly, quarterly, and annual review and monitoring of the Pooled Investment Fund activity. The following articles, in order of supremacy, govern the Pooled Investment Fund:

1. California Government Code
2. Annual Investment Policy
3. Current Investment Guidelines
4. Approved Lists (see page 9, Section IX.K)

The Director of Finance shall review the daily investment activity and corresponding bank balances.

Monthly, the Review Group shall review all investment activity and its compliance to the corresponding governing articles and investment objectives.

Quarterly, the Director of Finance will provide the Oversight Committee with a copy of the Pooled Investment Fund activity and its compliance to the annual Policy and California Government Code.

Annually, the Oversight Committee shall cause an annual audit of the activities within the Pooled Investment Fund to be conducted to determine compliance to the Policy and California Government Code. This audit will include issues relating to the structure of the investment portfolio and risk.

All securities purchased, with the exception of time deposits, money market mutual funds, LAIF and Wells Fargo's overnight investment fund, shall be delivered to the independent third-party custodian selected by the Director of Finance. This includes all collateral for repurchase agreements. All trades, where applicable, will be executed by delivery versus payment by the designated third-party custodian.

### **VIII. Sacramento County Treasury Oversight Committee**

In accordance with California Government Code section 27130 et seq., the Board of Supervisors, in consultation with the Director of Finance, has created the Sacramento County Treasury Oversight Committee (Oversight Committee). Annually, the Director of Finance shall prepare an Investment Policy that will be forwarded to and monitored by the Oversight Committee and rendered to Boards of all local agency participants. The Board of Supervisors shall review and approve the Policy during public session. Quarterly, the Director of Finance shall provide the Oversight Committee a report of all investment activities of the Pooled Investment Fund to ensure compliance to the Policy. Annually, the Oversight Committee shall cause an audit to be conducted on the Pooled Investment Fund. The meetings of the Oversight Committee shall be open to the public and subject to the Ralph M. Brown Act.

A member of the Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the Oversight Committee. A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the Sacramento County Board of Supervisors or governing board of any local agency that has deposited funds in the county treasury while a member of the Oversight Committee. Finally, a member may not secure employment with, or be employed by bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the Oversight Committee or for one year after leaving the committee.

The Oversight Committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the Department of Finance treasury and investment operations.

### **IX. Investment Parameters**

#### **A. Investable Funds**

Total Investable Funds (TIF) for purposes of this Policy are all Pooled Investment Fund moneys that are available for investment at any one time, including the estimated bank account float. Included in TIF are funds of outside investors, if applicable, for which the Director of Finance provides investment services. Excluded from TIF are all bond proceeds.

The Cash Flow Horizon is the period in which the Pooled Investment Fund cash flow can be reasonably forecasted. This Policy establishes the Cash Flow Horizon to be one (1) year.

Once the Director of Finance has deemed that the cash flow forecast can be met, the Director of Finance may invest funds with maturities beyond one year. These securities will be referred to as the Core Portfolio.

#### **B. Authorized Investments**

Authorized investments shall match the general categories established by the California Government Code sections 53601 et seq. and 53635 et seq. Authorized investments shall

include, in accordance with California Government Code section 16429.1, investments into LAIF. Authorization for specific instruments within these general categories, as well as narrower portfolio concentration and maturity limits, will be established and maintained by the Investment Group as part of the Investment Guidelines. As the California Government Code is amended, this Policy shall likewise become amended.

### **C. Prohibited Investments**

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

All legal investments issued by a tobacco-related company are prohibited. A tobacco-related company is defined as an entity that makes smoking products from tobacco used in cigarettes, cigars, or snuff or for smoking in pipes. The tobacco-related issuers restricted from any investment are Alliance One, Altria Group, Inc., Auri Inc., British American Tobacco PLC, Imperial Tobacco Group PLC, Kirin International Holding Inc., Lorillard, Philip Morris International, Reynolds American, Inc., Schweitzer-Mauduit International Inc., Smokefree Innotec Inc., Star Scientific Inc., Universal Corp., and Vector Group, Ltd. Annually the Director of Finance and/or his designee will update the list of tobacco-related companies.

### **D. Credit Requirements**

Except for municipal obligations and Community Reinvestment Act (CRA) bank deposits and certificates of deposit, the issuer's short-term credit ratings shall be at or above A-1 by Standard & Poor's, P-1 by Moody's, and, if available, F1 by Fitch, and the issuer's long-term credit ratings shall be at or above A by Standard & Poor's, A2 by Moody's, and, if available, A by Fitch. There are no credit requirements for Registered State Warrants. All other municipal obligations shall be at or above a short-term rating of SP-1 by Standard & Poor's, MIG1 by Moody's, and, if available, F1 by Fitch. In addition, domestic banks are limited to those with a Fitch Individual bank rating of B or better. The Investment Group is granted the authority to specify approved California banks with Fitch Individual bank ratings of B/C or C but they must have a Support rating of 1 where appropriate. Foreign banks with domestic licensed offices must have a Fitch Sovereign rating of AAA and a Fitch Individual bank rating of B or better; however, a foreign bank may have a rating of B/C or C but they must have a Support rating of 1. Domestic savings banks must be rated B or better or may have a rating of B/C or C but they must have a Support rating of 1.

*Community Reinvestment Act Program Credit Requirements*

Maximum Amount	Minimum Requirements
Up to the FDIC- or NCUSIF-insured limit for the term of the deposit	<b><u>Banks</u></b> — FDIC Insurance Coverage
	<b><u>Credit Unions</u></b> — NCUSIF Insurance Coverage <i>Credit unions are limited to a maximum deposit of the NCUSIF-insured limit since they are not rated by nationally recognized rating agencies and are not required to provide collateral on public deposits.</i>
Over the FDIC- or NCUSIF-insured limit to \$10 million  Collateral is required	(Any 2 of 3 ratings) S&P:           A-2 Moody's:       P-2 Fitch:           F-2

Eligible banks must have Community Reinvestment Act performance ratings of “satisfactory” or “outstanding” from each financial institution’s regulatory authority. In addition, deposits greater than the federally-insured amount must be collateralized. Banks must place securities worth between 110% and 150% of the value of the deposit with the Federal Reserve Bank of San Francisco, the Home Loan Bank of San Francisco, or a trust bank.

Since credit unions do not have Community Reinvestment Act performance ratings, they must demonstrate their commitment to meeting the community reinvestment lending and charitable activities, which are also required of banks.

All commercial paper and medium-term note issues must be issued by corporations operating within the United States and having total assets in excess of one billion dollars (\$1,000,000,000).

The Investment Group may raise these credit standards as part of the Investment Guidelines and Approved Lists. Appendix A provides a Comparison and Interpretation of Credit Ratings by Standard & Poor’s, Moody’s, and Fitch.

## **E. Maximum Maturities**

Due to the nature of the invested funds, no investment with limited market liquidity should be used. Appropriate amounts of highly-liquid investments, such as Treasury and Agency securities, should be maintained to accommodate unforeseen withdrawals.

The maximum maturity, determined as the term from the date of ownership to the date of maturity, for each investment shall be established as follows:

U.S. Treasury Notes and Agency Obligations .....	5 years
Bonds issued by local agencies .....	5 years
Registered State Warrants and Municipal Notes .....	5 years
Bankers Acceptances .....	180 days
Commercial Paper .....	270 days
Negotiable Certificates of Deposit .....	180 days
CRA Bank Deposit/Certificates of Deposit .....	1 year
Repurchase Agreements .....	1 year
Reverse Repurchase Agreements .....	92 days
Medium Term Corporate Notes.....	180 days
Shares of a Money Market Mutual Fund .....	(per SEC regulations) <sup>1</sup>
Collateralized Mortgage Obligations .....	180 days

The Investment Group may reduce these maturity limits to a shorter term as part of the Investment Guidelines and the Approved Lists.

The ultimate maximum maturity of any investment shall be five (5) years. The dollar-weighted average maturity of all securities shall be equal to or less than three (3) years.

#### **F. Maximum Concentrations**

No more than 80% of the portfolio may be invested in issues other than United States Treasuries and Government Agencies. The maximum allowable percentage for each type of security is set forth as follows:

U.S. Treasury and Agency Securities.....	100%
Bonds issued by local agencies .....	80%
Registered State Warrants and Municipal Notes .....	80%
Bankers Acceptances .....	40%
Commercial Paper .....	40%
Negotiable or CRA Bank Deposit/Certificates of Deposit .....	30%
Repurchase Agreements .....	30%
Reverse Repurchase Agreements .....	20%
Medium Term Corporate Notes.....	30%
Shares of a diversified Money Market Mutual Fund.....	20%
Collateralized Mortgage Obligations .....	20%
Local Agency Investment Fund (LAIF) .....	(per State limit) <sup>2</sup>

The Investment Group may reduce these concentrations as part of the Investment Guidelines and the Approved Lists.

<sup>1</sup> Money Market mutual funds are regulated by the Securities and Exchange Commission under §270.2a-7 and are required to maintain a dollar-weighted average portfolio maturity of 60 days or less.

<sup>2</sup> LAIF current maximum allowed is \$50 million.



No more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

Where a percentage limitation is established above, for the purpose of determining investment compliance, that maximum percentage will be applied on the date of purchase.

## **G. Repurchase Agreements**

Under California Government Code section 53601, paragraph (j) and section 53635, the Director of Finance may enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of a Repurchase Agreement shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must be "matched to maturity" and meet all other requirements in the code.

All repurchase agreements must have an executed Sacramento County Master Repurchase Agreement on file with both the Director of Finance and the Broker/Dealer. Repurchase Agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the Approved Lists of the County and which meet the qualifications of the Policy, with a market value of 102%. Since the market value of the underlying securities is subject to daily market fluctuations, investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. Use of mortgage-backed securities for collateral is not permitted. Strictly for purposes of investing the daily excess bank balance, the collateral provided by the Sacramento County's depository bank can be Treasuries or Agencies valued at 110%, or mortgage-backed securities valued at 150%.

## **H. Community Reinvestment Act Program**

The Director of Finance has allocated within the Pooled Investment Fund, a maximum of \$90 million for the Community Reinvestment Act Program to encourage community investment by financial institutions, which includes community banks and credit unions, and to acknowledge and reward local financial institutions which support the community's financial needs. The Director of Finance may increase this amount, as appropriate, while staying within the investment policy objectives and maximum maturity and concentration limits. The eligible banks and savings banks must have Community Reinvestment Act performance ratings of "satisfactory" or "outstanding" from each financial institution's regulatory authority. The minimum credit requirements are located on page 5 of Section IX.D.

## **I. Criteria and Qualifications of Brokers/Dealers and Direct Issuers**

All transactions initiated on behalf of the Pooled Investment Fund and Sacramento County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York or direct issuers that directly issue their own securities which have been placed on the Approved List of

brokers/dealers and direct issuers. Further, these firms must have an investment grade rating from at least two national rating services, if available.

Brokers/Dealers and direct issuers which have exceeded the political contribution limits, as contained in Rule G-37 of the Municipal Securities Rulemaking Board, within the preceding four year period to the Director of Finance or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer authorized to do business with Sacramento County shall, at least annually, supply the Director of Finance with audited financial statements.

## **J. Investment Guidelines, Management Style and Strategy**

The Investment Group, named by the Director of Finance, shall issue and maintain Investment Guidelines specifying authorized investments, credit requirements, permitted transactions, and issue maturity and concentration limits which are consistent with this Policy.

The Investment Group shall also issue a statement describing the investment management style and current strategy for the entire investment program. The management style and strategy can be changed to accommodate shifts in the financial markets, but at all times they must be consistent with this Policy and its objectives.

## **K. Approved Lists**

The Investment Group, named by the Director of Finance, shall issue and maintain various Approved Lists. These lists are:

1. Approved Domestic Banks for all legal investments.
2. Approved Foreign Banks for all legal investments.
3. Approved Commercial Paper and Medium Term Note Issuers.
4. Approved Money Market Mutual Funds.
5. Approved Firms for Purchase or Sale of Securities (Brokers/Dealers and Direct Issuers).
6. Approved Banks / Credit Unions for the Community Reinvestment Act Program.

## **L. Calculation of Yield and Costs**

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets; managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated by specific cost

accounting projects and charged to the Pooled Investment Fund on a quarterly basis throughout the fiscal year.

The Department of Finance will allocate the net interest earnings of the Pooled Investment Fund quarterly. The net interest earnings are allocated based upon the average daily cash balance of each Pooled Investment Fund participant.

## **X. Reviewing, Monitoring and Reporting of the Portfolio**

The Review Group will prepare and present to the Director of Finance at least monthly a comprehensive review and evaluation of the transactions, positions, performance of the Pooled Investment Fund and compliance to the California Government Code, Policy, and Investment Guidelines.

Quarterly, the Director of Finance will provide to the Oversight Committee and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. Pursuant to California Government Code section 53646, the report will list the type of investments, name of issuer, maturity date, par and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value, and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Policy and a statement of the Pooled Investment Fund's ability to meet the expected expenditure requirements for the next six months.

Each quarter, the Director of Finance shall provide to the Board of Supervisors and interested parties a comprehensive report on the Pooled Investment Fund.

Annually, the Director of Finance shall provide to the Oversight Committee the Investment Policy. Additionally, the Director of Finance will render a copy of the Investment Policy to the legislative body of the local agencies that participate in the Pooled Investment Fund.

## **XI. Withdrawal Requests for Pooled Fund Investors**

The Director of Finance will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Director of Finance at a one dollar net asset value. Any requests to withdraw funds for purposes other than immediate cash flow needs, such as for external investing, are subject to the consent of the Director of Finance. In accordance with California Government Code Sections 27133(h) and 27136, such requests for withdrawals must first be made in writing to the Director of Finance. When evaluating a request to withdraw funds, the Director of Finance will take into account the effect of a withdrawal on the stability and predictability of the Pooled Investment Fund and the interests of other depositors. Any withdrawal for such purposes will be at the market value of the Pooled Investment Fund on the date of the withdrawal.

## **XII. Limits on Honoraria, Gifts, and Gratuities**

In accordance with California Government Code Section 27133(d), this Policy establishes limits for the Director of Finance; individuals responsible for management of the portfolios; and members of the Investment Group and Review Group who direct individual investment decisions, select individual investment advisors and broker/dealers, and conduct day-to-day investment

trading activity. The limits also apply to members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities in a calendar year in excess of the amount specified in Section 18940.2(a) of Title 2, Division 6 of the California Code of Regulations. This limitation is \$420 for the period January 1, 2011, to December 31, 2012. Any violation must be reported to the State Fair Political Practices Commission.

### **XIII. Terms and Conditions for Outside Investors**

Outside investors may invest in the Pooled Investment Fund through California Government Code Section 53684. Their deposits are subject to the consent of the Director of Finance. The legislative body of the local agency must approve the Sacramento County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. Any withdrawal of these deposits must be made in writing 30 days in advance and will be paid based upon the market value of the Pooled Investment Fund. If the Director of Finance considers it appropriate, the deposits may be returned at any time to the local agency.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ \_\_\_\_\_  
**ELK GROVE UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 1  
2012 SPECIAL TAX REFUNDING BONDS**

**CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Elk Grove Unified School District (the “District”) in connection with the issuance of \$\_\_\_\_\_ aggregate principal amount of the Elk Grove Unified School District, Community Facilities District No. 1, 2012 Special Tax Refunding Bonds (the “Bonds”) pursuant to a resolution authorizing the issuance of the Bonds adopted by the Governing Board of the District on October 2, 2012 (the “Resolution”). The District covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being delivered by the District for the benefit of the Bondholders and Beneficial Owners of the Bonds and to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

**Section 2. Definitions.** Unless the context otherwise requires, the definitions set forth in the Resolution apply to this Disclosure Certificate. The following additional capitalized terms shall have the following meanings:

**Annual Report** means any Annual Report provided by the District pursuant to, and as described in, Sections 3 (Provision of Annual Reports) and 4 (Content of Annual Reports) of this Disclosure Certificate.

**Beneficial Owner** means any person that (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

**Bondholders** mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

**Dissemination Agent** means the District, or any successor Dissemination Agent designated in writing by the District and that has filed with the District a written acceptance of such designation.

**Fiscal Year** means the one year period ending June 30, 2012.

**MSRB** means the Municipal Securities Rulemaking Board.

**Official Statement** means the final Official Statement dated \_\_\_\_\_, 2012 relating to the Bonds.

**Opinion of Counsel** means a written opinion of a law firm or attorney experienced in matters relating to interpretation of the Rule.

**Participating Underwriter** means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

**Repository** shall mean MSRB or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

**Rule** means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**Significant Event** means any of the events listed in subsection (a) of Section 5 (Reporting of Significant Events) of this Disclosure Certificate.

### **Section 3.     Provision of Annual Reports.**

a.     Delivery of Annual Report to Repository. The District shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the District's Fiscal Year, commencing with the report due for Fiscal Year 2011-12 due December 27, 2012, provide to the Repository an Annual Report that is consistent with the requirements of Section 4 (Content of Annual Reports) of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 (Content of Annual Reports) of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

b.     Change of Fiscal Year. If the District's Fiscal Year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(b) (Notice of Significant Events).

c.     Delivery of Annual Report to Dissemination Agent. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (Delivery of Annual Report to Repository) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

d. Report of Non-Compliance. If the District is unable to provide an Annual Report to the Repository by the date required in subsection (a) (Delivery of Annual Report to Repository), the Dissemination Agent shall send a notice to the Repository in substantially the form attached as Exhibit A.

e. Annual Compliance Certification. If the Dissemination Agent is other than the District, the Dissemination Agent shall file a report with the District, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

**Section 4. Content of Annual Reports.** The District's Annual Report shall contain or include by reference the following:

a. Financial Statements. The audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) (Delivery of Annual Report to Repository), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

b. Annual Budget. The District's approved annual budget for the then-current fiscal year;

c. Assessed Value. The total assessed value (net of homeowner exemptions) of taxable property in the District as shown on the most recent equalized assessment roll.

d. Teeter Plan. Changes, if any, in the operation of the County of Sacramento's Teeter Plan which have or are likely to have a material effect on the District or the levy and collection of the Special Tax;

e. Special Tax Delinquency Rate. The delinquency rate of the Special Tax for the immediately preceding Fiscal Year, and with respect to delinquent parcels:

- (1) the total number of delinquent parcels;
- (2) the total dollar amount of the delinquencies;
- (3) whether the District has fulfilled its covenant to pursue foreclosure proceedings as to delinquent parcels pursuant to the Resolution; and
- (4) the results of foreclosure sales for the preceding fiscal year.



e. Major Taxpayers. A listing of the twenty-five largest taxpayers of the special tax for the preceding fiscal year (updating the information provided in the table entitled “25 Largest Special Taxpayers” in the Official Statement).

f. Special Tax Levy. A summary of the levy of the special taxes for the preceding fiscal year, broken down by property types, comparable to the information with respect to the levy of the Special Tax for Fiscal Year 2011-12 provided in the table entitled "Special Tax Levies and Collection" under the section of the Official Statement entitled "SECURITY AND SOURCE OF PAYMENT" and with respect to the levy of the special tax for Fiscal Year 2012-13 provided in the section entitled “The Tax Report” in the Official Statement.

g. Bond Principal. The principal amount of Bonds outstanding as of June 30 of the preceding Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities that have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

## **Section 5.     Reporting of Significant Events.**

a. Significant Events. Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB);
- (7) unless described in Section 5(a)(6) above, adverse tax opinions, material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;

- (8) modifications to rights of security holders, if material;
- (9) optional, contingent or unscheduled bond calls, if material;
- (10) tender offers;
- (11) defeasances;
- (12) release, substitution, or sale of property securing repayment of the securities, if material;
- (13) rating changes;
- (14) bankruptcy, insolvency, receivership or similar event of the obligated person;
- (15) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (16) appointment of a successor or additional trustee or paying agent, or the change of name of a trustee or paying agent, if material.

b. Notice of Significant Events. Whenever the District obtains knowledge of the occurrence of a Significant Event, and, if the Significant Event is described in subsections (a)(2), (a)(7), (a)(8), (a)(9), (a)(12), (a)(15) or (a)(16) above, and the District determines that knowledge of the occurrence of a Significant Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent (if not the District) to file a notice of such occurrence with the Repository, in an electronic format as prescribed by the Repository, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsections (a)(9) and (a)(11) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the governing legal documents.

**Section 6. Filings with the Repository.** All documents provided to the Repository under this Disclosure Certificate shall be filed in a readable PDF or other electronic format as prescribed by the Repository and shall be accompanied by identifying information as prescribed by the Repository.

**Section 7. Termination of Reporting Obligation.** The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon the delivery to the District of an Opinion of Counsel to the effect that continuing disclosure is no longer required by the Rule. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Significant Event under Section 5(b) (Notice of Significant Events).

**Section 8. Dissemination Agent.** a. Appointment of Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

b. Compensation of Dissemination Agent. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, Bondholders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an Opinion of Counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

a. Change in Circumstances. If the amendment or waiver relates to the provisions of Sections 3(a) (Delivery of Annual Report to Repository), 4 (Content of Annual Reports), or 5(a) (Significant Events), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted;

b. Compliance as of Issue Date. The undertaking, as amended or taking into account such waiver, would, based upon an Opinion of Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

c. Consent of Bondholders; Non-impairment Opinion. The amendment or waiver either (i) is approved by the Bondholders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Bondholders, or (ii) does not, based on an Opinion of Counsel, materially impair the interests of the Bondholders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the District shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Significant Event under Section 5(b) (Notice of Significant Events), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

**Section 11. Default.** If the District fails to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate.

A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate if the District fails to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its

powers and duties hereunder, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an Opinion of Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter, and Bondholders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**IN WITNESS WHEREOF**, the District has caused this Continuing Disclosure Certificate to be signed by its authorized officer on the date written below.

Dated: [close date]

ELK GROVE UNIFIED SCHOOL DISTRICT

By:

\_\_\_\_\_  
Robert Pierce, Associate Superintendent,  
Business Services

**EXHIBIT A**

**FORM OF NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of District: Elk Grove Unified School District

Name of Bonds: Elk Grove Unified School District  
Community Facilities District No. 1,  
2012 Special Tax Refunding Bonds

Date of Delivery: [close date]

NOTICE IS HEREBY GIVEN that the Davis Joint Unified School District (the “District”) has not provided an Annual Report with respect to the above-named Bonds for the fiscal year ended June 30, 20\_\_\_\_, as required by a Continuing Disclosure Certificate executed on [close date], with respect to the above-captioned securities. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

ELK GROVE UNIFIED SCHOOL DISTRICT

[SAMPLE ONLY]

\_\_\_\_\_

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

\_\_\_\_\_, 2012

Elk Grove Unified School District  
9510 Elk Grove-Florin Road  
Elk Grove, CA 95624

**OPINION:**     \$\_\_\_\_\_ Elk Grove Unified School District Special Tax Refunding  
Bonds, Series 2012 (Elk Grove Unified School District Community Facilities  
District No. 1)

Members of the Board of Education:

We have acted as bond counsel to Elk Grove Unified School District (the "District") in connection with the issuance by the District, for and on behalf of the Elk Grove School District Community Facilities District No. 1, of the captioned bonds, dated the date hereof (the "Bonds "). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 et seq. of the California Government Code (the "Act "), a resolution of the District adopted October 2, 2012 (the "Resolution ") and a Master Resolution (the "Master Resolution"), dated as of October 19, 1998, as supplemented by a Sixth Supplemental Resolution, dated as of November 13, 2012 (the "Sixth Supplemental Resolution"). Under the Master Resolution and the Sixth Supplemental Resolution, the District has pledged certain revenues ( "Special Tax Revenues ") for the payment of principal, premium (if any) and interest on the Bonds when due.

Regarding questions of fact material to our opinion, we have relied on representations of the District contained in the Master Resolution and in the Supplemental Resolution, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The District is a unified school district duly created and validly existing under the Constitution and the laws of the State of California with the power to adopt the Resolution, enter into the Escrow Agreement and Fiscal Agent Agreement and perform the agreements on its part contained therein, and issue the Bonds.

2. The Escrow Agreement and Fiscal Agent Agreement has been duly authorized, executed and delivered by the District, and constitutes a valid and binding obligation of the District, enforceable against the District.

3. The Fiscal Agent Agreement creates a valid lien on the Special Tax Revenues and other funds pledged by the Fiscal Agent Agreement for the security of the Bonds, on parity with other bonds (if any) issued or to be issued under the Fiscal Agent Agreement.



4. The Bonds have been duly authorized and executed by the District, and are valid and binding limited obligations of the District, payable solely from the Special Tax Revenues and other funds provided therefor in the Fiscal Agent Agreement.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

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Sacramento, CA 95814  
(916) 444-5100

