PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 4, 2009

NEW ISSUE—FULL BOOK-ENTRY | **RATING: S&P: "AAA"**
(See "MISCELLANEOUS—Rating" herein.)

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Refunding Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Refunding Bonds is exempt from State of California personal income taxes. The District has designated the Refunding Bonds as "qualified tax-exempt obligations" under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. For a more complete description, see "TAX MATTERS" herein.

$4,900,000*
PORTOLA VALLEY SCHOOL DISTRICT
(County of San Mateo, California)
2009 General Obligation Refunding Bonds
(Bank Qualified)

Dated: Date of Delivery | **Due: August 1, as shown on inside cover**

The Portola Valley School District (County of San Mateo, California) 2009 General Obligation Refunding Bonds (the "Refunding Bonds"), are being issued under the laws of the State of California and pursuant to a resolution of the Governing Board of the Portola Valley School District, County of San Mateo, California (the "District"). The proceeds of the Refunding Bonds will be used to current refund all of the outstanding principal amount of the Portola Valley School District (County of San Mateo, California) General Obligation Bonds, Election of 1998, Series 1998 (the "Prior Bonds"), of which $4,720,000 remains outstanding. The Series 1998 Bonds were issued for the purposes of funding the acquisition of and improvements to real property for authorized school purposes. The Series 1998 Bonds were authorized at an election of the registered voters of the District held on June 2, 1998 (the "1998 Election"), at which at least two-thirds of the persons voting on the measure voted to authorize the issuance and sale of the Series 1998 Bonds.

The Refunding Bonds are general obligations of the District payable solely from ad valorem taxes. The Board of Supervisors of the County of San Mateo (the "County") is empowered and is obligated to levy ad valorem taxes, without limitation of rate or amount, upon all property within the District subject to taxation (except certain personal property which is taxable at limited rates), for the payment of interest on and principal of the Refunding Bonds when due.

The Refunding Bonds are issued in book-entry form only, and are initially issued and registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers will not receive certificates representing their interest in the Refunding Bonds.

The Refunding Bonds are dated the date of their delivery. Interest with respect to the Refunding Bonds accrues from the date of delivery of the Refunding Bonds and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2010. The Refunding Bonds are issuable in denominations of $5,000 or any integral multiple thereof.

Payments of principal of and interest on the Refunding Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as the paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants (defined herein) who will remit such payments to the beneficial owners of the Refunding Bonds. (See "THE REFUNDING BONDS—Book-Entry-Only System").

The Refunding Bonds are subject to redemption prior to maturity as described herein.

MATURITY SCHEDULE
(See Inside Front Cover)

The following firm is serving as Financial Advisor to the District:

Keygent

This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Pursuant to the terms of a public sale on ___________, 2009, the Refunding Bonds were awarded to ____________, as Underwriter, at a true interest cost of ____%. The Refunding Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Kutak Rock LLP, Bond Counsel. Kutak Rock LLP is also serving as Disclosure Counsel to the District. The Refunding Bonds, in book-entry form, will be available for delivery through DTC in New York, New York, on or about December 1, 2009.

The date of this Official Statement is __________, 2009.

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* Preliminary, subject to change.

MATURITY SCHEDULE, INTEREST RATES, YIELDS AND CUSIPS

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP† ([_____])	Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP† ([_____])

† Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the District nor the Underwriter assume any responsibility for the accuracy of such numbers.

This Official Statement does not constitute an offering of any security other than the original offering of the Refunding Bonds of the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Refunding Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein, other than that provided by the District, has been obtained from sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions 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 since the date hereof. This Official Statement is submitted in connection with 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 contains statements relating to future results that are "forward-looking statements" as defined in the Private Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "projection," "intend," "expect" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE REFUNDING BONDS 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 REFUNDING BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER 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.

PORTOLA VALLEY SCHOOL DISTRICT

Governing Board

Don Collat, President
Judith Mendelsohn, Clerk
Steven Humphreys, Member
Ray Villareal, Member
Bill Youstra, Member

District Administration

Anne E. Campbell, Superintendent
Tim Hanretty, Assistant Superintendent

PROFESSIONAL SERVICES

Financial Advisor

Keygent LLC
El Segundo, California

Bond Counsel

Kutak Rock LLP
Denver, Colorado

Paying Agent, Registrar and Transfer Agent

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Escrow Agent

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

Causey Demgen & Moore Inc.
Denver, Colorado

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$4,900,000[*]
PORTOLA VALLEY SCHOOL DISTRICT
(COUNTY OF SAN MATEO, CALIFORNIA)
2009 GENERAL OBLIGATION REFUNDING BONDS
(BANK QUALIFIED)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Portola Valley School District (County of San Mateo, California) 2009 General Obligation 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, and is qualified by, more complete and detailed information contained in the entire Official Statement, including 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 the entire Official Statement.

The District

The Portola Valley School District (the "District") currently provides educational services to the residents of the Portola Valley community. The District is located about 37 miles south of San Francisco, on the edge of Silicon Valley, in the hills above Stanford University. The District is under the jurisdiction of the San Mateo County (the "County") Office of Education. The District currently operates two schools, and services grades kindergarten through eighth grade. For Fiscal Year 2009-10, the assessed valuation of property on the District's secured property tax roll is $3,722,809,237.

The District is governed by a five-member Governing Board (the "Board"), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day to day District operations as well as the supervision of the District's other personnel. See "APPENDIX A—CERTAIN INFORMATION CONCERNING THE DISTRICT."

Purpose of the Refunding Bonds

The proceeds from the sale of the Refunding Bonds will be used to current refund all of the District's outstanding Portola Valley School District (County of San Mateo, California) General Obligation Bonds, Election of 1998, Series 1998 (the "Prior Bonds"), by paying interest and the redemption price on the Prior Bonds on December 2, 2009, and (b) to pay all legal, financial and contingent costs in connection therewith. For more information on the Prior Bonds, see "THE REFUNDING BONDS—Authority for Issuance" herein.

Concurrently with the issuance of the Refunding Bonds, the District will enter into an Escrow Agreement (the "Escrow Agreement") with The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"), pursuant to which the District will deposit in the escrow fund (the "Escrow Fund") for the benefit of the Prior Bonds, cash which shall be sufficient to pay interest and the redemption price due on the Prior Bonds on December 2, 2009.

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[*] Preliminary, subject to change.

Authority for Issuance of the Refunding Bonds

The Refunding Bonds are issued pursuant to certain provisions of the State of California Government Code, pursuant to a resolution adopted by the Board on October 21, 2009 (the "Resolution") and in accordance with the terms of a Paying Agent Agreement, dated as of December 1, 2009 (the "Paying Agent Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent"). See "THE REFUNDING BONDS—Authority for Issuance."

Sources of Payment for the Refunding Bonds

The Board of Supervisors of the County (the "County Board") has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation in the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of the principal of, redemption premium, if any, and interest on the Refunding Bonds. See "SECURITY AND SOURCES OF PAYMENT" and "APPENDIX A—CERTAIN INFORMATION CONCERNING THE DISTRICT."

Description of the Refunding Bonds

Form and Registration. The Refunding Bonds are issued in fully registered form only, without coupons. The Refunding Bonds are initially 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. See "THE REFUNDING BONDS—General Provisions" and "THE REFUNDING BONDS—Book-Entry-Only System." In the event that the book-entry-only system described herein is no longer used with respect to the Refunding Bonds, the Refunding Bonds will be registered in accordance with the Resolution and the Paying Agent Agreement.

Denominations. Individual purchases of interests in the Refunding Bonds are available to purchasers of the Refunding Bonds in the denominations of $5,000 principal amount or any integral multiple thereof.

Redemption. The Refunding Bonds are subject to redemption prior to maturity, as described herein. See "THE REFUNDING BONDS—Redemption" herein.

Payments. Interest on the Refunding Bonds accrues from the date of delivery, and is payable semiannually on each February 1 and August 1 (each a "Bond Payment Date"), commencing February 1, 2010. Principal of the Refunding Bonds is payable on August 1, commencing August 1, 2010, in the amounts and years as set forth on the cover page hereof. Payments of the principal and interest on the Refunding Bonds will be made by the Paying Agent to DTC for subsequent disbursement through DTC Participants (defined herein) to the beneficial owners of the Refunding Bonds.

Tax Matters

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Refunding Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Refunding Bonds is exempt from State of California personal income taxes. For a more complete description, see "TAX MATTERS" herein.

Offering and Delivery of the Refunding Bonds

The Refunding Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Refunding Bonds in book-entry form will be available for delivery through DTC in New York, New York, on or about December 1, 2009.

Bondowners' Risks

The Refunding Bonds are payable from *ad valorem* taxes which may be levied without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates) on all taxable property in the District. For more complete information regarding the District's financial condition and taxation of property within the District, see "SECURITY AND SOURCES OF PAYMENT" and "APPENDIX A—CERTAIN INFORMATION CONCERNING THE DISTRICT."

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. "Continuing Disclosure Certificate" shall mean that certain Continuing Disclosure Certificate relating to disclosure of annual financial information and notices of certain events executed by the District as of the date of issuance and delivery of the Refunding Bonds, as it may be amended from time to time in accordance with the terms thereof. See "LEGAL MATTERS—Continuing Disclosure" and "APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Professionals Involved in the Offering

Kutak Rock LLP is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Refunding Bonds. Keygent LLC is acting as Financial Advisor to the District with respect to the Refunding Bonds. Bond Counsel, Disclosure Counsel and Financial Advisor will receive compensation from the District contingent upon the sale and delivery of the Refunding Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Any capitalized terms not otherwise defined herein shall have the meaning set forth in the Resolution.

Copies of documents referred to herein and information concerning the Refunding Bonds are available from the office of the Assistant Superintendent, Portola Valley School District, 4575 Alpine Road, Portola Valley, California 94028, telephone: (650) 851-1777. The District may impose a charge for copying, mailing and handling.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or 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 such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Refunding Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each such documents, statutes and constitutional provisions.

The information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions 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 since the date hereof. This Official Statement is submitted in connection with 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.

THE REFUNDING BONDS

Authority for Issuance

The Refunding Bonds are issued pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Act"), and other applicable law, pursuant to the Resolution adopted by the Board on October 21, 2009 and in accordance with the terms of the Paying Agent Agreement.

The District received authorization for the Series 1998 Bonds at an election held on June 2, 1998, by at least a two-thirds majority of the votes cast by eligible voters within the District to issue up to $17 million of bonds of the District (the "1998 Authorization"). The net proceeds of the Refunding Bonds will be used to current refund the Series 1998 Bonds.

General Provisions

The Refunding Bonds will be dated the date of delivery. Interest on the Refunding Bonds is first payable on February 1, 2010, and thereafter on February 1 and August 1 of each year (each an "Interest Payment Date"). The Refunding Bonds shall be dated the date of their delivery and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the sixteenth day of the month next preceding any Interest Payment Date to that Interest Payment Date, or unless it is authenticated on or before January 15, 2010, in which event it shall bear interest from the date of their delivery.

The Refunding Bonds shall be issued as bonds registered as to both principal and interest, in the denominations of $5,000 or any integral multiple thereof. The Refunding Bonds will be registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York, and shall be initially issued as one bond for each of the maturities of the Refunding Bonds, in the principal amounts set forth on the inside front cover hereof.

The Refunding Bonds mature on August 1 in each of the years and principal amounts and bear interest at the annual rates set forth on the inside cover page hereof. Interest on the Refunding Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Payment of interest on any Refunding Bond on any Interest Payment Date shall be made to the person appearing on the registration books of the Paying Agent as the Owner thereof as of the Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed to such

Owner on the Interest Payment Date at his address as it may have filed with the Paying Agent for that purpose on or before the Record Date. The "Record Date" is the close of business on the fifteenth day of the month preceding each Interest Payment Date. The Owner in an aggregate Principal Amount of $1,000,000 or more may request in writing to the Paying Agent that such Owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date. The principal, interest and prepayment premiums, if any, payable on the Refunding Bonds shall be payable upon maturity or prepayment upon surrender at the principal office of the Paying Agent. The interest, principal and prepayment premiums, if any, on the Refunding Bonds shall be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Refunding Bonds when duly presented for payment at maturity, and to cancel all Refunding Bonds upon payment thereof. The Refunding Bonds are general obligations of the District.

Annual Debt Service

The following table summarizes the annual debt service requirements of the District for the Refunding Bonds and the District's general obligation bonds which will remain outstanding after the issuance of the Refunding Bonds:

Year Ending August 1	Refunding Bonds Principal Payments	Refunding Bonds Interest Payment	Total Refunding Bonds Debt Service	Other General Obligation Bonds	Total All General Obligation Bonds
2010				$1,082,166.26	
2011				1,086,003.76	
2012				1,083,816.26	
2013				1,080,953.76	
2014				1,087,416.26	
2015				1,082,766.26	
2016				1,082,406.26	
2017				1,086,031.26	
2018				1,083,031.26	
2019				1,083,591.26	
2020				1,082,703.76	
2021				1,080,411.26	
2022				1,081,458.76	
2023				1,086,043.76	
2024				1,083,418.76	
2025				1,078,918.76	
2026				1,077,918.76	
2027				1,080,168.76	
2028				1,080,418.76	
2029				1,473,668.76	
2030				1,475,168.76	
2031				1,471,750.00	
Total				24,990,231.46	

Application and Investment of Refunding Bond Proceeds

The net proceeds from the sale of the Refunding Bonds shall be transferred to the Escrow Agent for deposit in the Escrow Fund established under the Escrow Agreement, which amount is necessary to refund the Prior Bonds. Proceeds of the sale of the Refunding Bonds necessary to pay all costs of issuing such Refunding Bonds shall be deposited in the fund of the District established by the Paying Agent known as the "Portola Valley School District Refunding Bond Cost of Issuance Fund" and shall be kept separate and distinct from all other District funds, and those proceeds shall be used solely for the purpose of paying costs of issuance of the Refunding Bonds.

The accrued interest and any premium received by the District from the sale of the Refunding Bonds shall be kept separate and apart in the Debt Service Fund and used only for payments of principal and interest on the Refunding Bonds. Any excess proceeds of the Refunding Bonds not needed for the authorized purposes set forth herein for which the Refunding Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal and interest on the Refunding Bonds. If, after payment in full of the Refunding Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the general fund of the District.

Interest earned on the investment of moneys held in the Debt Service Fund shall be retained in the Debt Service Fund and used to pay principal and interest on the Refunding Bonds when due.

The sufficiency of the cash on deposit in the Escrow Fund, to pay the interest and redemption price, as applicable, will be verified by Causey Demgen & Moore Inc., Denver, Colorado (the "Verification Agent"). See "MISCELLANEOUS—Escrow Verification" herein. As a result of the deposit and application of funds so provided in the Escrow Agreement, the Prior Bonds, assuming the accuracy of the Verification Agent's computations, will be defeased and the obligation of the County to levy *ad valorem* taxes for payment of the Prior Bonds will also be defeased.

Moneys held by the County Tax Collector-Treasurer (the "Tax Collector-Treasurer") in the Debt Service Fund shall be invested at the Tax Collector-Treasurer's discretion pursuant to law and the San Mateo County Investment Pool. See "SAN MATEO COUNTY INVESTMENT POOL" herein.

Redemption

Optional Redemption. The Refunding Bonds maturing on or after August 1, 2020 are subject to optional redemption in whole or in part at the option of the District from any lawfully available source on August 1, 2019 or on any date thereafter, at a price equal to the principal amount of the Refunding Bonds called for redemption, without premium, together with accrued interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Refunding Bonds maturing on August 1, 2028, shall be subject to mandatory sinking fund redemption on August 1 of each year, commencing August 1, 20__, as shown below, at a redemption price equal to the principal amount thereof called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

Term Bond Maturing on August 1, 2028

Redemption Date (August 1)	Principal Amount
*	

* Final Maturity.

Selection of Bonds for Redemption. Whenever less than all of the Outstanding Refunding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the Outstanding Refunding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Refunding Bond shall be deemed to consist of individual Refunding Bonds of $5,000 denominations each, which may be separately redeemed.

Notice of Redemption. The Paying Agent shall cause notice of any redemption to be mailed, first-class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to (i) an Information Service, (ii) a Securities Depository, and (iii) the respective Owners of any Refunding Bonds designated for redemption, at their addresses appearing on the Registration Books; provided that neither failure to receive such notice may nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Refunding Bonds.

Such notice shall state (a) that the Refunding Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Refunding Bonds to be redeemed, (c) the date of notice and the date of redemption, and (d) the place or places where the Refunding Bonds must be submitted for redemption, descriptive information about the Refunding Bonds, including the dated date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Refunding Bond to be redeemed, the portion of the principal amount of such Refunding Bond to be redeemed, together with interest accrued to said date, and redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Partial Redemption of Refunding Bonds. Upon surrender of any Refunding Bond redeemed in part only, the District shall execute and the Paying Agent shall authenticate, if required, and deliver to the Owner thereof, at the expense of the District, a new Refunding Bond or Refunding Bonds of authorized denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Refunding Bond(s) surrendered.

Defeasance

The Refunding Bonds may be defeased prior to maturity in the following ways:

(a) Cash: by irrevocably depositing an amount of cash which together with amounts then on deposit in the Refunding Bonds Debt Service Fund, as hereinafter defined, is sufficient to pay all Refunding Bonds outstanding, including all principal and interest and premium, if any; or

(b) United States Obligations: by irrevocably depositing noncallable United States Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Refunding Bonds Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Refunding Bonds (including all principal and interest represented thereby and prepayment premiums, if any) at or before their maturity date;

Then, notwithstanding that any Refunding Bonds shall not have been surrendered for payment, all obligations of the District with respect to all outstanding Refunding Bonds shall cease and terminate, except only the obligation of the District and the Paying Agent to pay or cause to be paid from funds deposited pursuant to the Resolution, to the owners of the Refunding Bonds not so surrendered and paid all sums due with respect thereto.

For purposes of this Section, "United States Obligations" shall mean direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed "AAA" by Standard & Poor's, if the Refunding Bonds are then rated by Standard & Poor's, and "Aaa" by Moody's, if the Refunding Bonds are then rated by Moody's.

Book-Entry-Only System

The information in this Section concerning DTC and DTC's Book-Entry-Only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Refunding Bonds, payment of principal, premium, if any, accreted value and interest on the Refunding Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Refunding Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dtcc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

DTC 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 each issue of the Refunding Bonds each 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 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org. The District undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC's website as described in the preceding sentence, including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

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 Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

To facilitate subsequent transfers, all 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 Refunding Bonds with DTC and their registration in the name of Cede & Co. or such other 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.

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 Paying Agent 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).

Principal and interest 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 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 or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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 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 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 District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF REFUNDING BONDS AND WILL NOT BE RECOGNIZED BY THE PAYING AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

SECURITY AND SOURCES OF PAYMENT

The Refunding Bonds are payable solely from *ad valorem* taxes. The County Board has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation in the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of the principal of, redemption premium, if any, and interest on the Refunding Bonds. Such taxes, when collected, will be held by the County in the District's Debt Service Fund (the "Debt Service Fund"). Although the County is obligated to levy an *ad valorem* tax for the payment of the Refunding Bonds, and will maintain the Debt Service Fund pledged to the repayment of the Refunding Bonds, the Refunding Bonds are not a debt of the County.

The amount of the annual *ad valorem* tax levied by the County to repay the Refunding Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Refunding Bonds. Economic and other factors outside the District's control, such as economic recession, deflation of land values, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood or other natural or man-made disaster, could cause a reduction in the assessed value of the District and necessitate an unanticipated increase in annual tax levy.

Ad Valorem Property Taxation

District property taxes are assessed and collected by the County at the same time and on the same rolls as the special district property taxes. Assessed valuations are the same for both District and County taxing purposes.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes are payable in two installments due November 1 and February 1, respectively, and become delinquent on December 10 and March 10 for each respective installment. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year based on the preceding fiscal year's secured tax rate and become delinquent on October 31.

State law exempts from taxation $7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. California law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, up to 2% inflation per year) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of that agency's allocation in the following year. The availability of revenue from growth in tax base to such entities may be affected by the establishment of redevelopment agencies, which under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

For assessment and collection purposes, property is classified as either "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 real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land, such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the "unsecured roll."

The following represents the five-year history of assessed valuations in the District:

Portola Valley School District
Assessed Valuations
Fiscal Years 2005-06 through 2009-10

Fiscal Year	Local Secured	Utility	Unsecured	Total
2005-06	$2,984,055,348	$0	$16,678,087	$3,000,733,435
2006-07	3,217,858,470	0	16,008,749	3,233,867,219
2007-08	3,414,097,685	0	19,124,837	3,433,222,522
2008-09	3,547,867,087	0	15,520,793	3,563,387,880
2009-10	3,722,809,237	0	15,839,254	3,738,648,491

Source: California Municipal Statistics, Inc.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed.

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty (i.e., interest) to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector-Treasurer.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Each county levies and collects all property taxes for property falling within that county's taxing boundaries.

Alternative Method of Tax Apportionment—"Teeter Plan"

The County Board has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan is applicable only to secured tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

The *ad valorem* property tax to be levied to pay the interest on and principal of the Refunding Bonds will be subject to the Teeter Plan. The District will receive 100% of the *ad valorem* property tax levied to pay the Refunding Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year, the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Count Board are to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency.

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Principal Taxpayers

The following table lists the major taxpayers in the District in terms of their 2009-10 local secured assessed valuations.

Portola Valley School District
Largest 2009-10 Local Secured Taxpayers

	Property Owner	Primary Land Use	2009-10 Assessed Valuation	% of Total*
1.	Octopus Holdings LP	Residential	$ 85,926,726	2.31%
2.	3000 Portola Road	Residential	80,287,893	2.16
3.	Woodside Investment Partners LLC	Residential	39,264,696	1.05
4.	Miriam L. Haas, Trustee	Residential	21,352,243	0.57
5.	Thomas J. Fogarty, Trustee	Residential	19,879,382	0.53
6.	Frog Creek Partners LLC	Residential	19,802,385	0.53
7.	Dearborn Stables LLC	Residential	19,247,400	0.52
8.	Frederic W. Harman, Trustee	Residential	17,444,209	0.47
9.	Douglas G. Bergeron, Trustee	Residential	16,646,400	0.45
10.	Kathleen O'Boyle Scutchfield, Trustee	Residential	14,934,253	0.40
11.	Michael E. Marks, Trustee	Residential	14,413,605	0.39
12.	Robert C. Kagle	Residential	13,801,010	0.37
13.	John W. Thompson, Trustee	Residential	13,286,938	0.36
14.	Spring Ridge LLC	Residential	13,157,197	0.35
15.	Harry Hoi-Lai Cheung, Trustee	Residential	12,880,940	0.35
16.	Dirk A. Kabcenell, Trustee	Residential	12,624,074	0.34
17.	Scott H. & Anne S. Davison	Residential	12,080,509	0.32
18.	Kent J. Thiry, Trustee	Residential	12,020,991	0.32
19.	Joanne Kagle, Trustee	Residential	11,725,131	0.31
20.	Chong-Moon Lee	Residential	11,159,648	0.30
			$461,935,630	12.41%

*2009-10 Total Secured Assessed Valuation: $3,722,809,237.
Source: California Municipal Statistics, Inc.

Statement of Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated September 23, 2009. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

Portola Valley School District
Direct And Overlapping Bonded Debt
As of September 23, 2009

2009-10 Assessed Valuation: $3,738,648,491

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	% Applicable[1]	Debt 10/1/09
San Mateo Community College District	2.772%	$17,324,445
Sequoia Union High School District	6.820	20,625,044
Portola Valley School District	**100.**	**19,470,000** [2]
California Statewide Communities Development Authority 1915 Act Bonds	100.	3,480,774
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$60,900,263
OVERLAPPING GENERAL FUND DEBT		
San Mateo County General Fund Obligations	2.772%	$9,960,068
San Mateo County Board of Education Certificates of Participation	2.772	370,062
Town of Woodside Certificates of Participation	24.634	230,328
Midpeninsula Regional Open Space Park District General Fund Obligations	2.285	2,600,057
San Mateo County Mosquito Abatement District Certificates of Participation	3.860	20,844
TOTAL OVERLAPPING GENERAL FUND DEBT		$13,181,359
COMBINED TOTAL DEBT		$74,081,622 [3]

[1] Based on 2008-09 ratios.
[2] Excludes issue to be sold.
[3] Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2009-10 Assessed Valuation:
Direct Debt ($19,470,000)……………………………………..0.52%
Total Direct and Overlapping Tax and Assessment Debt………….1.63%
Combined Total Debt…………………………………………....1.98%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $0

Source: California Municipal Statistics, Inc.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Refunding Bonds are expected to be applied as follows:

Sources of Funds
Principal Amount
Net Reoffering Premium
Total Sources

Uses of Funds
Costs of Issuance[1]
Escrow Fund
Total Uses

[1] All estimated costs of issuance including underwriter's discount.

SAN MATEO COUNTY INVESTMENT POOL

The Tax Collector-Treasurer manages, in accordance with California Government Code Section 53600 et seq., funds deposited in the County Treasury by the County, all County school districts, various special districts, and some cities within the County (the "Pool"). See "APPENDIX F—County of San Mateo Pooled Fund Investment Policy" herein for the current investment policy of San Mateo County.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Refunding Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the District with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Refunding Bonds. Failure to comply with such requirements could cause interest on the Refunding Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Refunding Bonds. The District has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Refunding Bonds. Bond Counsel is further of the opinion that interest on the Refunding Bonds is exempt from all present State of California personal income taxes.

Notwithstanding Bond Counsel's opinion that interest on the Refunding Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Refunding Bonds may otherwise affect the federal income tax liability of the owners of the Refunding Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Refunding Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Refunding Bonds.

Bank Qualified

The District has represented that it does not reasonably anticipate issuing greater than $30,000,000 of tax-exempt obligations in calendar year 2009 (excluding certain private activity and refunding bonds) and that it has designated the Refunding Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. Accordingly, Bond Counsel is of the opinion that in the case of certain banks, thrift institutions or other financial institutions owning the Refunding Bonds, a deduction is allowed for 80% of that portion of such institutions' interest expense allocable to interest on the Refunding Bonds. Bond Counsel has expressed no opinion with respect to any deduction for federal tax law purposes of interest on indebtedness incurred or continued by a holder of the Refunding Bonds or a related person to purchase or carry the Refunding Bonds.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Refunding Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Refunding Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal And State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Refunding Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to Refunding Bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Refunding Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Refunding Bonds or the market value thereof would be impacted thereby. Purchasers of the Refunding Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Refunding Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Original Issue Discount

Certain of the Refunding Bonds may be sold at an original issue discount (collectively, the "Discount Bonds"). The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Original Issue Premium

Certain of the Refunding Bonds may be sold at a premium (the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

LEGAL MATTERS

Legality for Investment in California

Under provisions of the California Financial Code, the Refunding Bonds are legal investments for commercial banks in California to the extent that the Refunding Bonds, in the informed opinion of the bank, are prudent for the investment of funds of its depositors, and are eligible to secure deposits of public moneys in California under provisions of the California Government Code.

Continuing Disclosure

The District has covenanted for the benefit of bondholders (including beneficial owners of the Refunding Bonds) to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (which currently ends June 30), commencing with the report for the 2008-09 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system. The notices of material events will be filed by the District with the EMMA system. The specific nature of the information to be contained in the Annual Report or the notices of material events is included under the caption "APPENDIX D—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 District has never failed to file in a timely manner its Annual Report required under any prior continuing disclosure obligation.

No Litigation

No litigation is pending or threatened concerning the validity of the Refunding Bonds, and a certificate to that effect will be furnished at the time of the original delivery of the Refunding Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue and retire the Refunding Bonds.

Legal Opinion

The validity of the Refunding Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is attached to this Official Statement as "APPENDIX B—PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

MISCELLANEOUS

Rating

The Refunding Bonds have been assigned the rating of "AAA" by Standard & Poor's Rating Services ("S&P"). The rating reflects only the views of the rating agency, and any explanation of the significance of such rating should be obtained from the rating agency at the following address: S&P, 55 Water Street, New York, New York 10041. The District has provided information to the rating agency to assist in its evaluation of the Refunding Bonds, some of which does not appear in this Official Statement. There is no assurance that the rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of the rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Refunding Bonds.

Financial Advisor

Keygent LLC (the "Financial Advisor"), serves as independent financial advisor to the District on matters relating to debt management. The Financial Advisor has provided advice as to the plan of financing and the structuring of the Refunding Bonds and has reviewed and commented on certain legal documentation, including the Official Statement. The advice on the plan of financing and the structuring of the Refunding Bonds was based on materials provided by the District and other sources of information believed to be reliable. The Financial Advisor has not audited, authenticated or otherwise verified the information provided by the District or the information set forth in this Official Statement or any other information available to the District with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of or any other matter related to such information contained in this Official Statement.

Underwriting

Pursuant to the terms of a public bid held on _________, 2009, _______________, (the "Underwriter"), has agreed to purchase the Refunding Bonds from the District at the purchase price of $__________. The Underwriter will retain $__________ as its compensation. The Underwriter has represented to the District that the Refunding Bonds were reoffered to the public at the prices or yields set forth on the inside cover page of this Official Statement. The Underwriter will be obligated to take and pay for all of the Refunding Bonds, if any Refunding Bond is purchased.

Verification

Upon delivery of the Refunding Bonds, Causey Demgen & Moore Inc., Denver, Colorado, a firm of independent public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to (a) the adequacy of the amounts in the Escrow Fund to pay the redemption price of and interest on the Prior Bonds, and (b) the computations of yield of the Refunding Bonds and, if applicable, the investments in the Escrow Fund which support Bond Counsel's opinion that the interest on the Refunding Bonds is excluded from gross income for federal income tax purposes.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Refunding Bonds. Quotations from and summaries and explanations of the Refunding Bonds, the Resolution providing for issuance of the Refunding Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

All data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the District.

PORTOLA VALLEY SCHOOL DISTRICT

By ______________________________

Anne E. Campbell
Superintendent

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE DISTRICT

PORTOLA VALLEY SCHOOL DISTRICT

The information in this Section concerning the operations of the District and the District's operating budget 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 Refunding Bonds is payable from the General Fund of the District. The Refunding Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

Introduction

The District currently provides educational services to the residents of the Portola Valley community. The District is located about 37 miles south of San Francisco, on the edge of Silicon Valley, in the hills above Stanford University. The District is under the jurisdiction of the County Superintendent of Schools. The District currently operates two schools, and services grades kindergarten through eighth grade. The current student-teacher ratios in the District vary depending on grade level and school type. The ratio is 20:1 for kindergarten through grade three, 22:1 for grades four through five and 22:1 for grades six through eight. The District's projected average daily attendance for Fiscal Year 2009-10 is 615.

The District employs 95 full and part-time faculty and staff. The 2009-10 assessed valuation of property on the District's secured property tax roll is $3,722,809,237.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial reports of the District may be obtained by contacting: Portola Valley School District, 4575 Alpine Road, Portola Valley, California 94028, Attn: Assistant Superintendent.

Administration

The District is governed by a five-member Board, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

Portola Valley School District
Governing Board

Name	Office	Term Expires
Don Collat	President	December 2009
Judith Mendelsohn	Clerk	December 2011
Steven Humphreys	Member	December 2011
Ray Villareal	Member	December 2009
Bill Youstra	Member	December 2009

The District's administrative and financial staff includes the Superintendent, Anne E. Campbell, and the Assistant Superintendent, Tim Hanretty.

Anne Campbell has served as Superintendent of the Portola Valley School District since July 2003. Prior to joining the District, Ms. Campbell served as Superintendent of the Belmont-Redwood Shores School District between July 1997 and July 2003. During her career, Ms. Campbell has served as a middle school teacher, guidance counselor, assistant principal, and principal. She holds a Master's Degree in Education from Stanford University and a Bachelor's Degree in American Literature from Scripps College.

Enrollment

The following table provides a six-year history on growth in enrollment for the District as well as projections for enrollment for Fiscal Year 2009-10.

Portola Valley School District
Student Enrollment
Fiscal Year 2003-04 through 2009-10

Fiscal Year	Total Student Enrollment
2003-04	677
2004-05	673
2005-06	674
2006-07	678
2007-08	706
2008-09	746
2009-10*	752

* Projected.
Source: The District

Labor Relations

As of September 1, 2009, the District employed 52 full-time certificated employees and 31 classified employees. These employees, except management and some part-time employees, are represented by the two bargaining units as noted below:

Portola Valley School District
District Employees

Labor Organization	Number of Employees In Bargaining Unit	Contract Expiration Date
California Teacher's Association	46	June 30, 2010
Local Classified Association	35	June 30, 2010

Source: The District

Retirement Programs

The District participates in the State of California Teachers Retirement System ("STRS"). This plan covers all full-time and most part-time certificated employees. The District's contribution to STRS was $474,227 for Fiscal Year 2008-09 and for Fiscal Year 2009-10 is budgeted at $475,129. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The District also participates in the State of California Public Employees Retirement System ("CalPERS"). This plan covers all classified personnel who are employed more than four hours per day. The District's contribution to CalPERS was $249,298 for Fiscal Year 2008-09 and for Fiscal Year 2009-10 is budgeted at $283,415. In order to receive CalPERS benefits, an employee must be at least 50 years old and have provided five years of service to California public schools.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in benefits. The contribution rates are based on statewide rates set by the STRS and CalPERS retirement boards. STRS has substantial statewide unfunded liability. Since this liability has not been broken down by each school district or community college district, it is impossible to determine the District's share.

Postemployment Benefits Other Than Pension Benefits

In addition to the pension benefits described above, the District has entered into agreements with former employees to provide health and welfare benefits for five years for all employees who retire from the District on or after attaining the age of 55 with at least 10 years of service. On June 30, 2008, ten retirees met these eligibility requirements. The amount of benefit expense recognized during the year ended June 30, 2008 for retired employees was $69,973. On June 30, 2009, nine retirees met these eligibility requirements. The amount of benefit expense recognized during the year ended June 30, 2009 for retired employees was $49,830.

The District has not had an actuarial study performed to determine the future costs to the District for providing retiree benefits and funds the benefits on a "pay-as-you-go" basis. The District has not contributed irrevocably to a separate trust for the retiree benefit plan and the future liability was not reported in the long-term debt by the District.

Insurance

The District participates in one join venture under a joint powers agreement (JPA) with San Mateo County School Insurance Group for Property & Liability, Workers' Compensation and Medical/Dental. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of its JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

Budget Procedures

The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the SBE and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

For all dual budget options and for single and dual budget option districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

The District has never had an adopted budget disapproved by the county superintendent of schools, and has never received a "negative" or "qualified" certification of an Interim Financial Report pursuant to AB 1200.

The following table shows the District's original adopted General Fund budget for Fiscal Year 2007-08, the District's audited actual General Fund budget for Fiscal Year 2007-08, the District's original adopted General Fund budget for Fiscal Year 2008-09, the District's unaudited actual General Fund budget for Fiscal Year 2008-09 and the District's adopted General Fund budget for Fiscal Year 2009-10. For further information, see also "APPENDIX C—EXCERPTS FROM THE DISTRICT'S 2007-08 AUDITED FINANCIAL STATEMENTS."

Portola Valley School District
Comparison of General Fund Budgets for
Fiscal Year 2009-10, Fiscal Year 2008-09 and
Audited Actuals for Fiscal Year 2007-08

	Adopted Budget 2007-08	Audited Actuals 2007-08	Adopted Budget 2008-09	Unaudited Actuals 2008-09	Adopted Budget 2009-10
Revenues					
Revenue Limit Sources:					
State Apportionments	$ 146,117	$ 143,647	--	--	--
Local Sources	7,456,837	7,430,798	--	--	--
TOTAL REVENUE LIMIT	$ 7,602,954	$ 7,574,445	$7,446,195	$ 7,882,472	$ 8,190,638
Federal Revenue	$ 167,534	$ 169,022	$ 0	$ 298,727	$ 265,915
Other State Revenue	706,717	720,650	387,041	693,760	750,546
Other Local Revenue	2,791,298	2,779,242	1,997,944	2,514,318	2,382,177
TOTAL REVENUES	$11,268,503	$11,243,359	$9,831,213	$11,389,277	$11,589,276
Expenditures					
Certificated Salaries	$ 5,683,100	$ 5,683,100	$4,811,417	$ 5,816,905	$ 5,663,411
Classified Salaries	1,915,051	1,915,051	1,365,424	1,862,800	1,653,443
Employee Benefits	2,051,819	2,042,272	1,637,403	1,953,040	1,860,135
Books and Supplies	673,503	661,761	977,633	723,763	1,264,795
Services and Other Operating Expenditures	782,364	803,521	563,189	935,206	554,241
Debt Service:					
Principal Retirement	189,163	189,163	--	--	--
Interest and Fiscal Charges	19,299	19,299	--	--	--
TOTAL EXPENDITURES	$11,314,299	$11,314,167	$9,355,066	$11,291,715	$10,996,025
Excess (Deficiency) of Revenues Over (Under) Expenditures	(45,796)	(70,808)	476,147	97,562	593,251
Other Financing Sources (Uses)					
Operating Transfers In	$ 177,112	$ 143,356	$ 363,000	$ 333,000	$ 0
Operating Transfers Out	(74,550)	(74,550)	(44,640)	(414,544)	0
Contributions	--	--	(755,297)	--	--
TOTAL OTHER FINANCING SOURCES (USES)	$ 102,562	$ 68,806	$ (436,937)	$ (81,544)	$ 0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	56,766	(2,002)	39,210	16,018	593,251
Beginning Balance, July 1	$ 521,175	$ 521,175	$ 448,935	$ 519,173	$ 535,191
Ending Balance, June 30	$ 577,941	$ 519,173	$ 488,145	$ 535,191	$ 1,128,442

Source: The District

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts.

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund which accounts for all financial resources not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

Comparative Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2008, and prior fiscal years are on file with the District. Excerpts from the audited financial statements for the year ended June 30, 2008, are included in "APPENDIX C" hereto.

The following table reflects the District's General Fund revenues, expenditures and fund balances from Fiscal Year 2005-06 through Fiscal Year 2007-08.

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Portola Valley School District
General Fund
Revenues, Expenditures and Fund Balances
Fiscal Year 2005-06 through 2007-08

	Audited Fiscal Year 2005-06	Audited Fiscal Year 2006-07	Audited Fiscal Year 2007-08
Revenues			
Revenue Limit Sources:			
State Apportionments	$ 133,795	$ 159,965	$ 143,647
Local Sources	6,445,348	6,991,872	7,430,798
TOTAL REVENUE LIMIT	$6,579,143	$ 7,151,837	$ 7,574,445
Federal Revenue	$ 204,775	$ 168,240	$ 169,022
Other State Revenue	645,000	770,281	720,650
Other Local Revenue	2,197,404	2,427,548	2,779,242
TOTAL REVENUES	$9,626,322	$10,517,906	$11,243,359
Expenditures			
Certificated Salaries	$5,021,512	$ 5,140,389	$ 5,683,100
Classified Salaries	1,533,692	1,705,114	1,915,051
Employee Benefits	1,592,707	1,559,823	2,042,272
Books and Supplies	378,643	1,080,103	661,761
Services and Other Operating Expenditures	963,263	1,030,757	803,521
Debt Service:			
Principal Retirement	0	168,492	189,163
Interest and Fiscal Charges	0	3,338	19,299
Other Outgo	56,055	40,940	--
TOTAL EXPENDITURES	$9,545,872	$10,729,956	$11,314,167
Excess (Deficiency) of Revenues Over (Under) Expenditures	80,450	(212,050)	(70,808)
Other Financing Sources (Uses)			
Operating Transfers In	$ 0	$ 11,047	$ 143,356
Operating Transfers Out	(23,600)	(300,347)	(74,550)
TOTAL OTHER FINANCING SOURCES (USES)	$ (23,600)	$ 556,003	$ 68,806
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	56,850	54,653	(2,002)
Beginning Balance, July 1	$ 409,672	$ 466,522	$ 521,175
Ending Balance, June 30	$ 466,522	$ 521,175	$ 519,173

Source: The District

District Debt Structure

Long-Term Debt. A schedule of outstanding long-term debt for the fiscal year ended June 30, 2008 is shown below:

Portola Valley School District
Schedule of Outstanding Long-Term Debt as of June 30, 2008

	Balance as of July 1, 2007	Additions	Deductions	Balance as of June 30, 2008	Due Within One Year
General Obligation Bonds	$20,895,000	$ --	$455,000	$20,440,000	$475,000
Compensated Absences	6,219	26,676	--	32,895	32,895
Capital Leases	416,561	125,016	189,163	352,414	154,991
Other General Long-Term Debt	--	240	240	--	--
Total	$21,317,780	$151,932	$644,403	$20,825,309	$662,886

Source: The District

FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA

The information in this section concerning funding of school districts 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 Refunding Bonds is payable from general fund revenues of the District. The Refunding Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

State Funding of Education and Revenue Limitations

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts.

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of average daily attendance ("A.D.A."). Thus, school districts that can improve their actual attendance rate will receive additional funding.

Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts.

The following table shows the average daily attendance for the District for the last five years, a projection for 2009-10 and the District's base revenue limit per A.D.A. for such period.

AVERAGE DAILY ATTENDANCE AND BASE REVENUE LIMIT
Fiscal Year 2004-05 through 2009-10
Portola Valley School District

Fiscal Year	Average Daily Attendance	Base Revenue Limit Per A.D.A.
2004-05	642	$5,041.31
2005-06	640	5,243.31
2006-07	645	5,779.31
2007-08	609	5,923.79
2008-09	615	6,344.41
2009-10*	615	6,344.41

*Projected.
Note: All amounts are rounded to the nearest whole number.
Source: The District

Revenue Sources

General. The District categorizes its general fund ("General Fund") revenues into four sources: (1) revenue limit sources (consisting of a mix of State aid and local revenues from property taxes), (2) federal revenues, (3) other State revenues and (4) other local revenues. Each of these revenue sources is described below.

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, revenue limits are calculated for each school district by multiplying the A.D.A. for such district by a base revenue limit per unit of A.D.A. 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.

Funding of the District's revenue limit is provided by a mix of local property taxes and State aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues. Revenue limit sources constituted approximately 69.2% of the District's total general fund revenue in Fiscal Year 2008-09 and are budgeted to equal approximately 70.7% of such revenues in Fiscal Year 2009-10.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, constituted approximately 2.6% of General Fund revenues in Fiscal Year 2008-09 and are budgeted to equal approximately 2.3% of such revenues in Fiscal Year 2009-10.

Other State Revenues. In addition to its revenue limit apportionment, the District receives substantial other State revenues for both restricted and unrestricted programs, including the Class Size Reduction Program, the Gifted and Talented Education Program, the English Language Acquisition Program, State instructional materials, and other categorical programs. Other State revenues constituted approximately 6.1% of General Fund revenues in Fiscal Year 2008-09 and are budgeted to equal approximately 6.5% of such revenues in Fiscal Year 2009-10.

Other State revenues include moneys from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues constituted approximately 0.8% of General Fund revenues in Fiscal Year 2008-09 and are budgeted to equal approximately 0.9% of such revenues in Fiscal Year 2009-10.

Other Local Revenues. In addition to property taxes, the District receives a significant amount of local revenues from long term leases and facilities use rentals. In addition, it receives a much smaller amount of local revenues from interest earnings, interagency services, and other local sources. In Fiscal Year 2008-09, the District received $47,065 from developer fees, and estimates that it will receive approximately $40,000 from developer fees in Fiscal Year 2009-10. Other local revenues constituted approximately 22.1% of General Fund revenues in Fiscal Year 2008-09 and are budgeted to equal approximately 20.6% of such revenues in Fiscal Year 2009-10.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "—State Funding of Education and Revenue Limitations" above). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

State Budget

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal of or interest on the Refunding Bonds is payable from the General Fund. The Refunding Bonds are payable solely from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment thereof.

Recent Developments Regarding State Finances. Following a severe recession in the early 1990s, the State's financial condition improved markedly starting in 1995-1996, due to a combination of better-than-expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on actions taken in earlier years. The economy grew strongly between 1994 and 2000, generally outpacing the nation, and as a result, for the five Fiscal Years from 1995-1996 to 1999-2000, the General Fund tax revenues exceeded the estimates made at the time the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid in 1995-1996 and 1996-1997, and to fund new program initiatives, including education spending above Proposition 98 minimums, tax reductions, aid to local governments and infrastructure expenditures.

Starting in early 2001, the State faced significant financial challenges, with an economic recession in 2001 and a sluggish recovery in 2002 and 2003 (with greatest impacts in the high technology, internet, and telecommunications sectors, especially in northern California); weakened exports; and most particularly, large stock market declines between 2000 and 2002 (with attendant declines in stock option values and capital gains realizations). These adverse fiscal and economic factors resulted in an erosion of State general fund tax revenues. The three largest State general fund tax sources are personal income, sales and use, and corporate taxes. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income. This revenue drop resulted in a shortfall between State revenues and anticipated spending demands during the Fiscal Years 2001-2002 through 2003-2004 resulting in a total accumulated deficit of approximately $22 billion.

Two measures intended to address the cumulative budget deficit and to implement structural reform were both approved at the March 10, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorized the issuance of up to $15 billion of economic recovery bonds to finance the negative State general fund reserve balance as of June 30, 2004 and other State general fund obligations undertaken prior to June 30, 2004. The first two series of economic recovery bonds, which were issued on May 11, 2004, provided approximately $8.339 billion of net proceeds to the State's general fund. A third series of economic recovery bonds in the principal amount of $2.974 billion was issued on June 16, 2004. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing.

During the second half of 2003 and during 2004, the recovery of the California economy broadened and strengthened (although with continuing weakness in job growth) and further moderate growth continued in 2005 through 2007. However, the State is currently experiencing a severe economic downturn, similar to the trends throughout the United States, particularly with regard to the subprime mortgage market. Due to rising mortgage interest rates between 2004 and 2006, there was significant disruption in the supply and demand in the national housing market. Since early 2007, the delinquency rate of subprime and other mortgages (particularly those with adjustable interest rates) has risen, and the foreclosure rate has increased significantly. Such losses in the mortgage market has rippled into other financial markets, as investors continue to closely examine credit risks. In addition, the unemployment rate in California currently exceeds 12%.

2008-09 State Budget. On September 23, 2008, the Governor signed the 2008-09 State Budget into law (the "2008-09 Budget"). The 2008-09 Budget attempted to resolve the $24.3 billion budget deficit identified in the May (2008) Revision to the Governor's Proposed Budget. The 2008-09 Budget, as adopted, projected revenues of $103.027 billion in 2007-08 and $101.991 billion in 2008-09 (representing an increase of $1.837 billion in 2007-08 and a decrease of $996 million in 2008-09, compared with the May Revision), provided a modest reserve of $1.7 billion, but projected a deficit of $1.0 billion in 2009-10.

Special Session – Revisions to 2008-09 Budget; 2009-10 Adopted State Budget. Below is a summary of legislative actions from November 5, 2008 through February 20, 2009, on which date the Governor signed a budget package addressing the 2008-09 Budget deficit, and adopting the 2009-10 Budget.

November 5, 2008. The Governor called the State Legislature into special session to deal with a budget deficit of $11 billion which had arisen since the 2008-09 budget was adopted, principally because of a shortfall in revenues. This special session extended through February 19, 2009.

January 9, 2009. The Governor submitted his proposed 2009-10 Budget (the "2009-10 Proposed Budget") to the State Legislature. The 2009-10 Proposed Budget assumed that, without corrective action, the State would face a deficit of $39.6 billion at the end of 2009-10. The 2009-10 Proposed Budget proposed $41.7 billion in budgetary solutions to close the gap and establish a $2.2 billion reserve, including: the issuance of $4.7 billion in revenue anticipation warrants, capturing savings in K-14 education through spending reductions, accounting changes and cost deferrals and raising $5 billion in proceeds with the securitization of lottery revenues. Many of the Governor's proposals required voter approval to be implemented.

The LAO Stated that while the 2009-10 Proposed Budget was generally reasonable it would likely be subject to risks associated with continued deterioration of the economy, noting that it relied heavily on State borrowing, which was subject to voter approval, the favorable resolution of legal issues, and the State's access to credit markets. On January 14, 2009, the LAO released its report entitled "California's Cash Flow Crisis" stating that the State's cash flow had deteriorated steadily since the end of calendar year 2007 due to, among other things, sharply weakened General Fund revenues and limited access to credit markets.

February 19, 2009. The California Legislature voted to approve a budget package (the "Budget Package") addressing the State's $42 billion deficit, which includes $15 billion in State spending reductions, $12.8 billion in temporary tax increases (including an increase in the vehicle license fee and an increase in State sales and income taxes), $11.4 billion in borrowing and a $1 billion reserve. The Budget Package includes revisions to the 2008-09 Budget (the "current year") and adoption of the 2009-10 Budget, covering a 17 month period ending July 1, 2010 (the "budget year"), addressing spending reductions, revenue increases, economic stimulus and increasing governmental efficiency. Certain measures contained in the Budget Package required voter approval at a special Statewide election which was held on May 19, 2009. Because the voters rejected the three propositions on the special election ballot that would have helped balance the State's budget, there will need to be further revisions to the Budget (see "May 14, 2009 Budget Revision" below). Key provisions of the Budget Package currently are: Key provisions of the Budget Package are:

Education Spending Reductions. Significant Proposition 98 related reductions, consisting of approximately $7.4 billion in reductions in Proposition 98 funding in 2008-09 compared to the adopted 2008-09 Budget Act, through $2.4 billion in program reductions and savings and $5 billion in Proposition 98 funding deferrals and fund swaps. The 2009-10 Budget provides for $400 million in fund swaps and a total Proposition 98 funding of $55.3 billion, which is $400 million less than the total amount proposed in 2008-09.

Health and Human Services Reductions. Approximately $1.6 billion in reductions by eliminating cost of living increases, cutting payments to certain centers serving the disabled, reducing monthly public assistance benefit payments, and delaying projects.

State Employee Payroll Reductions. Approximately $1.4 billion in reductions by implementing furloughs, reductions in overtime, and elimination of some State paid holidays.

Sales Tax Increase. A one cent increase in the State sales tax, generating approximately $5.9 billion (2 years).

Vehicle License Fee Increase. Increasing the fee from 0.65% to 1.15% (2 years).

State Personal Income Tax Increase. Imposing a 0.25% surcharge on personal income tax and reducing the dependent tax credit (two years).

State Lottery. Provisions modernizing the State Lottery to generate approximately $5 billion in revenues in 2009-10.

Reducing State Categorical Funding for Education; Increasing Categorical Flexibility. Reductions in K-12 categorical programs estimated at approximately 15%. However, to mitigate program reductions, the budget provides for categorical funding flexibility over five years, allowing the transfer of funds from 40 categorical programs to the general fund, commencing in 2008-09. In addition, categorical ending balances can be used for general purpose activities in the current and budget year with certain exclusions.

K-12 Education. Additional detail on K-12 programs affected by the 2009-10 Budget follows:

Major Revenue Limit and Categorical Program Reductions. Provides $1.9 billion in K¬12 program reductions split evenly between revenue limits and categorical programs in the current year. These reductions continue in the budget year, growing to $2.4 billion. More than 50 categorical programs will be subject to across the board reductions that will be allocated proportionally at roughly 15%.

Categorical Flexibility. Allows local educational agencies to transfer unlimited funds from more than 40 categorical programs to their general purpose accounts.

Cost of Living Adjustments (COLA). Eliminates $247 million for a partial COLA for K¬12 revenue limits in 2008-09, saving approximately $2.5 billion.

Payment Deferrals. In current year extends $2.8 billion in existing payment deferrals for K-14 education from April to July 2009 and recognizes these payments for purposes of Proposition 98; in budget year, shifts an additional $2.7 billion in K-14 payments from July and August to October 2009.

Additionally, the 2009-10 Budget funds of K-12 home to school transportation through swaps from the Public Transportation Account and the Mass Transportation Fund, allows prior year categorical fund balances to be used for general purpose activities in the current year and budget year, reduces the penalties for exceeding maximum class sizes for the next four years, suspends the statutory requirement to purchase newly adopted instructional materials, reduces routine maintenance reserve requirement from 3% to 1% for five years, suspends reserve and reporting maintenance for deferred maintenance for five years, eliminates all funding for the High Priority Schools Grant Program in the budget year and suspends annual funding for the Emergency Repair Program in the budget year.

February 13, 2009. The U.S. House of Representatives and the Senate approved the American Recovery and Reinvestment Act, which commits a total of $787 billion nationwide. A report issued by the LAO entitled "Federal Economic Stimulus Package: Fiscal Effect on California" estimates that the State will receive over $31 billion in aid and billions more in competitive grants. The LAO estimates that about $8 billion of these funds will be available in 2008-09 and 2009-10 to relieve the State's budgetary problems. Of this amount, the State's health programs will receive the largest share (about $9 billion) and education related programs will receive nearly $8 billion. Labor and workforce development and social services programs will receive about $6 billion and $3.5 billion, respectively. By April 1, 2009 the State Director of Finance and State Treasurer will recalculate the $8 billion estimate. If the amount is less than $10 billion, then annual State program reductions of nearly $1 billion and revenue increases of about $1.8 billion adopted as part of the 2009-10 Budget will go into effect.

February 20, 2009. The Governor signed the Budget Package. The Governor used his line item veto authority in an attempt to achieve $1 billion more in State General Fund savings in the 2009-10 Budget. This includes at lease a 10% reduction in expenditures for certain State offices through furlough days, elimination of positions, overtime reform and reducing paid State holidays, replacing State General Fund appropriations with respect to higher education with federal funds, and finding savings through reforms and cost saving measures with the California Department of Corrections and Rehabilitation.

March 13, 2009 LAO Report. On March 13, 2009, the LAO updated its revenue forecast and projects that revenues will fall short of the assumptions in the 2009-10 Budget by $8 billion and that number of the adopted solutions revenue increases and spending reductions are of a short term duration. Thus, without corrective actions, the State's huge operating shortfalls will reappear in future years growing from $12.6 billion in 2010 11 to $26 billion in 2013.

May 7, 2009 LAO Report. On May 7, 2009, the LAO reported that, as result of the budget and cash pressures of recent months, the General Fund's "cash cushion" the moneys available to pay State bills at any given time currently is projected to end fiscal year 2008-09 at a much lower level than normal. Without additional legislative measures to address the State's fiscal difficulties or unprecedented amounts of borrowing from the short term credit markets, the State will not be able to pay many of its bills on time for much of fiscal year 2009-10. Deterioration of the State's economic and revenue picture (such as the $8 billion revenue shortfall the LAO forecast in March 2009) or failure of measures in the May 19 special election would increase the State's cash flow pressures substantially—potentially increasing the short term borrowing requirement to well over $20 billion. The LAO concludes that the State is likely to have difficulty borrowing anywhere close to the needed amounts from the short term bond markets based on the State's own credit. The LAO advised the Legislature to reduce the State's short term borrowing need to an amount under $10 billion for fiscal year 2009-10, which would require pursuit of two options: (a) additional actions to increase revenues or decrease expenditures in order to return the fiscal year 2009-10 budget to balance; and (b) additional actions to delay or defer scheduled payments to schools, local governments, service providers, and others.

May 14, 2009 Budget Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts. On May 14, 2009, the Governor released the May Revision, which includes two alternative proposals to revise the State budget to address the State's increasing deficit. The specific proposal to be considered depended, in part, on the result of certain Statewide ballot measures decided by the voters on the May 19, 2009 special election ballot.

Because the voters of the State rejected the three propositions on the special election ballot that would have helped balance the State's budget, the Governor estimates a budget shortfall of $21 billion in 2009-10. The Legislature and the Governor will now need to agree to billions of dollars of additional spending cuts, tax increases, or other budgetary solutions to bring the budget back into balance. Proposals in the May Revision include various expenditure cuts, borrowings, and other measures. Such cuts and other measures may include reducing State payments to school districts by shortening the school year by five to seven and a half days, increasing class sizes and laying off additional teachers as needed to absorb reduced funding levels. Further details concerning the Governor's revised budget are expected to be available at http://www.ebudget.ca.gov/. The District cannot predict the exact impact any such budget reductions will have on its General Fund operating budget for the coming fiscal year.

May 21, 2009 LAO Report. On May 21, 2009, the LAO commented on the May Revision, stating that the Governor's estimate of a new $21 billion budget problem is reasonable and the May Revision proposals include major spending reductions and serious efforts for long–term State efficiencies and savings. The LAO reiterated that by acting quickly and reducing reliance on some of the Governor's riskiest proposals such as financing $5.5 billion of the deficit by issuing revenue anticipation warrants the Legislature can return the budget to balance, prevent another State cash crunch, and preserve core funding for what it deems to be California's long–term priorities. To accomplish these goals, the Legislature now needs to cut lower–priority programs substantially or eliminate them. To address significant budget deficits forecast in future years, the Legislature also needs to begin work this year on measures that further improve the efficiency of State services for 2010 11 and beyond.

Governor Declares Fiscal Emergency; State Begins Issuing IOUs. The Governor announced on July 1 that the budget deficit had grown by $2 billion to $26.3 billion due to the failure of State lawmakers to adopt immediate education cuts and money shifting plans by the June 30 fiscal year end. He has declared a fiscal emergency and ordered a Proposition 58 special session of the Legislature to solve the State's deficit within 45 days. The Governor ordered State employees to take three unpaid furlough days every month and proposed closing the additional $2 billion shortfall largely by cutting school spending even further, which would require suspension of Proposition 98. Due to the inability of the Legislature to close the deficit and address the State's cash crisis, on July 2 the State began issuing registered warrants, or IOU's, to several classes of creditors, including certain local governments. The registered warrants are expected to be redeemable in October, if the State treasury has enough money to cover them.

2009-10 State Budget Amendments. On July 24, the California legislature approved amendments to the 2009-10 budget involving 30 separate pieces of legislation to close the $26.3 billion shortfall in the State's 2009-10 general fund budget. The Governor signed the budget plan on July 28. Total general fund spending in 2009-10 will be more than $84 billion, down from nearly $91.7 billion in 2008-09 and nearly $103 billion in 2007 08. The budget amendments combine deep spending cuts, borrowing from local governments and accounting maneuvers.

The $15.3 billion in additional spending cuts include:

- $6.1 billion from the K-14 education budget.
- $2.8 billion from the California State University and University of California systems.
- $1.3 billion in savings by furloughing nearly 200,000 State workers three days out of each month.
- Approximately $3.2 billion from health and human services, including $1.3 billion in cuts to Medicaid.

The approved amendments include borrowing from local governments and various accounting maneuvers to generate additional revenues in the 2009-10:

- $2 billion borrowed from counties' property tax collections under provisions of Proposition 1A approved by the voters in 2004, but the State must repay counties with interest within three years.
- $1.7 billion shift from redevelopment agencies into State funds in exchange for extending the number of years the agencies could collect tax increment.
- $1 billion in revenues to be generated by selling a portion of the State Compensation Insurance Fund's workers' compensation insurance portfolio.

- $1.2 billion in savings from a one time deferment of State worker paychecks for one day, moving them into the next fiscal year.

- $1.7 billion in revenues by requiring taxpayers who make quarterly estimated payments to pay more in the first six months. This will result in lower revenues in the first half of the next fiscal year.

- $600 million in revenues by increasing income tax withholdings from paychecks. This allows the State to grab more tax revenue earlier but will result in lower revenue later due to higher tax refunds or less taxes owed.

The accounting shifts rely on the assumption that an economic recovery will be well underway in the next fiscal year and many economists believe that they will result in a huge budget shortfall next year. Additionally, borrowing revenues from local governments is likely to result in litigation.

The approved budget amendments discarded plans to take $1 billion in gasoline tax revenues from local governments and failed to approve $100 million in revenue from oil leases to be sold in the Santa Barbara Channel. Instead, the legislature intended the $1.1 billion difference was to be made up by tapping out the general fund reserve. The Governor, however, exercised his line item veto power to make nearly $500 million in additional cuts to social services, State prisons and higher education, and providing for a general fund reserve of $500 million.

K-14 Spending Cuts. Total Proposition 98 funding is reduced by $2.1 billion in 2008-09 and $4.5 billion in 2009-10 compared to the levels appropriated in the February Budget Act. However, Proposition 98 General Fund savings are $5.3 billion in 2009-10 because of the property tax shift of $850 million from redevelopment agencies to schools.

Additional detail with respect to the effect of the budget amendments relating to K-14 education follows:

- A $1.6 billion "recapture" of 2008-09 categorical funding for schools that had been appropriated but not actually sent to districts and county offices. This was seen as the only way to reduce funding for the fiscal year ending 2008-09, thereby lowering the base for 2009-10. To equalize the impact among all districts, the categorical cuts will be restored in 2009-10 and an equal amount of approximately $250 per ADA will be reduced from revenue limits Statewide.

- $2.4 billion from 2009-10 general purpose spending for local educational agencies resulting in cuts of approximately $390 per ADA.

- $1.7 billion of 2009-10 payments that will be deferred from April and May into August of fiscal year 2010 11.

Additional changes include provisions to permit school districts to reduce the number of school days by five days to 175 days through 2012 13 and lowering the reserve requirement for economic uncertainty to one third of the usual requirement.

Information about State budgets is regularly available at various State maintained websites. See: www.dof.ca.gov, under the heading "California Budget". Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the

District takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by these references.

Future Budgets. The District cannot predict what actions will be taken in the future by the Legislature and the Governor to address changing State revenues and expenditures. The State budget will be affected by national and state economic conditions and other factors over which the District will have no control. Continued State budget shortfalls in future fiscal years could have an adverse financial impact on the District.

Minimum Funding Guarantees for California School Districts Under Propositions 98 and 111

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual kindergarten through community college ("K-14") funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, changed some earlier school funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding "test" to calculate the annual funding guarantee. This third calculation is operative in years in which State general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see "—Calculating Minimum Funding Guarantee" below), the annual cost of living adjustment ("COLA") for the minimum guarantee for annual K-14 funding would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIIIB).

In addition to the various tests for calculating the minimum funding guarantee, the most significant provisions of Proposition 111 are summarized as follows:

(a) *Annual Adjustments to Spending Limit*. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

(b) *Treatment of Excess Tax Revenues*. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

(c) *Exclusions from Spending Limit*. Two exceptions were added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over $15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

(d) *Recalculation of Appropriations Limit*. The Article XIIIB appropriations limit for each unit of government, including the State, is to be recalculated beginning in Fiscal Year 1990-91. It is based on the actual limit for Fiscal Year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Under implementing legislation for Proposition 98 (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount of Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40%. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth (A.D.A.) and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3", provides an alternative calculation of the funding base in years in which State per-capita general fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita State general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of 1% of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 98, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

CONSTITUTIONAL AND STATUTORY PROVISIONS
AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Refunding Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY AND SOURCES OF PAYMENT" herein. Articles XIIIA, XIIIB, XIIIC and XIIID of the California Constitution, Propositions 62, 98, and 111 and certain other provisions of law are discussed in this Section to describe the potential effect of these constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Refunding Bonds. The tax levied by the County for payment of the Refunding Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978; (b) on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978; or (c) 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% or more of the votes cast of the proposition, but only if certain accountability measurers are included in the proposition. The tax for payment of the Refunding Bonds falls within the exception described in (b) of the immediately preceding sentence. In addition, Article XIIIA requires the approval of two-thirds of all members of the Legislature to change any State taxes for the purpose of increasing tax revenues.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIIIA.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula.

Article XIIIB of the California Constitution

Article XIIIB of the State Constitution ("Article XIIIB"), as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIIIB defines:

(a) "change in the cost of living" with respect to community college districts to mean the percentage change in California per capita income from the preceding year; and

(b) "change in population" with respect to a community college district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after December 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 Fiscal Year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIB limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service); and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes; (b) appropriations for debt service; (c) appropriations required to comply with certain mandates of the courts or the federal government; (d) appropriations of certain special districts; (e) appropriations for all qualified capital outlay projects as defined by the legislature; (f) appropriations derived from certain fuel and vehicle taxes; and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See "FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA—Minimum Funding Guarantees for California School Districts Under Propositions 98 and 111" above.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID, which contain a number of provisions affecting the ability of local agencies, including community college districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC 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 community college 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; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic one percent *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (a) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (b) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this Proposition are K–12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Property taxes may only exceed this limit to pay for (i) any local government debts approved by the voters prior to July 1, 1978 or (ii) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement applies only if the local bond measure presented to the voters includes: (a) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (b) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (c) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for a high school or elementary school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of this Proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for the property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 1A, 39, 55, 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. The nature and impact of these measures cannot be anticipated by the District.

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APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

December 1, 2009

Governing Board
Portola Valley School District
4575 Alpine Road
Portola Valley, California 94028

$__________
Portola Valley School District
(County of San Mateo, California)
2009 General Obligation Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel to the Portola Valley School District (the "District"), in connection with the issuance of its 2009 General Obligation Refunding Bonds, in the aggregate principal amount of $___________ (the "Bonds"), pursuant to Articles 9 and 11 of Chapter 3 (commencing with Section 53550) of Division 2 of Title 5 of the California Government Code (the "Act"), and a resolution of the Governing Board of the District (the "Board") adopted on October 21, 2009 (the "Resolution"). We have examined the constitution and the laws of the State of California (the "State"); the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations, rulings and judicial decisions relevant to the opinions set forth in paragraph 3 below; and such certified proceedings, certificates, documents, opinions and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law and as of the date hereof, that:

1. The Resolution has been duly adopted by the Board, and constitutes a valid and binding obligation of the District enforceable upon the District.

2. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of ad valorem taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

3. Under the laws, regulations, rulings and judicial decisions existing on the date hereof, interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in the federal alternative minimum

taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporation over the federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations. The opinions set forth in the preceding sentence assume the compliance by the District with certain requirements of the Code that must be met subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause such interest to be includible in gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. The District has covenanted in the Resolution and in the Tax Compliance Certificate executed and delivered in connection with the issuance of the Bonds to comply with such requirements. Although we are of the opinion that interest on the Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

4. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the holders of the Bonds and the enforceability of the Bonds and the Resolution may be 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, by the exercise by the State and its governmental bodies of the police power inherent in the sovereignty of the State and by the exercise by the United States of America of the powers delegated to it by the Constitution of the United States of America.

This opinion is given as of the date hereof and we assume no obligation to update, 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.

Respectfully submitted,

KUTAK ROCK LLP

APPENDIX C

EXCERPTS FROM THE DISTRICT’S 2007-08 AUDITED FINANCIAL STATEMENTS

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PORTOLA VALLEY SCHOOL DISTRICT
COUNTY OF SAN MATEO
PORTOLA VALLEY, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

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PORTOLA VALLEY SCHOOL DISTRICT

JUNE 30, 2008

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FINANCIAL SECTION

GOODELL, PORTER & FREDERICKS, LLP

CERTIFIED PUBLIC ACCOUNTANTS

RICHARD J. GOODELL, CPA
JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
BEVERLY A. SANCHEZ, CPA

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Education
Portola Valley School District
Portola Valley, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Portola Valley School District as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of *California Code of Regulations* Title 5 Education, Section 19810, and following. 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.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component unit are not presented.

The net contribution to the District during the current year from the legally separate component unit was $908,454.

1435 River Park Drive ▪ Suite 400 ▪ Sacramento, CA 95815 ▪ (916) 929-0264 ▪ FAX (916) 929-5179

In our opinion, because of the omission of the component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the component unit of the Portola Valley School District, as of June 30, 2008, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of omitting the component unit as discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the Portola Valley School District, as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Portola Valley School District at June 30, 2008 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on page 3 through 12 and the budgetary comparison information on pages 41 and 42 are not a required part 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, consisting 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, on our consideration of the Portola Valley School District internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal controls 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Portola Valley School District's basic financial statements. The accompanying statistical schedules, and combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements of Portola Valley School District. The statistical schedules, the schedule of expenditures of federal awards and the combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

December 9, 2008

The discussion and analysis of Portola Valley School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

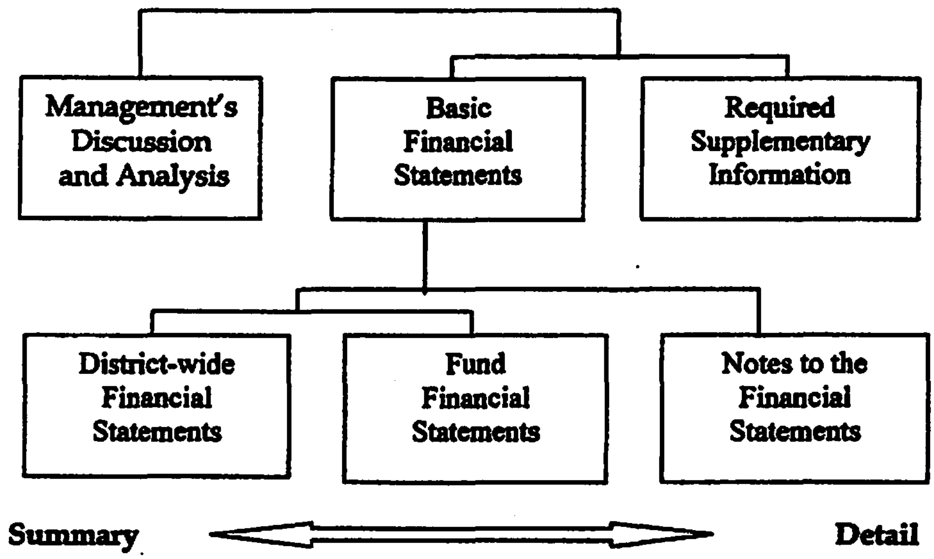
General Fund: A decrease in the fund balance in the amount of $2002 has been realized based on audited financial data. This amount is $54,891 less than what was presented in the Second Interim budget and is a result of higher-than-anticipated costs that were associated with the Governing Board election process and legal counsel.

Deferred Maintenance Fund: An increase in the fund balance in the amount of $24,986 has been realized. This increase is a result of funds received during the 2007-08 school year not being utilized, by design, until the summer of 2008 for replacement of the safety cushioning material underneath the Kindergarten playground equipment at Ormondale School.

Special Reserve for Other than Capital Outlay Projects: The fund balance in the "Board Special Reserve" decreased by $75,986 as a result of the transfer of funds to cover the cost of legal serves associated with a personnel matter.

Capital Facilities Fund: The fund balance in the "Developer Fee Fund" increased by $26,026 as a result not utilizing all funds that were received during the 2007-08 school year. These funds will be utilized during the 2008-09 school year to assist with the acquisition of technology equipment.

Components of the Financial Section



The first two statements are *district-wide financial statements,* the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the whole School District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's more significant funds with all other non-major funds presented in total in one column. A comparison of the District's general fund budget is included.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2007-08?"

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- Increases or decreases in the net assets of the District over time are indications of whether its financial position is improving or deteriorating, respectively.

- Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

- Governmental Funds

  Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, Special Reserve Fund for Other Than Capital Outlay Projects, and Bond Interest and Redemption Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

- Fiduciary Funds

  The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were $13.8 million at June 30, 2008.. Of this amount $1.3 million was unrestricted. Investments in capital assets, net of related debt, account for $11.1 million of the total net assets. A comparative analysis of government-wide data is presented in Table 1.

(Table 1)
Comparative Statement of Net Assets

	Governmental Activities	
	2008	2007
Assets		
Cash	$ 3,532,905	$ 3,096,320
Investments	1,368	
Receivables	622,297	757,712
Prepaid expenditures	78,697	41,071
Capital assets	31,941,242	32,642,068
Total assets	$ 36,176,509	$ 36,537,171
Liabilities		
Accounts payable and other current liabilities	$ 1,342,134	$ 968,270
Deferred revenue	231,599	40,301
Long-term liabilities	20,825,309	21,317,780
Total liabilities	$ 22,399,042	$ 22,326,351
Net Assets		
Invested in capital assets, net of related debt	$ 11,148,828	$ 11,330,507
Restricted	1,282,132	1,286,421
Unrestricted	1,346,507	1,593,892
Total net assets	$ 13,777,467	$ 14,210,820

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net asset position decreased $433 thousand this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 77% of total expenses. The purely administrative activities of the District accounted for just 8% of total costs. The remaining 15% was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo and depreciation. (See Figure 2).

(Table 2)
Comparative Statement of Change in Net Assets

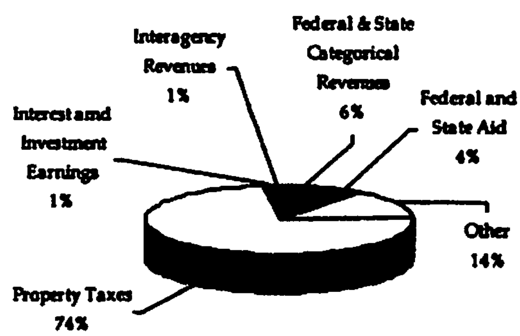
	Governmental Activities	
	2008	2007
Revenues		
Program revenues	$ 860,015	$ 926,658
General revenues		
Taxes levied for general purposes	7,430,798	6,991,873
Taxes levied for debt purposes	1,394,995	1,396,053
Taxes levied for other specific purposes	642,977	646,672
Federal and State Aid not restricted to specific purposes	564,761	548,864
Interest and investment earnings	86,543	148,992
Interagency revenues	57,750	110,000
Miscellaneous	1,768,137	1,326,984
Total revenues	12,805,976	12,096,096
Expenses		
Instruction	8,837,207	7,742,431
Instruction related services	1,059,095	1,529,181
Pupil support services	301,820	272,884
General administration	1,005,728	802,378
Plant services	838,007	922,249
Ancillary services	17,151	34,785
Interest & fiscal charges	1,161,347	861,819
Other	18,974	75,398
Total expenses	13,239,329	12,241,125
Increase (Decrease) in net assets	$ (433,353)	$ (145,029)

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

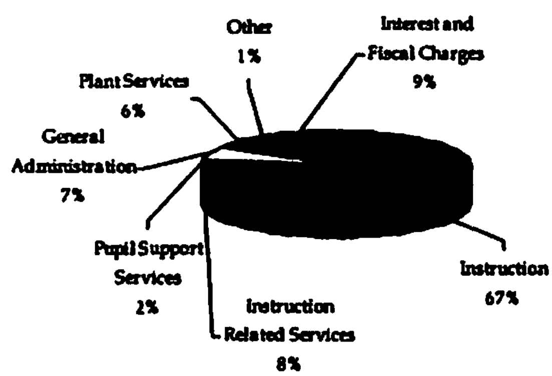
Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was $13 million. The amount that our local taxpayers financed for these activities through property taxes was $9.5 million. Federal and State aid not restricted to specific purposes totaled $565 thousand. State and Federal Categorical revenue totaled over $600 thousand, and covered 4.5% of the expenses of the entire District (See Figure 1).

Sources of Revenue for the 2007-08 Fiscal Year
Figure 1



Expenses for the 2007-08 Fiscal Year
Figure 2



FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of $3.1 million, a decrease of $72 thousand from the previous fiscal year's combined ending balance of $3.1 million. The General Fund balance decreased $2 thousand.

General Fund Budgetary Highlights

Over the course of the year, the District revised the Adopted Budget twice. In December, the First Interim Budget was approved by the Governing Board. This budget reflected changes that occurred since the adoption of the budget in June 2007. Significant changes included in the First Interim budget included actual amounts for property tax revenue based on the J-29B report furnished by the San Mateo County Office of Education, personnel costs based on actual staffing and updated costs associated with District legal matters. In February, the Second Interim budget was presented to the Governing Board for approval. This budget reflects changes that occurred since the adoption of the First Interim Budget in December. Significant changes included in this budget were the final costs associated with the settlement of the labor contracts with the Portola Valley Teachers' Association (PVTA) and the Portola Valley Classified Employees' Association.

Revenue and expenses associated with grants from the Portola Valley Schools Foundation endowment are added to both the First and Second Interim Budgets. Funds not fully utilized during the 2007-08 school year have been deferred to the 2008-09 school year for use as specified in the grant.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS (CONCLUDED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2007-08 fiscal year, the District had invested $31.9 million net of depreciation in a broad range of capital assets, including school buildings, site improvements, vehicles, and equipment. This amount represents a net decrease of $701 thousand over the previous fiscal year due to depreciation expense in excess of asset additions.

Table 3
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2008 and 2007

	2008	2007	Difference	Total Percent Change
Land	$ 4,172,050	$ 4,172,050	$ 0	
Site Improvements	14,579	15,437	(858)	-5.6%
Buildings	27,706,604	28,389,352	(682,748)	-2.4%
Machinery & Equipment	48,009	65,229	(17,220)	-26.4%
Total	$ 31,941,242	$ 32,642,068	$ (700,826)	-2.1%

Long-Term Debt

At June 30, 2008, the District had $20.1 million in long-term debt outstanding.

Table 4
Comparative Schedule of Outstanding Debt
June 30, 2008 and 2007

	2008	2007
General Obligation Bonds	$ 20,440,000	$ 20,895,000
Compensated Absences	32,895	6,219
Capital Leases	352,414	416,561
Total	$ 20,825,309	$ 21,317,780

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt (Concluded)

The District continues to maintain excellent credit ratings on all of its debt issues.

The long-term debt paid by the District was $644 thousand in 2008.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Portola Valley School District is not sheltered by adverse global economic conditions. Relatively flat growth in local property assessed valuation coupled with reductions in funding from the State of California may result in the need for the District to continue to reduce expenditures in the 2008-09 year and beyond. Additionally, the ability of the parent community to provide, through the Portola Valley Schools Foundation, private funding that equals almost 10% of the District's annual operating budget may be unrealistic on an on-going basis.

Unlike most other school districts in San Mateo County, the District has been experiencing enrollment growth in recent years. This has resulted in the creation of two new classroom teacher positions at a total additional annual cost of almost $215,000. In addition to recent actual enrollment growth, based on historical precedent, in challenging economic times, the District realizes enrollment growth as a result of families in the District choosing to have their children attend local rather than private schools.

The District has evidenced through its budget development process for the 2008-09 school year that it is capable of making difficult decisions that result in a sustainable operating budget. For the 2008-09 school year, the District a cost-reduction program that resulted in a decrease of over $500,000 in permanent operating expenses, primarily in personnel costs. The District is looking ahead to the 2009-10 school and making preliminary plans to make additional expenses reductions since preliminary forecasts indicate that an additional $500,000 in permanent cost reductions appear to be necessary in order to achieve a break-even budget.

Lastly, labor contract negotiations with the District's two bargaining units are not settled for the 2008-09 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Tim Hanretty, Portola Valley School District Business Office, 4575 Alpine Road, Portola Valley, CA 94028, (650)851-1777, extension 3000.

PORTOLA VALLEY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2008

				Governmental Activities
ASSETS				
Cash (Note 2)			$	3,532,905
Investments (Note 2)				1,368
Accounts Receivable (Note 4)				622,297
Prepaid Expenditures (Note 1H)				78,697
Capital Assets (Note 6):				
Land	$	4,172,050		
Sites and Improvements		17,153		
Buildings and Improvements		33,297,410		
Machinery and Equipment		127,772		
Less Accumulated Depreciation		(5,673,143)		
Total Capital Assets, Net of Depreciation				31,941,242
Total Assets			$	36,176,509
LIABILITIES				
Accounts Payable and Other Current Liabilities			$	1,342,134
Deferred Revenue (Note 1H)				231,599
Long-term Liabilities:				
Due Within One Year:				
Capital Lease Obligations (Note 10)	$	154,991		
General Obligation Bonds Payable (Note 10)		475,000		
Compensated Absences Payable (Note 10)		32,895		
Total Due Within One Year:				662,886
Due After One Year:				
Capital Lease Obligations (Note 10)		197,423		
General Obligation Bonds Payable (Note 10)		19,965,000		
Total Due After One Year:				20,162,423
Total Liabilities			$	22,399,042
NET ASSETS				
Invested in Capital Assets, Net of Related Debt			$	11,148,828
Restricted For:				
Capital Projects				71,279
Debt Service				1,085,724
Education Programs				125,129
Unrestricted				1,346,507
Total Net Assets			$	13,777,467

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Governmental Activities	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Instruction	$ 8,837,207	$ 197,520	$ 513,015	$ (8,126,672)
Instruction-related services:				
Supervision of instruction	83,556			(83,556)
Instructional library, media and technology	147,630			(147,630)
School site administration	827,909	43,589	14,778	(769,542)
Pupil Services:				
Home-to school transportation	32,256			(32,256)
Food services	37,821		3,355	(34,466)
All other pupil services	231,743	19,844	29,203	(182,696)
General administration:				
All other general administration	1,005,728			(1,005,728)
Plant services	838,007		37,720	(800,287)
Ancillary services	17,151			(17,151)
Interest on long-term debt	1,161,347			(1,161,347)
Other Outgo	18,974		991	(17,983)
Total Governmental Activities	$ 13,239,329	$ 260,953	$ 599,062	(12,379,314)

General Revenues:	
Property Taxes Levied For:	
General Purposes	7,430,798
Taxes Levied for Debt Services	1,394,995
Taxes Levied for Other Specific Purposes	
Other Specific Purposes	642,977
Federal and State Aid not Restricted	
to Specific Purposes	564,761
Interest and Investment Earnings	86,543
Interagencey Revenues	57,750
Miscellaneous	1,768,137
Total General Revenue	11,945,961
Change in Net Assets (Decrease)	(433,353)
Net Assets Beginning	14,210,820
Net Assets Ending	$ 13,777,467

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Special Reserve Fund for Other Than Capital Outlay	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in County Treasury (Note 2)	$ 207,104	$ 1,390,182	$ 1,078,504	$ 53,945	$ 2,729,735
Cash in Revolving Fund (Note 2)	900				900
Cash with Fiscal Agent (Note 2)	802,270				802,270
Investments (Note 2)	1,356	12			1,368
Accounts Receivable (Note 4)	574,065	10,933	7,220	30,079	622,297
Due From Other Funds (Note 5)	11,165			60	11,225
Prepaid Expenses (Note 1H)	78,697				78,697
Total Assets	$ 1,675,557	$ 1,401,127	$ 1,085,724	$ 84,084	$ 4,246,492
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	$ 122,455			$ 1,578	$ 124,033
Deferred Revenue (Note 1H)	231,599				231,599
Due to Other Funds (Note 5)	60			11,165	11,225
Tax Revenue Anticipation Notes	802,270				802,270
Total Liabilities	1,156,384			12,743	1,169,127
Fund Balances (Note 1H):					
Reserved	79,597		$ 1,085,724		1,165,321
Legally Restricted Balances	125,129				125,129
Unreserved:					
Undesignated	314,447	$ 1,401,127		71,341	1,786,915
Total Fund Balances	519,173	1,401,127	1,085,724	71,341	3,077,365
Total Liabilities and Fund Balances	$ 1,675,557	$ 1,401,127	$ 1,085,724	$ 84,084	$ 4,246,492

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balance – governmental funds		$ 3,077,365
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets $	$37,614,385	
and accumulated depreciation.	(5,673,143)	
		31,941,242
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(415,831)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General obligation bond payable	$20,440,000	
Compensated absences payable	32,895	
Capital leases payable	352,414	
		(20,825,309)
Total net assets-governmental activities		$ 13,777,467

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Revenue Limit Sources:					
State Apportionments	$ 143,647				$ 143,647
Local Sources	7,430,798				7,430,798
Total Revenue Limit	7,574,445				7,574,445
Federal Revenue	169,022				169,022
Other State Revenue	720,650		$ 5,029	$ 37,720	763,399
Other Local Revenue	2,779,242	$ 56,126	1,413,374	50,368	4,299,110
Total Revenues	11,243,359	56,126	1,418,403	88,088	12,805,976
EXPENDITURES					
Certificated Salaries	5,683,100				5,683,100
Classified Salaries	1,915,051				1,915,051
Employee Benefits	2,042,272				2,042,272
Books and Supplies	661,761			57,816	719,577
Services and Other Operating Expenditures	803,521			42,404	845,925
Debt Service:					
Principal Retirement	189,163		455,000	240	644,403
Interest and Fiscal Charges	19,299		1,008,566		1,027,865
Total Expenditures	11,314,167	0	1,463,566	100,460	12,878,193
Excess of Revenues Over (Under) Expenditures	(70,808)	56,126	(45,163)	(12,372)	(72,217)
Other Financing Sources (Uses):					
Operating Transfers In (Note 5)	143,356			74,550	217,906
Operating Transfers Out (Note 5)	(74,550)	(132,112)		(11,244)	(217,906)
Total Other Financing Sources (Uses)	68,806	(132,112)	0	63,306	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(2,002)	(75,986)	(45,163)	50,934	(72,217)
Fund Balances - July 1, 2007	521,175	1,477,113	1,130,887	20,407	3,149,582
Fund Balances - June 30, 2008	$ 519,173	$ 1,401,127	$ 1,085,724	$ 71,341	$ 3,077,365

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - Total governmental funds		$(72,217)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Depreciation expense:	$(700,826)	
		(700,826)
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		644,163
Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:		(125,016)
Unmatured interest on long-term debt: In governmental funds interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period owing from the prior period, was:		(152,781)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(26,676)
Total change in net assets-governmental activities		$(433,353)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

		Agency Fund
ASSETS		
Cash in Hand and in Bank (Note 2)	$	4,297
Total Assets	$	4,297
LIABILITIES		
Liabilities:		
Due to Student Groups	$	4,297
Total Liabilities	$	4,297
NET ASSETS	$	0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

A. Reporting Entity

The governing authority of the District consists of five elected officials who, together, constitute the Board of Education. The District provides educational services to grades kindergarten through eighth and operates one elementary school and one middle school. The District includes all funds that are controlled by or dependent on the District's governing board for financial reporting purposes.

Component Units:

The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. Criteria considered in the determination of component units includes but is not limited to:

Materiality of the entity to the primary government
Selection of governing authority
Accountability for fiscal matters
Ability of the component unit entity to significantly influence operations

Accordingly, for the year ended June 30, 2008, the District considers the Portola Valley School District Foundation, a nonprofit public benefit corporation, to be a component unit. Financial information for the Foundation was not available for inclusion in the audit report. The contribution to the District by the Foundation in the current year was $965,000 (8.6% of General Fund revenue) and is included in the District's financial statements as local revenue in the General Fund.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District and its component units.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

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

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

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

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

Revenues - exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

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

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Fund Accounting

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

MAJOR GOVERNMENTAL FUNDS:

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

Special Reserve Fund for Other Than Capital Outlay Projects is used to account for the receiving and expending of funds as specified by the Board of Trustees of the District and to cover unexpected costs.

Bond Interest and Redemption Fund is maintained for repayment of bonds issued for the District.

NON-MAJOR GOVERNMENTAL FUNDS:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintained two non-major special revenue funds:

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

NON-MAJOR GOVERNMENTAL FUNDS (CONCLUDED):

1. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.

2. Deferred Maintenance Fund is used to account for the purpose of major repairs or replacement of District property.

Capital Project Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains three non-major capital projects funds:

1. Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

2. County School Facilities Fund is used to account for the proceeds from the State of California for approved school modernization projects. This fund was closed during 2007-2008.

3. Special Reserve Fund for Capital Outlay Projects is used to account for the expenditures related to various District projects. This fund was closed during 2007-2008.

Debt Service Funds are used to account for payment of principal and interest on general long-term debt.

1. The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. The indebtedness relating to these apportionments is fully paid.

FIDUCIARY FUNDS:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale and educational experience of the student body. The amounts reported for student body funds represent the combined total of all accounts within the District.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised are presented for the General Fund.

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

F. 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.

G. Estimates

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

H. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to $100,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investments losses are proportionately shared by all funds in the pool.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

The county is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county either are secured by federal depository insurance or are collateralized.

Investments Valuation - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. However, the District's financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial.

2. Prepaid Expenditures

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

3. Capital Assets

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over an estimated useful life of 5-50 years depending on the asset class.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

All vacation pay is accrued and paid when incurred in the government-wide financial statements. Liability for these amounts is reported in the governmental funds as carryover occurs.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense 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 when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

7. Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

8. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

9. Fund Balance Reserves and Designations

The District's fund balances at June 30, 2008 consisted of the following:

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Bond Interest and Redemption Fund	Other Governmental Funds	Total
Reserved For:					
Revolving Fund	$ 900				$ 900
Prepaid Expenditures	78,697				78,697
Legally Restricted Balances	125,129				125,129
Debt Service			$ 1,085,724		1,085,724
Unreserved:					
Undesignated, Reported in:					
General Fund	314,447				314,447
Special Revenue Funds		$ 1,401,127		$ 39,686	1,440,813
Capital Projects Funds				31,593	31,593
Debt Service Funds				62	62
Total Fund Balances	$ 519,173	$ 1,401,127	$ 1,085,724	$ 71,341	$ 3,077,365

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and prepaid expenditures reflects the portions of fund balance represented by revolving fund cash and prepaid expenditures, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Liabilities and Equity (Concluded)

10. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

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

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

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. However, because the District is funded under basic aide funding provisions, the state does not have a revenue limit obligation.

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

NOTE 2 - CASH AND INVESTMENTS

A. The District had the following cash and investments at June 30, 2008:

	Fair Value	Carrying Amount	Credit Quality Rating
Cash on Hand and in Bank	$ 4,297	$ 4,297	Not Rated
Cash in Revolving Fund	900	900	Not Rated
Cash in County Treasury	2,723,206	2,729,735	Not Rated
Cash with Fiscal Agent	802,270	802,270	Not Rated
Total Cash	3,530,673	3,537,202	
Investments			
Investments in County Treasury	1,365	1,368	
Total Investments	1,365	1,368	
Total Cash and Investments	$ 3,532,038	$ 3,538,570	

Cash on Hand, In Banks and in Revolving Fund

Cash balances in banks, and revolving funds are insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC). These amounts are held within various financial institutions. As of June 30, 2008, the carrying amount of the District's accounts was $5,197.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as part of the common investment pool, which totaled $2,729,735 as of June 30, 2008. The fair market value of this pool as of that date, as provided by the pool sponsor, was $2,723,206. The District is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds. The county is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

B. Investments

The District is authorized by State statutes and in accordance with the District's Investment Policy (Policy) to invest in the following:

- Securities issued or guaranteed by the Federal Government or its agencies
- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts required to be on deposit with the San Mateo County Treasurer for payments on the District's 2008 Tax Revenue and Anticipation Notes (TRANS).

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2008:

Governmental Activities	Fiduciary Funds Statement of Net Assets	Total
$3,534,273	$4,297	$3,538,570

D. Risk Disclosure

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy required that at least 30% of the District's investment portfolio mature in less than one year. Additional limitations are that the average maturity of the investment portfolio will not exceed three years, and no investment will have a maturity of more than five years from its date of purchase. At June 30, 2008, the District had the following investment maturities:

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less than 1	1 or More
County Treasury	$ 2,723,206	$ 1,888,543	$ 834,663
Total	$ 2,723,206	$ 1,888,543	$ 834,663

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2008 excess of expenditures over appropriations in individual funds are as follows:

Fund	Excess Expenditures
Major Governmental Funds:	
General Fund	
Contract Services and Other Operating Expenditures	$ 21,157

The District incurred unanticipated election expenditures for which the budgets were not revised.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 consist of the following:

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Bond Interest and Redemption Fund	All Other Governmental Funds	Total
Federal Government					
Categorical Aid Programs	$ 57,480				$ 57,480
State Government					
Revenue Limit	35,329				35,329
Categorical Aid Programs	15,917				15,917
Lottery	42,872				42,872
Other				$ 25,710	25,710
Total State Government	94,118			25,710	119,828
Local Government	170,083				170,083
Interest	9,339	$ 10,933	$ 7,220	189	27,681
Miscellaneous	243,045			4,180	247,225
Total Accounts Receivable	$ 574,065	$ 10,933	$ 7,220	$ 30,079	$ 622,297

NOTE 5 - INTERFUND TRANSACTIONS

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

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2007-2008 fiscal year were as follows:

Funds	Transfers In	Transfers Out
General Fund	$ 143,356	$ 74,550
Special Reserve Fund for Other Than Capital Outlay Projects		132,112
Non-Major Governmental Funds:		
Cafeteria Fund	44,640	11,165
Deferred Maintenance Fund	29,670	
County School Facilities Fund		1
Special Reserve Fund for Capital Outlay Projects		78
Tax Override Fund	240	
Total	$ 217,906	$ 217,906

Transfer of $1 from the County School Facilities Fund to the General Fund to close fund.

Transfer of $132,112 from the General Fund to the Special Reserve Fund for Other Than Capital Outlay Projects for legal costs.

Transfer of $44,640 from the General Fund to the Cafeteria Fund to cover current year expenses.

Transfer of $29,670 from the General Fund to the Deferred Maintenance Fund to support state match requirements.

Transfer of $78 from the Special Reserve Fund for Capital Outlay Projects to the General Fund to close fund.

NOTE 5 - INTERFUND TRANSACTIONS (CONCLUDED)

Interfund Transfers (Concluded)

Transfer of $240 from the General Fund to the Tax Override Fund to make current year payments on State School Building loan.

Interfund Receivables/Payables (Due From/Due To)

Individual fund interfund receivable and payable balances at June 30, 2008 are as follows:

Funds	Interfund Receivables	Interfund Payables
General Fund	$ 11,165	$ 60
Non-Major Governmental Funds		
Cafeteria Fund		11,165
Tax Override Fund	60	
Totals	$ 11,225	$ 11,225

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008, is shown below:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 4,172,050			$ 4,172,050
Total capital assets, not being depreciated	4,172,050			4,172,050
Capital assets being depreciated:				
Site Improvements	17,153			17,153
Buildings	33,297,410			33,297,410
Equipment	127,772			127,772
Total capital assets, being depreciation	33,442,335			33,442,335
Less accumulated depreciation for:				
Site Improvements	1,716	$ 858		2,574
Buildings	4,908,058	682,748		5,590,806
Equipment	62,543	17,220		79,763
Total accumulated depreciation	4,972,317	700,826		5,673,143
Total capital assets, being depreciated, net	28,470,018	(700,826)	$ 0	27,769,192
Governmental activities capital assets, net	$ 32,642,068	$ (700,826)	$ 0	$ 31,941,242

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	$547,460
Instructional supervision and administration	74,478
Instructional library, media and technology	41,759
School site administration	3,651
All other pupil services	5,242
All other general administration	28,236
Total	$700,826

NOTE 7 - BONDED DEBT

On August 1, 1998, the District issued $6,000,000 of Series 1998 General Obligation Bonds. The bonds were issued as fully registered bonds, without coupons with maturity dates of August 1, 1999 through August 1, 2020. The bond proceeds were used by the District to upgrade and modernize schools and for the acquisition of and improvements to real property for school purposes.

The District issued $11,000,000 of Series 2001 Bonds on February 1, 2001, the proceeds of the bonds were used to fund the acquisition of and improvements to real property for authorized school purposes.

The District issued $6,000,000 of Series 2002 Bonds on March 1, 2002, the proceeds of the bonds were used to fund modernization projects at Corte Madera School and Ormondale School.

The outstanding general obligation bonded debt of the Portola Valley School District at June 30, 2008 is:

Date of Issue	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 01, 2007	Redeemed Current Year	Outstanding June 30, 2008
1998	4.9-5.0	2029	$ 6,000,000	$ 5,140,000	$ 135,000	$ 5,005,000
2001	4.3-4.9	2030	11,000,000	10,035,000	225,000	9,810,000
2002	4.25-5.25	2032	6,000,000	5,720,000	95,000	5,625,000
Total			$ 23,000,000	$ 20,895,000	$ 455,000	$ 20,440,000

NOTE 7 - BONDED DEBT (CONCLUDED)

The annual requirements to amortize general obligations bonds payable outstanding as of June 30, 2008 are as follows:

Year Ended June 30	Principal	Interest	Total
2009	$ 475,000	$ 986,955	$ 1,461,955
2010	495,000	964,542	1,459,542
2011	520,000	941,210	1,461,210
2012	545,000	916,661	1,461,661
2013	570,000	890,886	1,460,886
2014-2018	3,265,000	4,023,865	7,288,865
2019-2023	4,120,000	3,149,578	7,269,578
2024-2028	5,235,000	2,000,033	7,235,033
2029-2032	5,215,000	547,674	5,762,674
Totals	$ 20,440,000	$ 14,421,404	$ 34,861,404

NOTE 8 - CAPITAL LEASES

The District leases equipment valued at $729,441 under lease agreements, which provide for title to pass upon expiration of the lease periods. Future minimum lease payments under these agreements are as follows:

Year Ended June 30	Lease Payment
2009	$ 190,809
2010	154,859
2011	34,175
Total	379,843
Less amount equal to interest	27,429
Net capital lease payable	$ 352,414

NOTE 10 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008, is shown below:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due Within One Year
General Obligation Bonds	$ 20,895,000		$ 455,000	$ 20,440,000	$ 475,000
Compensated Absences	6,219	$ 26,676		32,895	32,895
Capital Leases	416,561	125,016	189,163	352,414	154,991
Other General Long Term Debt		240	240		
Total	$ 21,317,780	$ 151,932	$ 644,403	$ 20,825,309	$ 662,886

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer contributory retirement 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).

A. State Teachers' Retirement System (STRS)

Plan Description. The Portola Valley School 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, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy. Active plan members are required to contribute 8.0% of their salary and the Portola Valley School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2008 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Portola Valley School District's contributions to STRS for the fiscal year ending June 30, 2008, 2007, and 2006 were $459,722, $415,457 and $409,255, respectively, and equal 100% of the required contributions for each year.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees Retirement System (CalPERS)

Plan Description. The Portola Valley School 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 P Street - Sacramento, CA 95814.

Funding Policy. Active plan members are required to contribute 7.0% of their salary, which Portola Valley School District contributes on their behalf. The Portola Valley School 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 2007-2008 was 9.306% of annual payroll. The contribution requirements of the plan members are established by State statute. The Portola Valley School District's employer contributions to CalPERS for the fiscal year ending June 30, 2008, 2007 and 2006 were $167,193, $279,680 and $132,946, respectively, and equal 100% of the required employer contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security.

D. On Behalf Payment

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS and contributions to PERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 11, the District has entered into agreements with former employees to provide health and welfare benefits for five years for all employees who retire from the District on or after attaining the age of 55 with at least 10 years of service. On June 30, 2008, ten retirees met these eligibility requirements.

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONCLUDED)

The liability to the District is as follows:

Year Ending June 30	Amount
2009	$ 65,015
2010	56,543
2011	32,797
2012	14,366
Total	$ 168,721

The District has not had an actuarial study performed to determine the future costs to the District for providing retiree benefits and funds the benefits on a "pay-as-you-go" basis. The District has not contributed irrevocably to a separate trust for the retiree benefit plan and the future liability was not reported in the long-term debt by the District. The District paid $69,973 for ten eligible retirees for the fiscal year ended June 30, 2008.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards and Grants

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

NOTE 14 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District participates in one joint venture under a joint powers agreement (JPA) with San Mateo County Schools Insurance Group for Property & Liability, Workers' Compensation and Medical/Dental. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and/or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of its JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

NOTE 15 - SUBSEQUENT EVENT

A. On July 1, 2008 the District issued $1,425,000 of tax revenue anticipation notes. The notes mature July 1, 2009 and are priced to yield 1.650%. The notes were sold to supplement cash flow.

B. As discussed in Note 2, the District is considered to be an involuntary participant in an external investment pool with the County Treasury. The District reported cash in County Treasury in these financial statements on June 30, 2008 at cost, which was 100.2% of the fair market value of this investment pool. The cost of the pool was 101.3% of fair market value on September 30, 2008, a decrease of 1.1%. No adjustment has been made to these financial statements as a result of this decrease.

NOTE 16 - STATE SCHOOL BUILDING REPAYMENT TAX LEVY

During fiscal year 1987-1988 the District received a Rehabilitation and Replacement of Structurally Inadequate School Facilities loan from the State School Building Aid Fund. Repayment for the loan is taken in accordance with Education Code section 16080 and is deducted from the District's school apportionment. The balance of the loan at June 30, 2008 was $441. The total payment made during fiscal year 2007-2008 was $240, including interest of 5.50%.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Positive-(Negative)
REVENUES				
Revenue Limit Sources:				
State Apportionments	$ 179,543	$ 146,117	$ 143,647	$ (2,470)
Local Sources	7,445,320	7,456,837	7,430,798	(26,039)
Total Revenue Limit	7,624,863	7,602,954	7,574,445	(28,509)
Federal Revenue	171,502	167,534	169,022	1,488
Other State Revenue	830,515	706,717	720,650	13,933
Other Local Revenue	2,167,086	2,791,298	2,779,242	(12,056)
Total Revenues	10,793,966	11,268,503	11,243,359	(25,144)
EXPENDITURES				
Certificated Salaries	5,394,428	5,683,100	5,683,100	
Classified Salaries	1,705,984	1,915,051	1,915,051	
Employee Benefits	1,638,138	2,051,819	2,042,272	9,547
Books and Supplies	1,021,136	673,503	661,761	11,742
Services and Other Operating Expenditures	956,116	782,364	803,521	(21,157)
Debt Service:				
Principal Retirement		189,163	189,163	
Interest and Fiscal Charges		19,299	19,299	
Total Expenditures	10,715,802	11,314,299	11,314,167	132
Excess of Revenues Over (Under) Expenditures	78,164	(45,796)	(70,808)	(25,012)
Other Financing Sources (Uses):				
Operating Transfers In	45,000	177,112	143,356	(33,756)
Operating Transfers Out	(71,140)	(74,550)	(74,550)	
Total Other Financing Sources (Uses)	(26,140)	102,562	68,806	(33,756)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	52,024	56,766	(2,002)	(58,768)
Fund Balances - July 1, 2007	531,674	521,175	521,175	0
Fund Balances - June 30, 2008	$ 583,698	$ 577,941	$ 519,173	$ (58,768)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
SPECIAL RESERVE FUND FOR OTHER THAT CAPITAL OUTLAY
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Positive-(Negative)
REVENUES				
Other Local Revenue	$ 63,292	$ 63,292	$ 56,126	$ (7,166)
Other Financing Sources (Uses):				
Operating Transfers Out		(132,112)	(132,112)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	63,292	(68,820)	(75,986)	(7,166)
Fund Balances - July 1, 2007	1,353,833	1,477,113	1,477,113	
Fund Balances - June 30, 2008	$ 1,417,125	$ 1,408,293	$ 1,401,127	$ (7,166)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

APPENDIX D

FORM OF
CONTINUING DISCLOSURE CERTIFICATE

$__________
PORTOLA VALLEY SCHOOL DISTRICT
(County of San Mateo, California)
2009 General Obligation Refunding Bonds

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Portola Valley School District (the "Issuer") in connection with the issuance of $__________ 2009 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Governing Board adopted October 21, 2009 (the "Resolution"). The Issuer covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" shall mean Keygent LLC, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"*EMMA system*" shall mean the MSRB's Electronic Municipal Market Access System, or such other electronic system designated by the MSRB.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"*Rule*" shall mean 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.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Issuer's fiscal year (which currently would be March 31), commencing with the report for the 2008-2009 Fiscal Year, provide to the MSRB through the

EMMA system, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer 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 not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) With respect to the Annual Report, the Dissemination Agent shall:

(i) if the Dissemination Agent is other than the Issuer, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

Section 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles, as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), 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) Adopted Budget for the current fiscal year.

(c) To the extent not set forth in the Issuer's audited financial statements, (i) information relating to average daily attendance, (ii) information relating to the Issuer's outstanding debt, (iii) information relating to total assessed valuations of taxable properties within the Issuer, and (iv) information relating to secured tax charges and delinquencies.

(d) In addition to any of the information expressly required to be provided under paragraphs (a), (b) and (c) of this Section 4, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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 Issuer or related public entities, which 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 Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) Principal and interest payment delinquencies.

(ii) Non payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax exempt status of the security.

(vii) Modifications to rights of security holders.

(viii) Contingent or unscheduled bond calls.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Issuer shall promptly file a notice of such occurrence with the MSRB through the EMMA system. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) 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 pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The Issuer 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.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer 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 Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer 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 Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder 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 Issuer 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 in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. 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 Issuer 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 attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: December 1, 2009

PORTOLA VALLEY SCHOOL DISTRICT

By ____
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Portola Valley School District

Name of Bond Issue: 2009 General Obligation Refunding Bonds

____

Date of Issuance: December 1, 2009

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Issuer's Resolution adopted October 21, 2009. The Issuer anticipates that the Annual Report will be filed by ______________.

Dated: ____________________________

PORTOLA VALLEY SCHOOL DISTRICT

By ____

APPENDIX E

ECONOMIC AND DEMOGRAPHIC PROFILES OF THE COUNTY OF SAN MATEO AND THE CITY OF PORTOLA VALLEY

The information in this Section regarding economic activity within the County of San Mateo (the "County"), in which the District is located, is provided as background information only to describe the general economic health of the region. However, the District encompasses a relatively small area within the County, and the property tax required to be levied by the County to repay the Refunding Bonds will be levied only on property located in the District.

Introduction

The County is located in the San Francisco Bay Area. It covers most of the San Francisco Peninsula just south of San Francisco, and north of Santa Clara County. San Francisco International Airport is located at the northern end of the county, and Silicon Valley begins at the southern end. The City of Portola Valley (the "City"), is one of twenty incorporated cities in the County. The City is located on the eastern slope of the Peninsula Coastal Range of the Santa Cruz Mountains, and is in a mostly wooded area, with some open plains.

The County and the City have seen steady population increase over the years, and continues on an upward trend.

Population Characteristics

The following table lists population figures for the City, the County and the State of California for the last ten years.

Population

Year	City of Portola Valley	County of San Mateo	State of California
2000	4,462	707,163	33,873,086
2001	4,474	712,289	34,430,970
2002	4,486	714,453	35,063,959
2003	4,483	715,898	35,652,700
2004	4,522	717,653	36,199,342
2005	4,525	720,042	36,676,931
2006	4,548	722,994	37,086,191
2007	4,589	728,314	37,472,074
2008	4,625	736,951	37,883,992
2009	4,671	745,858	38,292,687

Source: State of California, Department of Finance

Industry and Employment

With respect to the County, the State and the Unites States, the following table summarizes the civilian labor force, employment and unemployment for the years 2004 through 2008. Because the County is agriculturally oriented, it tends to have greater seasonal variations in employment and higher unemployment rates.

County of San Mateo, State of California, and United States
Labor Force, Employment and Unemployment
2004-2008

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
2004				
San Mateo County	362,900	345,200	17,700	4.9%
State of California	17,444,400	16,354,800	1,089,700	6.2
United States	148,034,000	140,435,000	7,598,000	5.1
2005				
San Mateo County	362,300	346,800,	15,500	4.3
State of California	17,629,200	16,671,900	957,200	5.4
United States	150,139,000	143,075,000	7,064,000	4.7
2006				
San Mateo County	367,700	354,200	13,500	3.7
State of California	17,821,100	16,948,400	872,700	4.9
United States	152,519,000	146,073,000	6,446,000	4.2
2007				
San Mateo County	373,400	359,100	14,200	3.8
State of California	18,078,000	17,108,700	969,300	5.4
United States	153,752,000	146,731,000	7,020,000	4.6
2008				
San Mateo County	384,400	366,100	18,200	4.7
State of California	18,391,800	17,059,600	1,332,300	7.2
United States	154,661,000	144,500,000	10,161,000	6.6

Source: California State Employment Development Department and U.S. Bureau of Labor Statistics

The following table shows the annual average industry employment for the County between 2003 and 2007.

County of San Mateo
Annual Average Industry Employment
2003-2007

Industry	2003	2004	2005	2006	2007
Agriculture	2,600	2,200	1,900	1,900	2,000
Manufacturing	29,000	29,100	28,700	29,900	30,800
Trade, Transportation and Utilities	76,700	75,600	74,800	75,000	75,100
Wholesale Trade	12,100	11,600	11,600	12,300	12,200
Retail Trade	36,800	35,800	35,800	36,000	36,200
Information	22,500	21,100	20,500	18,500	17,400
Financial Activities	20,800	20,800	21,200	21,700	21,600
Professional and Business Services	55,200	57,000	59,500	61,300	63,400
Education and Health Services	4,600	30,200	30,200	21,400	32,100
Arts, Entertainment and Recreation	4,600	4,700	5,000	5,800	5,800
Other Services	11,400	11,000	10,900	11,000	11,800
Government	32,700	32,100	32,100	32,200	32,600
Total Wage and Salary*	329,100	327,500	327,500	334,100	340,500

* Totals may not add due to independent rounding.
Source: California Employment Development Department

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The following table sets forth the 25 major employers in the County in alphabetical order. The number of employees employed by each employer listed below is not readily available.

County of San Mateo
Major Employers

Employer Name	Industry
Applied Biosystems	Physicians Equipment and Supplies
Burlingame Millbrae Yellow Cab	Taxicabs and Transportation Service
Ceton Medical Center	Hospitals
Electronic Arts Inc.	Prepackaged Software
Franklin Resources Inc.	Investment Management
Franklin Templeton Group	Investment Management
Franklin Trust Co.	Mutual Funds
Genentech Inc.	Drug Millers
Guckenheimer Inc.	Food Service
Harris Stratex Networks	Publishers-Computer Software
Health Science Library	Services NEC
Kaiser Foundation Medical Group	Physicians and Surgeons
Kaiser Permanente Medical Center	Hospitals
Mills-Peninsula Health Service	Hospitals
Oracle Corp.	Computer Software
Peninsula Medical Center	Hospitals
Rudolph & Sletten Inc.	Building Contractors
San Mateo County Human Services	County Government
San Mateo Medical Center	Hospitals
Sing Shot LLC	Advertising NEC
Stanford Linear Accelerator	Research Service
U.S. Interior Department	Federal Government
Visa International Service Association	Credit Card-Merchant Services
Visa USA Inc.	Credit Cared and Other Credit Plans
West Bay Home Health Services	Home Health Service

Source: State of California, Employment Development Department

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Commercial Activity

The table below sets forth taxable sales in the County for 2003 through 2007.

County of San Mateo
Taxable Sales
(in thousands)

Category	2003	2004	2005	2006	2007
Apparel Stores Group	312,708	337,738	365,474	398,192	425,086
General Merchandise Stores	1,207,576	1,226,528	1,247,946	1,313,029	1,363,715
Specialty Stores	1,090,344	1,129,654	1,217,982	1,249,966	--
Food Stores	399,776	401,438	408,881	411,438	430,879
Eating and Drinking Group	951,632	1,019,966	1,111,150	1,158,608	1,245,105
Home Furnishings and Appliances	437,556	510,736	515,133	512,423	535,371
Building Materials and Farm Implements	797,381	915,860	929,948	908,205	846,050
Automotive Group	1,320,736	2,356,664	2,485,052	2,544,725	1,579,609
Service Stations	--	--	--	--	1,008,460
Other Retail Outlets	183,827	190,351	213,553	226,557	1,564,706
Retail Stores Total	7,701,536	1,088,935	8,495,119	8,723,143	8,998,981
Business & Personal Services	484,754	480,851	614,539	677,986	632,367
All Other Outlets	3,172,149	3,238,288	3,341,692	3,499,262	3,694,958
Total All Outlets	11,358,439	11,808,074	12,451,350	12,900,391	13,326,306

Source: California Board of Equalization

Construction Trends

Provided below are the building permits and valuations for the City for years 2004 through 2008.

City of Portola Valley
Building Permits and Valuations
For Fiscal Years 2004 through 2008

	2004	2005	2006	2007	2008
Valuation					
Residential					
New Single-Family	$ 6,101,290	$14,202,928	$12,638,170	$13,585,550	$ 8,058,048
New Multi-Dwelling	0	0	0	0	0
Additions and Alterations	6,777,968	7,060,728	8,277,553	10,840,315	7,704,058
Total Residential[1]	$12,879,258	$21,263,656	$20,915,723	$24,425,865	$15,762,106
Non-Residential					
New Commercial	$ 0	$ 0	$ 7,000,000	$ 0	$ 0
New Industrial	0	0	0	0	0
Other	1,686,350	10,258,147	1,520,400	1,379,139	1,710,013
Additions and Alterations	0	1,005,000	454,000	1,950,000	0
Total Non-Residential[1]	$ 1,686,350	$11,263,147	$ 8,974,400	$ 3,329,139	$ 1,710,013
Number of New Dwelling Units					
Single Family	7	12	9	10	5
Multi-Family	0	0	0	0	0
Total Units	7	12	9	10	5

Source: Construction Industry Research Board

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APPENDIX F

COUNTY OF SAN MATEO POOLED FUND INVESTMENT POLICY

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COUNTY OF SAN MATEO

POOLED FUND INVESTMENT POLICY

January 2008

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SAN MATEO COUNTY INVESTMENT POLICY

To meet the needs of liquidity and long term investing, the County has established the County Investment Pool. This fund is suitable for planned expenditures or capital funds. The securities in this pool may have longer individual maturities but will have a dollar weighted average maturity of no more than five years.

"Dollar weighted average portfolio maturity" means the sum of every portfolio investment multiplied by its respective number of years to maturity divided by the total amount of portfolio investments.

The responsibility for managing the San Mateo County investment program resides with the Treasurer. The investment program is supervised within the guidelines set forth in the investment policy developed by the Treasurer, reviewed and approved annually by the County Treasury Oversight Committee and the County Board of Supervisors.

This policy sets aside up to one million dollars for investment in banks whose primary operations are located in San Mateo County. Investments from this fund must meet the requirements of the California Government Code and any investment of more than $100,000 must be collateralized at a rate of 105% to 150% of the value of the deposit to guarantee the safety of the public funds.

Other socially responsible issues may be considered for inclusion in this investment policy: (1) so long as they are not inconsistent with generally accepted investment standards for the management of pooled public funds (Government Code 53601 & 53635) and (2) they remain within the guidelines of the "Prudent Person Rule".

Objectives of the Fund: Safety, Liquidity, Yield and Public Trust

1. ***Safety***

Preservation of principal is of primary importance. The objective is to minimize credit risk while recognizing and controlling market risk.

2. ***Liquidity***

The pool attempts to match maturities with capital expenditures and other planned outlays. The nature of the planning process behind these expenditures is relatively predictable and less volatile than is the case for pass-through money. This allows leeway for the underlying investments in the County Pool to have a longer duration. The County pool will maintain a dollar weighted average portfolio maturity of five years or less.

Funds deposited in the County pool may be reclaimed subject to the conditions of sections 27133 (h) and 27136 of the California Government Code at the rate of 20% of the principal balance per month, exclusive of apportionment, payroll and day-to-day operations, unless specifically authorized by the Treasurer.

Gains and losses in this fund will be proportionately allocated to each depositor. Each depositor is given credit for accrued interest earnings and capital gains based on their average daily pool balance as reported by the County Controller. Gains or losses will be attributed to the fund balance of each depositor quarterly. The minimum balance for an outside agency to maintain an account in the County pool is $100,000.

For those agencies requesting wire transfer of their apportionment money, or a portion thereof, the following conditions will apply. The County will only wire funds out for members who maintain an account in the County pool.

Moneys apportioned to voluntary participants who want their funds wired out will be held in a separate account and will be wired out the day after receipt of the funds. Wiring instructions must be received in the Treasurer's office 24 hours prior to the actual date of transfer. Wiring instructions must be signed by authorized signatories on file with the Treasurer's office.

3. ***Yield***

The County pool is designed as an income fund to maximize the return on investible funds over various market cycles, consistent with limiting risk and prudent investment principles. Yield will be considered only after the basic requirements of safety and credit quality have been met. The County pool is managed as an income fund whose purpose is to provide its investors with a reasonably predictable level of income, as opposed to a growth fund or fund measured in the basis of total return that could encounter negative returns.

4. ***Leverage***

The Treasurer shall not leverage the County pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy. Security lending is authorized by this policy and will be limited to a maximum of 20% of the portfolio.

5. ***Public Trust***

In managing the investment portfolio, the Treasurer shall exercise a degree of professionalism that will sustain public confidence in the County and pool participants, remembering that both investment instruments and the method of transacting investment business are subject to public scrutiny. The perception of safety and professionalism is as important as the reality of these concepts. To further public trust the investment officer is prohibited from doing personal business with brokers that do business with the County.

In the implementation of the Investment Policy, the County adheres to the guidance provided by the "Prudent Person Rule", whereby a fiduciary is obligated to ensure investments will be made with the exercise of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The Treasurer's office has created a synthetic index of securities, based on various readily available Merrill Lynch indices that parallel the pool's investment objectives. This index will be used as an artificial measure of the pool performance and the general interest rate outlook.

The allocation of the synthetic index is as follows:

30% 0-1 year U.S. Governments
20% 1-2.99 year U.S. Governments
20% 3-5 year U.S. Governments
10% 1-10 year U.S. Governments
20% 1-5 year Corporate Bonds

This Investment Policy must be reviewed and approved annually by the County Board of Supervisors. All amendments to this policy must be approved by the Board of Supervisors.

This Investment Policy and all subsequent amendments will be communicated by the Treasurer to the pool participants and acknowledged in writing.

Strategy: Allowable Instruments, Flexibility, Qualifications

Subject to the limitations set forth in California Government Code sections 53600 et seq., which may be amended from, time-to-time, the Treasurer may invest in the following instruments, subject to the limits of flexibility described on the following page:

INSTRUMENT	RATING	----------------	LIMITATIONS	------------
		% of Fund	% of Fund per Issuer	Maturity
U.S. Treasury Obligations		100	100	15 years
Obligations of U.S. Agencies or government sponsored enterprises		100	100	15 years
Bankers Acceptances *Domestic: ($500 million minimum assets) *Foreign: ($500 million minimum assets)	A1 / P1/ F1	 15 15	 10 10	 180 days 180 days

INSTRUMENT	RATING	------------------	LIMITATIONS	-----------------
		% of Fund	% of Fund per Issuer	Maturity
Collateralized time deposits within the state of CALIFORNIA		30	10	1 year
Negotiable certificates of deposit		30	10	5 years
*Commercial paper/Floating rate notes	A1 / P1/ F1	40	10	270 days or less
Repurchase agreements secured by U.S. Treasury or agency obligation (102% collateral)		100	50	1 year
Reverse Repurchase agreements		20	20	92 days
Corporate bonds and medium term notes including asset-backed bonds (two agencies)	A	30	10	5 years
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code section 53601		10	5	
Mortgage Backed Securities/CMO's: No Inverse Floaters No Range Notes No Interest only strips derived from a pool of Mortgages	A	20	5	5 years

Maturity and Average Life of the County Pool

The maximum allowable maturity of instruments in the County pool at the time of investment will be 15 years and the maximum dollar weighted average maturity of the fund will be 5 years. The focus of this fund is on income and value in the yield curve. On the basis of risk/reward, there is very little yield incentive to move out on the yield curve beyond intermediate maturities. The policy of maintaining a maximum dollar weighted maturity of five years leaves open the flexibility to take advantage of interest rate trends to maximize the return on investment. The imposed maximum five year average maturity limits the market risk to levels appropriate to an intermediate income fund. The word "Maturity" refers to the instrument's stated legal final redemption date - not coupons reset dates, put dates, or call dates.

Securities purchased specifically to match the maturity of a bond issue and/or a contractual arrangement must be authorized by Government Code 53601 and 53635 but are not included in the requirements listed above; such securities shall be clearly designated in the appropriate investment journals and reports.

Qualifications of all Instruments to be used as Investments in the County Pool

U.S. Treasury Obligations are obligations for which the full faith and credit of the United States Government are pledged for the payment of principal and credit.

Obligations of U.S. Agencies are debt instruments issued by a federal agency carrying a high credit rating because it is government sponsored, i.e. A and above.

Banker's Acceptances must be drawn on banks whose short term rating is A1/P1/F1 (S&P, Moody's, Fitch) or better whose long term rating is A or better by two of the three nationally recognized rating services (Moody's, S&P, Fitch) and rank among the largest 50 banks (in terms of asset size) in the world. Foreign banks with domestic licensed branches must be considered in light of their parent country's political and economic stability. Bankers' acceptances may not exceed 180 days in maturity. All things being equal, preference will be given to banks with branches in CALIFORNIA.

Collateralized C.D.s must comply with Bank Deposit Law Government Code section 16500 et seq. and 16600 et seq.

In addition, all recipient institutions must have a short term rating of A1/P1 or better and be rated A or better by two of the nationally recognized rating services.

Negotiable C.D.s issued by nationally or state chartered banks or by a domestic-licensed branch of a foreign bank, must have a short term rating of A1/P1 or better and have a long term rating of A or better by two of the three nationally recognized rating services, and must have a liquid secondary market. The following types of C.D.s are authorized by this Policy:

C.D. Type	Issuer
Domestic:	Domestic Offices of U.S. Banks
Yankee:	U.S. Branches of Foreign Banks
Eurodollar:	Issued in London by U.S. Banks
Thrift:	U.S. S & L's and Savings Banks

Commercial Paper must be rated A1/P1/F1 by at least two of the three nationally recognized rating services (S&P, Moody's, and Fitch). Eligibility is further limited to U.S. organized and operating corporations with assets in excess of $500 million, and having an A or better rating on the issuer's debt other than commercial paper and may not exceed 270 days maturity. Purchases may not represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper normally will not exceed 40% of the fund's investible money.

Corporate Floating Rate Notes will be analyzed/run to their reset date rather than final maturity date.

Repurchase Agreements will only be executed with dealers with whom the County has written agreements and who report to the Market Reports Division of the Federal Reserve Bank of N.Y., i.e. Primary Dealers, and will be collateralized at 102% of current value plus accrued interest and will be marked to market daily.
The collateral received must meet the requirements of the Pool's Investment Policy. These dealers shall not be entitled to Rights of Substitution except as authorized by the County. The maturity of the underlying collateral will be as specified in sections 53601 and 53635 of the California Government Code. For purposes of this section, the term "Repurchase Agreement" means a purchase of a security by the County pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underling securities to the County by book-entry, or by third-party custodial agreement. The custodian, in a tri-party repo, shall maintain a debt rating of at least A by one of the three nationally recognized rating services. When the transaction is unwound, the transfer of underlying securities will transfer back to the counter party's bank account and will be by book-entry. The term "Counter Party" means the other party to the transaction with the County. The term "Securities" in repurchase agreements means securities of the same issuer, description, issue date and maturity. The maximum term of a repurchase agreement shall not exceed one year.

Reverse Repurchase Agreements may be used so long as the securities purchased have a maximum maturity of 92 days, or maturity equal to or shorter than the stated final maturity of the security underlying the reverse repurchase agreement itself, and subject to the limitations of Government Code 53601 and 53635, with special attention to 53635.7. The term "Reverse Repurchase Agreement" means a sale of securities by the County pursuant to an agreement by which the County will repurchase such securities on or before a specified date and for a specified price.

Corporate Securities must be rated A or better by Moody's, Standard and Poors or Fitch. Corporate asset-backed securities must be issued by an issuer having an A or higher rating for the issuer's debt by two of the three nationally recognized rating services and the corporation must further be rated at least AA or its equivalent. Securities in this classification must be registered with the Securities and Exchange Commission and be publicly traded or at least have undergone shelf registration. The maximum maturity for any corporate securities purchased is five years. If a security is downgraded while in our portfolio, each case will be evaluated on its own merits (to hold or sell) and the investment committee will be notified.

Local Agency Investment Fund is an investment fund run by the Treasurer of the State of California to pool local agency investments.

Shares of Beneficial Interest issued by diversified management companies investing in the securities and obligations authorized by this policy may be purchased by the fund. However, these companies must be rated AAA by at least two nationally recognized rating services, and have an investment advisor registered with the Securities and Exchange

Commission with not less than five years experience investing in the securities and obligations authorized by this policy, and have assets under management of over $500,000,000. The purchase price of these shares of beneficial interest may not include any commission these companies may charge.

Mortgage Backed Securities are debt instruments with a pool of real estate loans as the underlying collateral. The mortgage payment of the individual real estate assets are used to pay interest and principal on the loans and include CMO's

Inverse Floaters are instruments with interest rates that change according to market conditions generally having rates that move contrary to a specific measure. Inverse floaters are not authorized for investment.

Range Notes are instruments in which the interest rate will move within specific limitations based on market conditions. Range notes are not authorized for investment.

Interest Only Strips based on Mortgages is the separation of coupons from a mortgage backed bond where the coupons become a security, and the remaining face value bond becomes another security that is known as a Zero Coupon bond. Interest only strips based on mortgages are not authorized for investment.

Controls

Investment Authority and Responsibility: The responsibility for conducting the County's investment program resides with the Treasurer, who supervises the investment program within the guidelines set forth in this policy. The Treasurer may delegate the authority for day-to-day investment activity to the Assistant Treasurer.

County Treasury Oversight Committee: The Board of Supervisors, in consultation with the Treasurer, hereby establishes an eight member County Treasury Oversight Committee pursuant to California Government Code section 27130 et. seq. Members of the County Treasury Oversight Committee shall be selected pursuant to California Government Code 27131. The Treasury Oversight Committee will meet at least quarterly to evaluate general strategies and to monitor results and shall include in its discussions the economic outlook, portfolio diversification, maturity structure and potential risks to the funds. All actions by the Treasury Oversight Committee will be governed by rules set out in Section 27131 et. seq. of the California Government Code.

Membership in the County Treasury Oversight Committee will pay particular attention to California Government Code sections 27132.1, 27132.2, 27132.3 and 27132.4, which read as follows:

27132.1 A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer or (b) 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 committee.

27132.2 A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

27132.3 A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers or with financial services firms during the period that the person is a member of the committee or for three years after leaving the committee.

27132.4 Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (chapter 9-commencing with section 54950) of Part 1 of Division 2 of Title 5.

Reporting: The Treasurer will prepare a monthly report for the County pool participants and members of the County Treasury Oversight Committee stating the type of investment, name of the issuer, maturity date, par and dollar amount of the investment. For the total pooled investment fund, the report will list average maturity and the market value. In addition, the Treasurer shall prepare a quarterly cash flow report which sets forth projections for revenue inflows, and interest earnings as compared to the projections for the operating and capital outflows of depositors. This projection shall be for at least the succeeding 12 months.

Annual Audit of Compliance: The County Treasury Oversight Committee shall cause an annual audit to be conducted of the portfolios, procedures, reports and operations related to the County pool in compliance with California Government Code section 27134.

Loss Control: While this Investment Policy is based on the Prudent Person Rule, the Treasurer shall seek to enhance total portfolio return by means of active portfolio management. In any professionally managed portfolio, occasional controlled losses are inevitable and these must be realized and judged within the context of overall portfolio performance. Losses shall be allocated as otherwise described in this investment policy.

Credit Quality: Should any financial institution, represented in the portfolio, be downgraded by any of the major rating services to a rating below those established in this investment policy, the Treasurer must immediately make an informed decision as to the disposition of that asset and will so advise the County Treasury Oversight Committee. The situation will be monitored daily by the Treasurer until final disposition has been made.

Approved Brokers: The Treasurer will maintain a current list of approved brokerage firms to conduct business with the County. All financial institutions on the approved list will be evaluated individually and possess a strong capital and credit base appropriate to their operations. The Treasurer will forward a copy of the County Investment Policy to all approved vendors and require written acknowledgment of the policy from the vendor.

No broker, brokerage, dealer or securities firm can be on the approved list that has, within any consecutive 48-month period, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local Treasurer, any member of the governing board of the local agency, or any candidate for those offices.

Transaction Settlement: Payment of settlement in a securities transaction will be against delivery only. A due bill or other substitution will not be acceptable. All securities purchased from the brokers/dealers must be held in safekeeping by the County's safekeeping agent or appropriate third party.

Method of Accounting:

1. For earnings calculations, investments will be carried at original purchase cost (plus purchased accrued interest, if applicable). Premiums or discounts acquired in the purchase of securities will be amortized or accreted over the life of the respective securities. For GASB purposes, investments will be carried at cost and marked to market.

2. Gains or losses from investment sales will be credited or charged to investment income at the time of sale.

3. Purchased accrued interest will be capitalized until the first interest payment is received. Upon receipt of the first interest payment, the funds will be used to reduce the investment to its principal cost with the remaining balance credited to investment income.

4. Yield is calculated on an accrual basis using a 365-day calendar. Earnings are calculated as follows:

$$\frac{\text{(Earnings* + Capital Gains) - (Banking Cost +Fees+Amortized Premiums + Capital Losses)}}{\text{Average Daily Pool Balance}}$$

* Earnings equal net interest payments + accrued interest + accreted discounts

5. The County pool will be divided into three parts, Pool 1, Pool 2 and Pool 3. The basis for this designation will be the nature of the funds and amount of banking activity generated by the account. Funds that generate specific banking charges such as payroll, extra reporting etc. will be assigned to Pool 1, and will be charged fixed and variable banking costs as well as administrative fees before interest allocation. Pool 2 is made up of funds that do not generate excessive banking costs. Pool 2 funds are charged fixed banking costs and administrative fees. Pool 3 funds represent those funds that have only an incidental use of the County banking system and therefore only pay administrative fees.

Withdrawal Requests:

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes. Any request to withdraw funds for purposes other than cash flow such as for external investing shall be subject to the consent of the Treasurer. In accordance with California Government Code section 27136 et.seq., and 27133 (h) et.seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled investment fund.

Internal Controls:

The Treasurer has established a system of controls designed to prevent losses of pooled funds due to fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets or imprudent actions by employees of the County. The controls include:

1. Procedures for investment activity which include separation of transaction authority from accounting and operations and requiring clear documentation of activity.
2. Custodial safe keeping as prescribed in Government Code 53601.
3. Independent audit, both external and internal.
4. Clear delegation of authority.
5. Written confirmations of all telephone transactions.
6. Establishment of written ethical standards and rules of behavior.

Procedures to be followed in the execution of Investment Authority:

1. All transactions are documented as to date, time and vendor, signed by the originator and will include the following information:
   A. Buy or sell
   B. Specific description of security involved (CUSIP)
   C. Settlement date
   D. Price
   E. The total amount of funds involved
   F. Delivery instructions
   G. On non-treasury or agency transactions a notation will be made on the transaction ticket of competitive bids and offers
   H. Broker/dealer

2. This information is given to the Investment Specialist to be used as follows:
   A. To contact the dealer to verify the information on the trade with the dealer's instructions. Any misunderstanding is clarified at that time.
   B. To provide the County's custodian bank with the specifics of the pending transaction to assure a smooth settlement.
   C. To compare with the daily custodian transaction report to assure there are no errors.

D. To generate the internal entries necessary for the movement of funds to complete the transaction.
E. To compare with the broker's confirmations when they are available.

3. At the end of the day the Investment Specialist summarizes all of the day's transactions in a "Daily Cash Flow Report" that is available the first thing on the following morning. This report includes:
   A. A summary of all the day's investment transactions.
   B. A listing of the day's wires in and out.
   C. A listing of all state automatics and other deposits received during the day.
   D. If the pool has "Repo's" out, a statement as to the current earnings rate.
   E. An estimate of the total anticipated clearings for the day.
   F. A listing of the day's Treasurer's deposits and tax receipts.

4. The Treasurer will obtain a minimum of three prices from different brokers before executing a security transaction whenever possible. Exceptions will occur with Treasuries, when issued securities, and new issues. In those cases the Bloomberg screen will be printed as close to the physical transaction as possible. In the case of money market or agency paper being purchased to fill a specific maturity, a best effort will be made to obtain differential bids.

5. <u>Repurchase Agreements and Reverse Repurchase Agreements</u> with brokers/dealers will be done through a "Tri-party Custodian Agreement" that has been approved in writing by the Treasurer. All Repurchase and Reverse Repurchase Agreements with commercial banks will be governed by a Public Securities Association (PSA) agreement that has been approved in writing by the Treasurer.

6. <u>Confirmations</u> resulting from securities purchased or sold under a Repurchase or Reverse Repurchase Agreement shall state the exact and complete nomenclature of the underlying securities bought or sold, as well as the term structure (i.e. maturity) of the transaction.

7. <u>Securities on loan</u> under the County Security Lending Program must be monitored daily by the Investment Specialist to assure the Assistant Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank.

8. <u>All transactions</u> will be executed on a Delivery versus Pay Bases (DVP). The assets of the County shall be held in safekeeping by the County's safekeeping agent, or secured through third-party custody and safekeeping procedures. A due bill or other substitution will not be acceptable.

9. <u>Safekeeping</u> procedures shall be reviewed annually by the Treasurer's office and an external auditor. Surprise audits of safekeeping and custodial procedures should be conducted at least once a year.

10. Security Lending: The custodial bank may be authorized to lend out up to 20% of the portfolio within the guidelines of this policy.

11. Voluntary Participants will be accepted for participation in the San Mateo County Pooled Fund so long as they meet the following requirements:
    A. A public agency
    B. Domiciled in the County of San Mateo.
    C. Agree to abide by the approved San Mateo County Pooled Fund Investment Policy.
    D. Acknowledge changes to the policy annually in writing and meet the minimum balance requirements.

    Agencies, whose jurisdiction includes San Mateo County but are not domiciled in San Mateo County, may participate in the San Mateo County Pooled Fund with the approval of the Treasurer and the County Treasury Oversight Committee.

Limits on Honoraria, Gifts and Gratuities

In accordance with California Government Code section 27133 (d) et seq., this Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Investment Group and Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of $280 per calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms. Any violation must be reported to the State Fair Political Practices Commission.