SUPPLEMENT DATED AUGUST 27, 2010 TO
PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 24, 2010

$19,170,000*
LAFAYETTE ELEMENTARY SCHOOL DISTRICT
(County of Contra Costa, State of California)
2010 GENERAL OBLIGATION REFUNDING BONDS
(Bank Qualified)

Standard & Poor's Rating Services has assigned the rating of "AA" to the Bonds.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 24, 2010

NEW ISSUE – BOOK-ENTRY ONLY **RATING: S&P: "___"**
(See "MISCELLANEOUS – Ratings" herein.)

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "**TAX MATTERS**."*

$19,170,000*
LAFAYETTE ELEMENTARY SCHOOL DISTRICT
(County of Contra Costa, State of California)
2010 GENERAL OBLIGATION REFUNDING BONDS
(Bank Qualified)

Dated: Date of Delivery **Due: See Maturity Schedule below**

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The above-captioned bonds (the "Bonds") are issued by the Lafayette Elementary School District (the "District"), located in the County of Contra Costa, to refund certain outstanding bonds of the District and to pay costs of issuance of the Bonds. The Board of Supervisors of the County of Contra Costa is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

The Bonds will be issued as Current Interest Bonds. Interest on the Bonds is payable commencing on February 1, 2011, and thereafter on each February 1 and August 1 to maturity. Principal of the Bonds is payable on August 1 in each of the years and in the amounts set forth in the Maturity Schedule below. Payments of principal of and interest on the Bonds will be made by the Paying Agent, initially The Bank of New York Mellon Trust Company, N.A., to The Depository Trust Company, New York, New York ("DTC"), for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Payment of Principal and Interest" herein.

The Bonds will be issued in book-entry form only, and initially will be issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive certificates representing their interests in the Bonds. See "THE BONDS – Form and Registration" herein.

The Bonds are not subject to optional redemption prior to maturity. The Bonds are subject to mandatory sinking fund redemption. See "THE BONDS – Redemption" herein.

MATURITY SCHEDULE

(Base CUSIP Number: 506020**)

Maturity (Aug. 1)	Principal Amount	Interest Rate	Price or Yield†	CUSIP Suffix	Maturity (Aug. 1)	Principal Amount	Interest Rate	Price or Yield†	CUSIP Suffix
2011	$1,615,000	%	%		2017	$1,665,000	%	%	
2012	1,395,000				2018	1,850,000			
2013	1,465,000				2019	1,995,000			
2014	1,525,000				2020	2,135,000			
2015	1,565,000				2021	2,360,000			
2016	1,600,000								

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC in New York, New York, on or about September 15, 2010.

This Official Statement is dated _______________, 2010.

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* Preliminary, subject to change.

** Copyright, American Bankers Association. CUSIP data herein is provided by Standard and 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 take any responsibility for the accuracy of such numbers.

† Prices and yields certified by the Underwriter. The District takes no responsibility therefor.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by 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 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption under Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Bonds 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 furnished by the District, although obtained from sources which are believed to be reliable, 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 opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the 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 Bonds to certain securities 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.

LAFAYETTE ELEMENTARY SCHOOL DISTRICT

Governing Board

Ann Appert
President

Shayne Silva
Clerk

Teresa Gerringer
Member

Art Kapoor
Member

Stephenie Teichman
Member

District Administration

Fred Brill, Ed.D.
Superintendent

Lenee Cadotte
Director, Fiscal Services

CONTRA COSTA COUNTY

County Officers

William J. Pollacek
Treasurer-Tax Collector

Stephen Ybarra
Auditor-Controller

PROFESSIONAL SERVICES

Financial Advisor

KNN Public Finance
A Division of Zions First National Bank
Oakland, California

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Paying Agent

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

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$19,170,000*
LAFAYETTE ELEMENTARY SCHOOL DISTRICT
(County of Contra Costa, State of California)
2010 GENERAL OBLIGATION REFUNDING BONDS
(Bank Qualified)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the issuance of the above-named Bonds (the "Bonds"). The information contained herein is necessarily of a summary nature. Copies of the legal documents referred to herein providing for the issuance of the Bonds and further information regarding the Bonds may be requested from the District. See "MISCELLANEOUS—Additional Information".

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be executed by the Lafayette Elementary School District (the "District"), the District has no obligation to update the information in this Official Statement. See "OTHER LEGAL MATTERS – Continuing Disclosure" herein.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the Underwriter or the owners of any of the Bonds.

The District

The District provides public education in kindergarten through grade 8 to the residents of the City of Lafayette and environs, in Contra Costa County, California (the "County"). The District is located about 30 miles east of San Francisco, in a largely affluent, primarily residential area of the "East Bay" portion of the San Francisco Bay Area. Median household income in Lafayette was estimated to be $126,000 in 2008. The District lies along State Highway 24, which connects Lafayette to Interstate 80, the main east/west thoroughfare connecting San Francisco to Sacramento, Lake Tahoe and points as far east as New York City. The District is also served by its own Bay Area Rapid Transit (BART) station, which connects it to Oakland and San Francisco.

The District operates four elementary schools and one middle school, with budgeted enrollment in Fiscal Year 2010-11 of 3,172 students. In Fiscal Year 2010-11, the District has budgeted for 540 full- and part-time employees, including 207 certificated (credentialed teaching) staff, 220 classified (non-teaching) staff, 21 supervisory and management personnel, and 92 substitute teachers. The District has budgeted general fund expenditures of approximately $25.95 million in Fiscal Year 2010-11. Total assessed valuation of taxable property in the District in Fiscal Year 2010-11 is approximately $6.3 billion.

The District is governed by a five-member Governing Board, each member of which is elected to a four-year term. Elections for positions to the Governing Board are held every two years, alternating between two and three available positions. The District's day-to-day operations are managed by a board-appointed Superintendent of Schools. Fred Brill, Ed.D. has served as Superintendent of the District since 2008. Prior to his appointment, Dr. Brill served three years overseeing half of the middle schools in the Oakland Unified School District, following nine years as principal of the District's Stanley Middle School. The District operates under the jurisdiction of the Contra Costa County Superintendent of Schools, who has certain supervisory powers with respect to District budgets.

For additional information about the District's operations and finances, see APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION."

THE BONDS

Authority for Issuance; Purpose

The Bonds are issued pursuant to the Constitution and laws of the State (the "State"), including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and applicable provisions of the Education Code of the State. The Bonds are authorized by a resolution adopted by the Governing Board of the District on August 18, 2010, and issued pursuant to a Paying Agent Agreement dated as of September 1, 2010 (the "Paying Agent Agreement"), between the District and The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent"). The Government Code permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds, provided that the total debt service to maturity on the refunding bonds not exceed the total debt service to maturity on the bonds being refunded.

The bonds to be refunded (the "Prior Bonds") constitute all or a portion of the Lafayette Elementary School District 2001 General Obligation Refunding Bonds, issued on April 19, 2001, in order to provide funds to refund then-outstanding bonds of the District approved by the District's voters in 1995. As of the date of this Official Statement, $20,045,000 aggregate principal amount of the 2001 refunding bonds remain outstanding. Proceeds of the Bonds will be applied to pay all principal of and interest and redemption premiums on the Prior Bonds and to pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" herein.

Form and Registration

The Bonds will be issued in fully registered book-entry form only, as current interest bonds without coupons, in denominations of $5,000 principal amount each or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Registered ownership of the Bonds may not be transferred except as described in APPENDIX F. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds or any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX F: "BOOK-ENTRY ONLY SYSTEM."

Payment of Principal and Interest

The Bonds will be dated the date of their delivery, and bear interest at the rates set forth on the cover page hereof, on February 1 and August 1 of each year, commencing on February 1, 2011 (each, an "Interest Payment Date"), until maturity thereof. Interest is computed using a year of 360 days consisting of twelve 30-day months. Bonds authenticated and registered on any date prior to the close of business on January 15, 2011, will bear interest from the date of their delivery. Bonds authenticated during the period between the 15th day of the calendar month immediately preceding an Interest Payment Date (the "Record Date") and the close of business on that Interest Payment Date will bear interest from that Interest Payment Date. Any other Bond will bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Payment of interest on any Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) will be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof as of the preceding Record Date, such interest to be paid by check or draft mailed to such owner at such owner's address as it appears on such registration books or at such other address as the owner may have filed with the Paying Agent for that purpose on or before the Record Date. The owner of an aggregate principal amount of $1,000,000 or more of Bonds 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 applicable Record Date.

Principal will be payable at maturity, as shown on the cover hereof, or upon redemption prior to maturity, upon surrender of Bonds at the office designated by the Paying Agent. The interest, principal and premiums, if any, on the Bonds will be payable in lawful money of the United States of America from moneys on deposit in the interest and sinking fund of the District (the "Interest and Sinking Fund") within the County treasury, consisting of *ad valorem* taxes collected and held by the Treasurer-Tax Collector of the County (the "County Treasurer"), together with any net premium and accrued interest received upon issuance of the Bonds.

So long as all outstanding Bonds are held in book-entry form and registered in the name of a securities depository or its nominee, all payments of principal of, premium, if any, and interest on the Bonds and all notices with respect to such Bonds will be made and given to such securities depository or its nominee and not to beneficial owners. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer.

Redemption

No Optional Redemption. The Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Fund Redemption. The $___________ Term Bond maturing on August 1, 20__, is subject to mandatory sinking fund redemption on each Mandatory Sinking Fund Redemption Date and in the respective principal amounts set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption Date (August 1)	Sinking Fund Payment
	$

* Maturity.

Selection of Bonds for Redemption. The Paying Agent shall select the portions of the outstanding Term Bonds to be redeemed on each mandatory sinking fund payment date by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Bond shall be deemed to consist of individual Bonds of $5,000 denominations each, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Bond is required to be given by the Paying Agent, upon written request of the District, not less than 20 nor more than 60 days prior to the redemption date (i) by first class mail to the respective owners of any Bond designated for redemption at their addresses appearing on the bond registration books; (ii) by secured mail to all organizations registered with the Securities and Exchange Commission as securities depositories, and (iii) as may be further required in accordance with the Continuing Disclosure Certificate of the District. See APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption is required to contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Bonds to be redeemed; (vi) if less than all of the then-outstanding Bonds are to be called for redemption, the distinctive serial numbers of the Bonds of each maturity to be redeemed; (vii) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the owners at the office designated by the Paying Agent; and (x) notice that further interest on such Bonds will not accrue after the designated redemption date. A certificate of the Paying Agent or the District that notice of call and redemption has been given to owners and to the appropriate securities depositories as provided in the Paying Agent Agreement shall be conclusive against all parties. The actual receipt by the owner of any Bond or by any securities depository of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above, and when the redemption price of the Bonds called for redemption is set aside for the purpose, the Bonds designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the Interest and Sinking Fund of the District or the escrow fund established for such purpose. All Bonds redeemed will be cancelled forthwith by the Paying Agent and will not be reissued.

Defeasance of Bonds

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient in the opinion of a Certified Public Accountant licensed to practice in the State to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If at any time the District pays or causes to be paid or there is otherwise paid to the owners of any or all outstanding Bonds all of the principal, interest and premium, if any, represented by Bonds when due, or as described above, or as otherwise provided by law, then such owners shall cease to be entitled to the obligation of the County to levy and collect taxes to pay the Bonds and such obligation and all agreements and covenants of the District to such owners under the Paying Agent Agreement shall thereupon be satisfied and discharged and shall terminate, except only that the District will remain liable for payment of all principal, interest and premium, if any, represented by such Bonds, but only out of moneys on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment; provided, that the unclaimed moneys provisions described below will apply in all events.

Unclaimed Moneys

Any money held in any fund created pursuant to the Paying Agent Agreement or by the Paying Agent in trust, for the payment of the principal of, redemption premium, if any, or interest on the Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys shall be transferred to the general fund of the District as provided and permitted by law.

PLAN OF REFUNDING

Application and Investment of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be deposited in an escrow fund (the "Escrow Fund") to be created and maintained by The Bank of New York Mellon Trust Company, N.A., acting as Escrow Agent under that certain Escrow Agreement by and between the District and the Escrow Agent, dated as of September 1, 2010. Moneys in the Escrow Fund will be invested in cash or non-callable direct obligations of the United States Treasury or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, and applied to pay all principal of, redemption premium and interest on the Prior Bonds on the date designated for their redemption, October 1, 2010. Causey, Demgen & Moore Inc., Denver, Colorado, acting as Verification Agent with respect to the Escrow Funds, will certify in writing that moneys deposited and invested in the Escrow Fund, together with earnings thereon, will be sufficient for the payment of interest on the Prior Bonds to the redemption date and the payment and redemption on that date of all said Prior Bonds. The certification will be made by a Certified Public Accountant licensed to practice in the State of California.

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a Costs of Issuance Fund and used to pay costs associated with the issuance of the Bonds and the refunding of the Prior Bonds. Any proceeds of sale of the Bonds not needed to fund the Escrow Fund or to pay costs of issuance of the Bonds will be transferred to the County Treasurer for deposit in the District's Interest and Sinking Fund in the County treasury, and applied only for payment of principal of and interest on outstanding bonds of the District. Amounts deposited into the Interest and Sinking Fund, as well as proceeds of taxes held therein for payment of the Bonds, will be invested at the sole discretion of the County Treasurer pursuant to law and the investment policy of the County. See APPENDIX E: "CONTRA COSTA COUNTY STATEMENT OF INVESTMENT POLICY AND MONTHLY INVESTMENT REPORT."

ESTIMATED SOURCES AND USES OF FUNDS

The net proceeds of the Bonds and other funds are expected to be applied as follows:

Sources of Funds	
Principal Amount	$
Original Issue Premium [less Original Issue Discount]	
Transfer from the Interest and Sinking Fund for the Prior Bonds	
Total Sources:	
Uses of Funds	
Deposit to Escrow Fund	$
Underwriter's Discount	
Costs of Issuance[1]	
Total Uses:	

[1] Includes financial advisor fees, bond counsel fees, disclosure counsel fees, rating agency fees, paying agent fees, printing fees, and other miscellaneous expenses.

SCHEDULED ANNUAL DEBT SERVICE

The scheduled debt service for the Bonds is as shown in the following table. It is expected that, upon issuance of the Bonds, all other bonds of the District will be paid or defeased.

Semi-Annual Debt Service Payments
Lafayette Elementary School District
2010 General Obligation Refunding Bonds

Period Ending	Principal	Interest	Total Periodic Debt Service	Total Annual Debt Service
Feb. 1, 2011	$	$	$	$
Aug. 1, 2011				
Feb. 1, 2012				
Aug. 1, 2012				
Feb. 1, 2013				
Aug. 1, 2013				
Feb. 1, 2014				
Aug. 1, 2014				
Feb. 1, 2015				
Aug. 1, 2015				
Feb. 1, 2016				
Aug. 1, 2016				
Feb. 1, 2017				
Aug. 1, 2017				
Feb. 1, 2018				
Aug. 1, 2018				
Feb. 1, 2019				
Aug. 1, 2019				
Feb. 1, 2020				
Aug. 1, 2020				
Feb. 1, 2021				
Aug. 1, 2021				
Feb. 1, 2022				
Aug. 1, 2022				
Total:	$	$	$	$

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District, including the countywide tax of 1% of taxable value. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well. The District receives approximately 51% of its total operating revenues from local *ad valorem* property taxes.

Local property taxation is the responsibility of various County officers. For each school district located in the County, the County Assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the County Auditor-Controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the County) to the County Board of Supervisors for approval. The County Treasurer prepares and mails tax bills to taxpayers and collects the taxes. In addition, the County Treasurer, as *ex officio* treasurer of each school district located in the County, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

Assessed Valuation of Property Within the District

Under Proposition 13, an amendment to the California Constitution adopted in 1978, the County Assessor's valuation of real property is established as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold, and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See generally, APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

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

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds. The following table shows recent history of taxable property assessed valuation in the District.

Lafayette Elementary School District
Recent History of
Total Assessed Valuation

Fiscal Year	Local Secured	Utility	Unsecured	Total	Percent Change
1999-2000	$3,077,001,712	851,865	$52,342,471	$3,130,196,048	---
2000-01	3,325,440,146	851,865	53,517,724	3,379,809,735	7.97%
2001-02	3,613,255,628	1,419,775	64,643,326	3,679,318,729	8.86
2002-03	3,880,919,740	1,588,278	55,152,575	3,937,660,593	7.02
2003-04	4,168,672,547	1,419,775	52,954,679	4,223,047,001	7.25
2004-05	4,472,740,652	1,419,775	52,191,220	4,526,351,647	7.18
2005-06	4,835,690,086	1,419,775	54,406,499	4,891,516,360	8.07
2006-07	5,275,082,532	1,419,775	57,884,923	5,334,387,230	9.05
2007-08	5,673,303,642	1,419,775	51,334,608	5,726,058,025	7.34
2008-09	5,997,841,085	1,419,775	55,318,960	6,054,579,820	5.74
2009-10	6,177,386,829	1,419,775	59,590,447	6,238,397,051	3.04
2010-11	6,243,702,574	650,940	56,053,117	6,300,406,631	0.99

Source: California Municipal Statistics, Inc.

Risk of Decline in Property Values; Earthquake Risk. Property values could be reduced by factors beyond the District's control, including earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

The District is located in a seismically active region. Active earthquake faults underlie both the District and the surrounding Bay Area, including the Hayward and Calaveras Faults which lie about five miles from the District on either side. Both are branches of the more famous San Andreas Fault underlying San Francisco and much of California. The Hayward Fault is considered one of the most active faults in California. The Calaveras Fault is a fork of the Hayward Fault. Significant recent seismic events include the 1989 Loma Prieta earthquake on the San Andreas Fault, centered about 60 miles south of San Francisco, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires and collapses of and structural damage to buildings, highways and bridges in the Bay Area.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey, the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of magnitude 6.7 or larger will occur in the Bay Area before the year 2038. Such earthquakes may be very destructive. For example, the U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault would likely cause hundreds of deaths and almost $100 billion of damage. Property within the District could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the area's economic activity.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase, although the District does not currently have any voter authorization to issue additional bonds.

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

Appeals of Assessed Valuation. State law affords an appeal procedure to taxpayers who disagree with the assessed value of their taxable property. Taxpayers may request a reduction in assessment directly from the County Assessor, who may grant or refuse the request, and may appeal an assessment directly to the Contra Costa County Board of Equalization, which rules on appealed assessments whether or not settled by the County Assessor. The County Assessor is also authorized to reduce the assessed value of any taxable property upon a determination that the market value has declined below the then-current assessment, whether or not appealed by the taxpayer.

The District can make no predictions as to the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding bonds) may be paid. Any refund of paid taxes triggered by a successful assessment appeal will be debited by the County Treasurer against all taxing agencies who received tax revenues, including the District.

Bonding Capacity. As an elementary school district, the District may not issue bonds in excess of 1.25% of the assessed valuation of taxable property within its boundaries, as shown on the final assessment roll as of August 20 of each year. The District's gross bonding capacity is estimated at $78.8 million, and its net bonding capacity is approximately $58.7 million, not taking into account the issuance of the Bonds or the defeasance of the Prior Bonds. Refunding bonds, including the Bonds, may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

Assessed Valuation by Land Use. The following table gives a distribution of taxable real property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

Lafayette Elementary School District
Assessed Valuation and Parcels by Land Use
Fiscal Year 2010-11

	Assessed Valuation		Parcels	
	2010-11 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial	$ 354,677,184	5.68%	255	2.57%
Vacant Unclassified	74,634,313	1.20	72	0.73
Government/Institutional/Private Schools	38,965,021	0.62	74	0.75
Recreational/Health Clubs	23,218,108	0.37	17	0.17
Agricultural/Rural	13,667,537	0.22	30	0.30
Industrial	13,031,838	0.21	4	0.04
Vacant Commercial	9,094,199	0.15	18	0.18
Subtotal Non-Residential	$ 527,288,200	8.45%	470	4.74%
Residential:				
Single Family Residence	$5,212,780,110	83.49%	8,317	83.86%
Condominium/Townhouse	207,217,211	3.32	491	4.95
5+ Residential Units/Apartments	153,117,810	2.45	68	0.69
2-4 Residential Units	81,555,950	1.31	187	1.89
Vacant Residential	61,720,393	0.99	383	3.86
Mobile Home	22,900	0.00	2	0.02
Subtotal Residential	$5,716,414,374	91.55%	9,448	95.26%
Total	$6,243,702,574	100.00%	9,918	100.00%

(1) Local secured assessed valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Residential Properties. The following table focuses on single-family residential properties only, which comprise nearly 85% of the assessed value of taxable property in the District. The average assessed value per parcel is $626,762, and the median assessed value per parcel is $529,660.

Lafayette Elementary School District
Assessed Valuation of Single Family Homes
Fiscal Year 2010-11

2010-11 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $99,999	736	8.849%	8.849%	$ 58,776,072	1.128%	1.128%
$100,000 - $199,999	1,161	13.959	22.809	162,947,827	3.126	4.253
$200,000 - $299,999	638	7.671	30.480	160,667,698	3.082	7.336
$300,000 - $399,999	690	8.296	38.776	241,120,956	4.626	11.961
$400,000 - $499,999	724	8.705	47.481	325,846,338	6.251	18.212
$500,000 - $599,999	706	8.489	55.970	388,377,178	7.450	25.663
$600,000 - $699,999	736	8.849	64.819	478,752,360	9.184	34.847
$700,000 - $799,999	672	8.080	72.899	502,960,430	9.649	44.495
$800,000 - $899,999	494	5.940	78.839	419,164,173	8.041	52.537
$900,000 - $999,999	373	4.485	83.323	352,193,370	6.756	59.293
$1,000,000 - $1,099,999	257	3.090	86.413	270,107,543	5.182	64.475
$1,100,000 - $1,199,999	194	2.333	88.746	222,417,167	4.267	68.741
$1,200,000 - $1,299,999	189	2.272	91.018	235,899,801	4.525	73.267
$1,300,000 - $1,399,999	125	1.503	92.521	168,416,784	3.231	76.498
$1,400,000 - $1,499,999	127	1.527	94.048	183,500,361	3.520	80.018
$1,500,000 - $1,599,999	91	1.094	95.142	140,612,081	2.697	82.715
$1,600,000 - $1,699,999	70	0.842	95.984	114,771,449	2.202	84.917
$1,700,000 - $1,799,999	51	0.613	96.597	89,264,474	1.712	86.629
$1,800,000 - $1,899,999	42	0.505	97.102	77,563,106	1.488	88.117
$1,900,000 - $1,999,999	33	0.397	97.499	64,515,833	1.238	89.355
$2,000,000 and greater	208	2.501	100.000	554,905,109	10.645	100.000
Total	8,317	100.000%		$5,212,780,110	100.000%	

[1] Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2010-11 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and ability or willingness to pay property taxes. In 2010-11, no single taxpayer owned more than one-half of 1% of the total taxable property in the District. Each taxpayer listed is a unique name on the tax rolls; the District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

Lafayette Elementary School District
Major Taxpayers 2010-11

	Property Owner	Land Use	2010-11 Assessed Valuation	% of Total(1)
1.	Cortese Properties LLC	Commercial	$31,254,898	0.50%
2.	Bascom Lafayette Highlands LLC	Apartments	31,147,607	0.50
3.	HPF GLB Corporate Terrace LLC	Office Building	22,546,436	0.36
4.	Oakwood Athletic Club LLC	Rec./Health Club	18,434,101	0.30
5.	Lafayette Park Hotel Associates	Hotel	17,674,057	0.28
6.	Bay Glen LP	Apartments	16,151,025	0.26
7.	The Woodbury LLC	Apartments	15,942,037	0.26
8.	Joan E. Bruzzone	Shopping Center	13,622,758	0.22
9.	Desco Plaza I LLC & Investment LLC	Office Building	12,872,417	0.21
10.	Gray Horse Investors	Office Building	11,780,352	0.19
11.	Brian E. and Deanna E. Moore	Apartments	11,770,324	0.19
12.	Lafayette Terrace LLC	Office Building	11,262,465	0.18
13.	KMF Contra Costa LLC	Apartments	11,232,139	0.18
14.	Lafayette Office Partners LLC	Office Building	11,193,408	0.18
15.	Kenneth Harry & Martha Jean Hofmann	Residential	9,862,604	0.16
16.	Jeanette E. White	Industrial	9,768,328	0.16
17.	Mark S. & Mindee Mastrov	Residential	9,485,674	0.15
18.	Constantine Christopoulos	Commercial	9,417,311	0.15
19.	Oak Hill West Realty LLC	Office Building	8,501,854	0.14
20.	Execucenter	Office Building	8,494,421	0.14
Total			$292,414,216	4.68%

(1) 2010-11 Local Secured Assessed Valuation: $6,243,702,574.
Source: California Municipal Statistics, Inc.

Tax Rate

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

One factor in the ability of taxpayers to pay additional taxes for school bonds is the cumulative rate of tax. The following table shows *ad valorem* property tax rates for the last several years in a typical tax rate area of the District, TRA 14-002. TRA 14-002 comprises approximately 69% of the total assessed value of property in the District.

Lafayette Elementary School District
Summary of *ad valorem* Tax Rates
(Dollars Per $100 of Assessed Valuation)
Typical Total Tax Rate (TRA 14-002)

	2005-06	2006-07	2007-08	2008-09	2009-10
General	1.0000	1.0000	1.0000	1.0000	1.0000
City of Lafayette	.0200	.0200	.0200	.0193	.0130
Bay Area Rapid Transit District	.0048	.0050	.0076	.0090	.0057
East Bay Regional Park District	.0057	.0085	.0080	.0100	.0108
Acalanes Union High School District	.0279	.0292	.0259	.0289	.0298
Lafayette School District	.0393	.0377	.0340	.0330	.0326
Contra Costa Community College District	.0047	.0043	.0108	.0066	.0126
Total	1.1024	1.1047	1.1063	1.1068	1.1045

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies

A school district's share of the 1% countywide tax is based on the allocation of property tax revenues to each taxing jurisdiction in the county in Fiscal Year 1978-79, as adjusted according to a complex web of statutory modifications enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches. If taxes remain unpaid by June 30, the tax is deemed to be in default. Penalties then begin to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll. Unsecured taxes remaining unpaid at 5 p.m. on the last day of the second month after the 10% penalty attaches shall be subject to an additional penalty of 1.5%, attaching on the first day of each succeeding month on the amount of the original tax. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interest of the taxpayer. The County Treasurer may also bring a civil suit against tax taxpayer for payment. The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

Teeter Plan. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including school districts, receives the amount of uncollected taxes credited to its fund, in the same manner as if the amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district bonds.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter

Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. The Board of Supervisors has never elected to exercise this right.

The recent history of real property tax collections and delinquencies in the District is available only with respect to bond debt service levies, as shown in the table below.

Secured Tax Charges and Delinquencies
(Debt Service Only)
Lafayette Elementary School District

Fiscal Year	Secured Tax Charge	Amount Delinquent June 30	Percent Delinquent June 30
2005-06	$1,882,009.86	$20,791.86	1.10%
2006-07	1,971,353.95	26,901.41	1.36
2007-08	1,909,405.32	41,130.60	2.15
2008-09	1,962,251.15	44,495.89	2.27
2009-10	1,992,652.16	40,310.49	2.02

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of August 15, 2010, and whose territory overlaps the District in whole or in part. The second column 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 the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The table generally includes long-term obligations sold in the public credit markets by the public agencies listed. 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.

Lafayette Elementary School District
Direct and Overlapping Bonded Debt

2010-11 Assessed Valuation:	$6,300,406,631
Redevelopment Incremental Valuation:	(389,595,534)
Adjusted Assessed Valuation:	$5,910,811,097

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable [1]	Debt 8/15/10
Bay Area Rapid Transit District	1.337	$ 5,533,375
Contra Costa Community College District	4.523	10,723,807
Acalanes Union High School District	25.333	32,756,800
Lafayette School District	**100.**	**20,045,000**[2]
City of Lafayette	99.860	8,143,583
East Bay Regional Park District	2.037	4,008,307
Pleasant Hill Recreation and Park District	7.411	1,482,200
Central Contra Costa Sanitary District 1915 Act Bonds	100.	55,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$82,748,072
OVERLAPPING GENERAL FUND DEBT:		
Contra Costa County General Fund Obligations	4.506%	$12,149,303
Contra Costa County Pension Obligations	4.506	19,615,069
Contra Costa Community College District Certificates of Participation	4.523	44,778
City of Orinda Certificates of Participation	0.195	17,930
City of Walnut Creek General Fund Obligations	1.035	9,626
Contra Costa Fire Protection District Pension Obligations	10.137	11,783,249
San Ramon Valley Fire Protection District Certificates of Participation	0.006	862
Pleasant Hill Recreation and Park District Certificates of Participation	7.411	183,052
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$43,803,869
Less: Contra Costa County General Fund Obligations supported by Revenue Funds		5,680,369
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$38,123,500
GROSS COMBINED TOTAL DEBT		$126,551,941[3]
NET COMBINED TOTAL DEBT		$120,871,572

Ratios to 2010-11 Assessed Valuation:
Direct Debt ($20,045,000)..0.32%
Total Direct and Overlapping Tax and Assessment Debt 1.31%

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt 2.14%
Net Combined Total Debt...2.04%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc.
(1) Based on 2009-10 ratios.
(2) Excludes refunding bonds to be sold, and includes Prior Bonds to be redeemed.
(3) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the Internal Revenue Service, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the District or the beneficial owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX C: "PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Bank Qualified

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the 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 (currently ending June 30), commencing with the report for the 2009-10 fiscal year (which is due no later than April 1, 2011) and to provide notice of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). In the most recent five-year period covered by the Rule, the District has not failed to comply in all material respects with its previous undertakings with regard to the Rule to file annual reports or notices of material events.

No Litigation

No litigation is pending or, to the best knowledge of the District, threatened, concerning the validity of the Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Bonds, the political existence of the District, the title to their offices of District or County officials who will sign the Bonds and other certifications relating to the Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the original purchasers at the time of the original delivery of the Bonds.

The District is routinely subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

MISCELLANEOUS

Ratings

The Bonds have been assigned the rating of "___" by Standard & Poor's Rating Services. Rating agencies generally base their ratings on their own investigations, studies, and assumptions. The District has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement). The rating reflects only the views of the rating agency, and any explanation of the significance of such rating may be obtained only from Standard & Poor's at www.standardandpoors.com. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. The District undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and as Disclosure Counsel to the District with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds. KNN Public Finance, A Division of Zions First National Bank, is acting as Financial Advisor with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds. Causey, Demgen & Moore Inc., as verification agent with respect to the Prior Bonds, will receive compensation from the District that is not contingent upon the sale or delivery of the Bonds.

Underwriting

Pursuant to a competitive sale held on _______________, 2010, __________________________, the winning bidder for the Bonds (the "Underwriter"), will purchase the Bonds from the District at the purchase price of $_________________ (consisting of $__________________ aggregate principal amount of the Bonds, plus original issue premium of $_________________, less underwriter's compensation of $_________________). The terms of sale provide that the Underwriter will purchase all of the Bonds if any are purchased, the obligation of the Underwriter to purchase the Bonds being subject to certain terms and conditions to be satisfied by the District.

The Underwriter has certified the public reoffering prices or yields set forth on the cover hereof. The Underwriter's compensation is based on those prices or yields, and the District takes no responsibility for the accuracy of those prices or yields. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriter.

Additional Information

Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof. Copies of documents referred to herein and information concerning the Bonds are available from the District through the Director of Fiscal Services, 3477 School Street, Lafayette, CA 94549. The District may impose a charge for copying, mailing and handling.

* * *

All data contained herein have been taken or constructed from the District's records and other sources, as indicated. This Official Statement and its distribution have been duly authorized and approved by the District.

LAFAYETTE ELEMENTARY SCHOOL DISTRICT

By:____
Superintendent

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APPENDIX A

DISTRICT FINANCIAL AND OPERATING INFORMATION

The information in this appendix concerning the operations of the District, the District's finances, and State funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District or from State revenues. The Bonds are payable from the proceeds of an ad valorem *tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the Official Statement.*

FINANCIAL AND DEMOGRAPHIC INFORMATION

General

Enrollment in the District for kindergarten through grade 8 in the 2009-10 school year was estimated at 3,200 students, and is budgeted at 3,172 in Fiscal Year 2010-11. In Fiscal Year 2010-11, the District has budgeted for 540 full- and part-time employees. The District has budgeted general fund expenditures of approximately $25.95 million in Fiscal Year 2010-11. Total assessed valuation of taxable property in the District in Fiscal Year 2010-11 is approximately $6.3 billion.

State Funding of Education; State Budget Process

General. The District, like other public school districts in California, has four major sources of funding: "Revenue limit income", a combination of local property taxes and State support, provides about 61% of the District's general fund revenue, or $14.8 million. Other State funds provide 11% of revenue, for special ("categorical") programs such as Class Size Reduction, Mandated Cost Reimbursements, transportation services, and other programs based on eligibility, including the State Lottery, which provides about 1.5% of the total. Revenues from the federal government provide about 3% of funding, primarily for "No Child Left Behind" and special education. Other local revenues comprise about 25% of the total, including a local dedicated property tax for education programs, locally distributed State special education funds, and donations.

Overall State funding is budgeted at approximately $5.1 million in Fiscal Year 2010-11, or about 21% of total general fund revenues. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

State funding is guaranteed to a minimum level for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. The funding guarantee is known as "Proposition 98", a constitutional and statutory initiative amendment adopted by the State's voters in 1988, and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution).

Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is at the heart of annual budget negotiations and adjustments.

Adoption of Annual State Budget. According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within

45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the amended 2009-10 Budget Act on July 28, 2009.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. The Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: **www.sco.ca.gov.** Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White* decision, the District might find it necessary to resume annual or more frequent cash flow borrowings. The District does not expect the *White* decision to have any long-term effect on its operating budgets.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per-capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor".

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2004 lawsuits has so far resulted in over $4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, as the State did in 2004-05; and by proposing to amend the Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

On May 20, 2010, a plaintiff class of numerous current California public school students and public school districts, together with the California Congress of Parents, Teachers & Students, the Association of

California School Administrators and the California School Boards Association, filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Maya Robles-Wong, et al. v. State of California,* plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance and to design, enact, fund and implement a system of public school finance that is intentionally, rationally and demonstrably aligned with the State's prescribed educational program and provides equal access and an equal educational opportunity to all school-aged children in the State. The District is not a party to the *Robles-Wong* litigation, and cannot predict the outcome or impact of the litigation.

2009-10 State Budget. On September 24, 2008, the Governor signed the State budget for fiscal year 2008-09, the latest budget approval in State history. It is widely acknowledged that even by the time of its passage, the budget's revenue estimates were already too optimistic, in light of continuing weak performance in the California economy and unprecedented adverse developments in the global and national financial markets, particularly after September 15, 2008. The Governor declared a fiscal emergency in December 2008, and called three concurrent special legislative sessions in order to address the budget deficit, then estimated to be $42 billion. In the face of growingly negative estimates of State tax receipts during Fiscal Year 2008-09, the Governor signed the State's Fiscal Year 2009-10 Budget Act on February 20, 2009 (the earliest date on record), essentially as a revised two-year budget settlement for Fiscal Years 2008-09 and 2009-10. However, after the failure in May 2009 of six revenue and spending propositions on the statewide ballot deemed essential to success of the budget bill, work began again on a Fiscal Year 2009-10 budget plan. On July 24, 2009, the Legislature approved a new budget package, which the Governor signed on July 28, 2009. For an accurate view of current Proposition 98 funding, one must treat these three recent budgets as a whole, and consider also the significant adjustments that have been left to future budget years.

The amended 2009-10 State Budget consisted of some 30 separate bills; subsequent legislation may affect final budget totals. Indeed, if the economy worsens, the assumptions in even the amended 2009-10 State Budget may prove unsustainable, and further cuts and revisions may be needed. The following information relating to the funding of elementary and secondary education is adapted from the budget summaries prepared by Legislative Analyst's Office, the Governor's office, and other sources.

The amended 2009-10 State Budget achieves balance through spending cuts, additional revenue generation, borrowing from local governments and others, revenue shifts from redevelopment agencies, and other accounting changes; all of these techniques are also present in the adopted Proposition 98 funding plan. Fiscal year 2008-09 Proposition 98 funding for K-12 schools is reduced to $43.1 billion ($9 billion less than the level assumed in the adopted 2008-09 State Budget, and $1.6 billion less than the February 2009 amended amount). Fiscal Year 2009-10 funding is established at $44.6 billion ($3.7 billion less than the February 2009 adopted amount). Over $10.1 billion in mandated Proposition 98 funding is deferred to future years: the so-called "maintenance factor." Of budgeted Proposition 98 funding, $1.7 billion is shifted to school districts from property taxes and other moneys belonging to redevelopment agencies. Funding is also delayed in several ways: $2 billion is deferred from the first months of Fiscal Year 2009-10 to December 2009 and January 2010, while $1.8 billion will not be paid until August 2010-11. Mandated settle-up payments of $450 million for prior years under the Quality Education Investment Act are also deferred, effectively to 2014-15. Cost-of-living adjustments of over 18% are deferred, creating a future obligation of well over $6.5 billion. Categorical funding of $1.6 billion intended for Fiscal Year 2008-09 that had not been funded by June 30, 2009, is treated as Fiscal Year 2009-10 categorical funding, but an equal amount of minimum guarantee funding is eliminated. For those districts that would otherwise receive no Proposition 98 minimum guarantee funding from the State, categorical funding is reduced by $80 million. In addition, the Governor vetoed $3.9 million of approved spending for special education transportation costs.

State savings is also achieved by lifting various mandates and restrictions on local school districts: full flexibility is allowed to spend funding for 42 categorical programs as districts wish through 2012-13; class-size reduction in grades K-3 is largely suspended, and the minimum days of instruction are reduced from 180 to 175, through reduced or suspended financial penalties on districts that do not meet existing requirements; districts are excused from buying new approved instructional materials; proceeds of surplus land sales otherwise restricted to capital improvements are permitted to be used for general fund expenditures through 2011; the general fund reserve requirement is reduced to one-third of the otherwise applicable percentage (3% of expenditures for a district with average daily attendance of up to 30,000), provided this is restored by 2011-12; the routine maintenance reserve requirement of 1% of general fund expenditures is suspended; and school districts that project they will not meet financial guidelines due to loss of federal stimulus funding in Fiscal Years 2011-12 and 2012-13 will not have their budgets negatively rated as a result.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, **www.dof.ca.gov**, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at **www.lao.ca.gov**. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, **www.treasurer.ca.gov**. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Proposition 1A. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election.

Proposition 1A is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 1A allows the State to divert up to 8% of local property tax revenues for State purposes (including, but not limited to, funding K-12 education) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe any repayment to local agencies for past property tax or Vehicle License Fee diversions to local agencies; and (v) such property tax diversions do not occur in more than two of any ten consecutive fiscal years. Because ERAF shifts will be capped and limited in frequency, school and college districts that receive Proposition 98 funding from the State will be more directly dependent upon the State's general fund.

The amended 2009-10 State Budget includes a Proposition 1A diversion of $1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amended 2009-10 State Budget diverts another $1.7 billion in local property tax revenues from local redevelopment agencies, but this is not covered by Proposition 1A. The California Redevelopment Association and two redevelopment agencies filed a lawsuit in October 2009 challenging the constitutionality of this diversion. The lawsuit was decided against the CRA on May 4, 2010, and the CRA has appealed.

District Revenues

Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance ("A.D.A.").

The base revenue limit is calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution.

The District's base revenue limit per A.D.A. is budgeted to be $6,066 for Fiscal Year 2010-11, compared to $6,090 for 2009-10. However, for these fiscal years, the State has funded only 81.65% of its portion of the statewide Proposition 98 requirement and of the District's revenue limit entitlement. In addition, the State reduced school district funding by another $253 per A.D.A. in Fiscal Year 2009-10, for total funding of $4,719 per A.D.A. The District has budgeted its revenues on roughly the same basis for Fiscal Year 2010-11, expecting the State to fund $4,952 less $234, or $4,718 per A.D.A. for Fiscal Year 2010-11. The District's total budgeted revenue limit income for Fiscal Year 2010-11 is $14.8 million.

The principal component of local revenues is the District's property tax revenues; that is, the District's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. The more local property taxes a district receives, the less State equalization aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known colloquially as "basic aid districts." Districts that receive some equalization aid may commonly be referred to as "revenue limit districts."

The District is <u>not</u> a basic aid district. Local property tax revenues account for approximately 84% of the District's aggregate revenue limit income, and are budgeted to be approximately $12.4 million, or 51% of total general fund revenue in Fiscal Year 2010-11. The County is a "Teeter Plan" county, which means that the District is made whole for any delinquencies in payment of property taxes by local property owners. Property tax levy and collection procedures (including the Teeter Plan) are discussed in the front portion of this Official Statement under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Tax Collections and Delinquencies." For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" in this Appendix.

Effect of Changes in Enrollment. Changes in local property tax income and student enrollment (or A.D.A.) affect revenue limit districts and basic aid districts differently.

In a revenue limit district, increasing enrollment increases the total revenue limit and thus increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In basic aid districts, the opposite is generally true: increases in property tax collections directly increase the district's available operating revenues, while increasing enrollment does virtually nothing to affect district revenues. Since all revenue limit income (and more) is already generated by local property taxes, increased enrollment does not increase State aid to the district. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a basic aid district.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. The District has established policies to limit the number of transfers of students from outside the District.

The District's recent A.D.A. history for kindergarten through grade 8 (K-8), including special education, is set forth in the table below:

Lafayette Elementary School District
Total Grades K-8 Second Period (P-2)
Average Daily Attendance[1]

Fiscal Year	Average Daily Attendance
2005-06	3,168
2006-07	3,082
2007-08	3,089
2008-09	3,122
2009-10[1]	3,109
2010-11[1]	3,078

Source: District Audited Financial Statements in each year, except as noted in Note 1 below.
(1) District Fiscal Year 2010-11 Adopted Budget, as of June 21, 2010.

The District adopted its Fiscal Year 2010-11 budget on June 21; as of the date of this Official Statement, the State has yet to adopt its own budget for the year. The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the Proposition 98 funding level the State eventually adopts, or the State's ability to meet the revenue and spending assumptions in its adopted budget, and the effect of these changes on school finance. The District's adopted budget and budgeted A.D.A. are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District's actual funding level for Fiscal Year 2010-11 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under The No Child Left Behind Act (NCLB) of 2001 (PL 107-110), specialized programs such as Teacher Quality, Title I/Elementary and Secondary Education Act (ESEA), immigrant education, and various incentives under the American Recovery and Reinvestment Act (ARRA). Federal revenues, most of which are restricted, comprise approximately 3% of the District's general fund budgeted revenues in Fiscal Year 2010-11.

Other State Revenues. In addition to State apportionments for Proposition 98 funding, the District receives substantial Other State Revenues. These Other State Revenues, or categorical funds, are ordinarily restricted to specific programs or items; however, as part of the 2009-10 State Budget, general spending flexibility was given to school districts for most categorical funds through Fiscal Year 2012-13. State categorical revenues are budgeted at $2.69 million, including the State lottery fund portion, comprising approximately 11% of the District's general fund budgeted revenues in Fiscal Year 2010-11. Lottery funds may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's total State lottery revenue is budgeted at $374,022, or about 1.5% of general fund revenue in 2010-11.

Other Local Revenues. In addition to *ad valorem* property taxes, the District receives additional local revenues, including parcel tax revenues (described in the following paragraph), donations, redevelopment pass-through moneys (described below), as well as items such as rent, interest, fees and contracts, comprising approximately 19% of the District's general fund revenues, or $4.7 million in Fiscal Year 2010-11. In addition, State apportionments for special education, budgeted in Fiscal Year 2010-11 at $1.5 million, are distributed by the Contra Costa Special Education Local Plan Area (SELPA), a joint powers authority in which the District participates with 14 other districts and the Contra Costa County Office of Education. Together with interfund transfers from the special reserve fund ($79,000), these Other Local Revenues comprise 6% of total budgeted general fund revenues in Fiscal Year 2010-11.

Parcel Tax. On November 6, 2007, voters of the District approved a special parcel tax as Measure J, in the amount of $313.00 per parcel per year for seven years commencing July 1, 2008, adjusted annually for inflation, with an exemption for seniors. This replaced the expiring tax of $132 per parcel per year. The tax revenues are authorized to be used to preserve small class sizes; attract and retain qualified and experienced teachers, classroom aides, and counselors; provide up-to-date textbooks, instructional materials and classroom technology; and support educational programs that enhance student health and achievement. Parcel tax revenues were estimated to be $2.81 million in Fiscal Year 2009-10, and are budgeted to be approximately $2.88 million in Fiscal Year 2010-11.

Foundation and Parent Club Organizations. The Lafayette Arts & Science Foundation is a nonprofit corporation education foundation organized to support education in Lafayette public schools, including District schools. The foundation generally funds specific programs it supports, rather than making unrestricted donations to the District. Parent clubs exist at each school to raise funds and contribute support to that school. The District received support from the foundation and parent clubs in the amount of $1.4 million in Fiscal Year 2009-10. In Fiscal Year 2010-11, the District expects the foundation and parent clubs will provide approximately the same amount as direct support to educational programs and to District instructional goals and initiatives.

Redevelopment Pass-Through Payments. Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. Property taxes levied for repayment of local bonds approved after January 1, 1987 (including the Bonds), are not affected by redevelopment agency claims on local tax increment.

As to operating revenues, any loss of local property taxes that contribute to the revenue limit target of a revenue limit district is made up by an increase in State equalization aid, until the base revenue limit is reached. "Pass-through" payments of local tax revenues required by law to be paid to the school district by a local redevelopment agency will count toward the revenue limit, except for any portion dedicated to capital facilities or deferred maintenance.

For basic aid districts, the State will not make the district whole for loss of tax increment to the redevelopment agency unless and only to the extent that such loss reduces the district's local property tax revenues below the district's revenue limit. In addition, the basic aid district may be entitled to a pass-through payment from the redevelopment agency: for any redevelopment project plan adopted or amended after 1993, a basic aid district is entitled to its pre-plan share of taxes collected district-wide, plus the lesser of (i) property tax revenues from the incremental growth in assessed valuation in that part of the district not included in the project area, and (ii) property tax revenues on 80% of the incremental growth in assessed valuation within the project area.

For any redevelopment plan adopted before 1994 and not subsequently amended, either a revenue limit district or a basic aid district may continue to receive pass-through payments at the level negotiated with the redevelopment agency instead of the statutory pass-through; such payments do not count against the district's revenue limit for State aid purposes, but must generally be used for capital facilities improvements.

There is one redevelopment project located in the District, created by the Redevelopment Agency of the City of Lafayette in 1994. The Project Area occupies approximately 290 acres located in the downtown area and constitutes approximately 3% of the land area of the City of Lafayette. In Fiscal Year 2009-10, the District estimates that it received pass-through payments in the amount of $100,000, and has budgeted to receive another $100,000 in Fiscal Year 2010-11, which is not counted against the revenue limit.

Tax and Revenue Anticipation Notes. Because District revenues from local property taxes and State categorical funds are received at irregular intervals throughout the year, while expenditures tend to be incurred on a regular monthly basis, many school districts and other local governments find it necessary to borrow for short-term cash needs by issuance of tax and revenue anticipation notes each year or as needed. The District has not issued tax and revenue anticipation notes since Fiscal Year 2002-03, and has no plans to do so in Fiscal Year 2010-11.

District Expenditures

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

In its Fiscal Year 2010-11 budget, the District estimates that it will expend $23.3 million in salaries and benefits, or approximately 90% of its general fund expenditures. This amount represents a decrease of approximately 2.7% from the $23.9 million the District expended in Fiscal Year 2009-10.

Labor Relations. Of the District's 540 employees, 390 are currently members of one of two bargaining units, as shown in the table below.

Lafayette Elementary School District
Labor Organizations

Labor Organization	Number of Employees	Contract Expiration
Lafayette Education Association	198	June 30, 2012
California School Employees Association	192	June 30, 2012

Retirement Programs. The District participates in the State Teachers' Retirement System ("STRS") for all full-time and some part-time certificated employees. Each school district is required by statute to contribute 8.25% of eligible employees' salaries to STRS on a monthly basis. Employees are required to contribute 8.0% of eligible salary. The State is required to contribute as well. The District's general fund employer contribution to STRS was $1.18 million for Fiscal Year 2009-10 and is budgeted at $1.12 million in Fiscal Year 2010-11.

The District also participates in the California Public Employees' Retirement System ("CalPERS") for all full-time and some part-time classified employees. The District is required to contribute toward CalPERS, at a State-determined percentage of CalPERS-eligible salaries. For Fiscal Year 2010-11, the District's contribution percentage is 10.707% In Fiscal Year 2010-11, the total contribution is budgeted at $299,618, compared to a Fiscal Year 2009-10 estimated expense of $308,946. Member employees are also required to contribute at a rate of 7% of covered salary.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make (except as already announced). STRS and CalPERS liabilities are more fully described in APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009," Note 12.

Post-Employment Benefits. The District contractually provides post-employment health care benefits to all employees who retire from the District on or after attaining age 55 with at least ten years, fourteen years, or one year of service (as to certificated, classified, and management employees, respectively), and to retirees' spouses. Benefits are provided to age 65, and capped at the Kaiser Permanent two-party rate. As of June 1, 2010, 19 retirees were receiving benefits.

Beginning in Fiscal Year 2008-09, the District was required to implement Governmental Accounting Standards Board Statement No. 45 ("GASB 45") which directs certain changes in accounting for post-employment healthcare benefits (OPEBs) in order to quantify a government agency's current liability for future benefit payments. GASB 45 is directed at quantifying and disclosing OPEB obligations, and does not impose any requirement on public agencies to fund such obligations. On June 1, 2010, Total Compensation Systems, Inc. of Folsom, California, completed a report of the District's outstanding post-employment benefit obligations as of February 1, 2010.

The report calculates the value of all future benefits already earned by current retirees and current employees, known as the "actuarial accrued liability" (AAL). As of the date of the report, the District had an actuarial accrued liability of approximately $4.4 million for the 19 current retirees and beneficiaries and 276 current employees, who are future plan participants. The AAL is an actuarial estimate that depends on a variety of assumptions about future events such as health care costs and beneficiary mortality. Every year, active employees earn additional future benefits, an amount known as the "normal cost", which is added to the AAL. The report estimated the normal cost at $351,876 for the year beginning February 1, 2010. To the extent that the District has not set aside moneys in an OPEB trust with which to pay these accrued and accruing future liabilities, there is an unfunded actuarial accrued liability (UAAL). As of the date of the report, the District had not set aside any moneys in trust to fund its future obligations, although the District has a balance of $176,510 in a Special Reserve Fund for Postemployment Benefits, including a transfer of $100,000 in Fiscal Year 2009-10.

The annual required contribution (ARC) is the amount required if the District were to fund each year's normal cost plus an annual amortization of the unfunded actuarial accrued liability, assuming the UAAL will be fully funded over a 30-year period. If the amount budgeted and funded in any year is less than the ARC, the difference reflects the amount by which the UAAL is growing. In the 2010 actuarial report, the ARC was determined to be approximately $552,909, while the District's pay-as-you-go contributions were budgeted to be $169,529 in Fiscal Year 2010-11. In recent years, the District's pay-as-you-go contributions to other post-employment benefit expenditures were $140,178 in Fiscal Year 2008-09 and $179,860 (estimated) in Fiscal Year 2009-10.

See also APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009," Note 9.

Accrued Vacation and Other Obligations. The long-term portion of accumulated and unpaid employee vacation for the District as of June 30, 2009, was $102,045. The District has budgeted a special reserve of $147,400 to provide for such costs. Staff are permitted to carry forward no more than ten days of accrued vacation time.

Summary of District Revenues and Expenditures

The tables on the following pages summarize the District's general fund revenue, expenditures and fund balances from Fiscal Years 2005-06 through 2010-11. See "SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS – District Budget Process and County Review" herein for a general description of the annual budget process for California school districts. The District's audited financial statements for the year ending June 30, 2009, are reproduced in APPENDIX B. The final (unaudited) statement of receipts and expenditures for each fiscal year ending June 30 is required by State law to be approved by the District Governing Board by September 15, and the audit report must be filed with the County of Contra Costa Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% of its total general fund expenditures, the level of which is based on total student attendance below 30,000. As part of the adopted 2009-10 State Budget, however, the District's reserve requirement was reduced for Fiscal Year 2009-10 to 1%, provided that the full 3% must be restored by Fiscal Year 2011-12. For Fiscal Year 2010-11, the District has budgeted an unrestricted general fund reserve of approximately $1.1 million, or 4.24%. In addition, as of July 1, 2010, the District had a balance in a Special Reserve Fund for Non-Capital Outlay in the amount of $3.16 million, of which approximately $150,000 is reserved for accrued vacation costs. The District's adopted Fiscal Year 2010-11 budget states the Governing Board's intent to retain the balance in the Special Reserve Fund and to expend interest earnings to partially offset budget cuts from the State.

Substantially all funds of the District are required by law to be deposited with and invested by the County Treasurer on behalf of the District, pursuant to law and the investment policy of the County. See APPENDIX E: "CONTRA COSTA COUNTY STATEMENT OF INVESTMENT POLICY AND MONTHLY INVESTMENT REPORT."

Lafayette Elementary School District
General Fund
Revenues, Expenditures and Fund Balances
2005-06 through 2010-11

	2005-06 Actual[1]	2006-07 Actual[1]	2007-08 Actual[1]	2008-09 Actual[1]	2009-10 Est. Actual[2]	2010-11 Budget[2]
Revenues						
Revenue Limit Sources						
Local Property Taxes	$ 10,926,889	$ 11,386,759	$ 11,791,245	$ 12,252,001	$ 12,420,601	$ 12,420,601
State Aid	4,765,763	5,432,776	5,311,204	4,624,967	2,385,372	2,386,728
Federal	772,147	832,410	778,046	1,964,491	1,459,490	804,770
Other State	2,890,423	3,827,030	3,266,204	2,904,318	2,808,937	2,686,417
Local	4,311,923	4,545,705	4,744,632	6,251,508	6,408,748	5,155,010
Total Revenues	23,667,145	26,024,680	25,891,331	27,997,285	25,483,148	24,453,525
Expenditures[3]						
Certificated Salaries	12,963,624	13,882,106	14,241,847	14,252,234	14,315,473	13,641,805
Classified Salaries	3,990,055	4,271,910	4,320,848	4,238,872	4,331,040	4,271,806
Employee Benefits	4,487,842	4,699,640	5,077,996	5,167,542	5,274,017	5,368,536
Books and Supplies	699,341	844,207	780,810	969,859	598,342	510,145
Services and Other Operating	1,772,783	1,981,204	2,156,715	1,954,886	2,110,881	2,024,820
Capital Outlay	108,145	217,212	150,806	92,928	73,871	21,401
Direct Support/Indirect Costs	127,494	162,727	132,175	130,562	115,382	116,000
Other Outgo (including transfers	56,472	66,388	85,892	0	0	0
Total Expenditures	24,205,756	26,125,394	26,947,089	26,806,883	26,818,986	25,954,513
Revenues Over (Under) Expend.	(538,611)	(100,714)	(1,055,758)	1,190,402	(1,335,838)	(1,500,987)
Other Financing Sources (Uses)						
Operating transfers in	239,202	469,117	376,103	338,010	123,055	79,000
Operating transfers out	0	(105,000)	(145,000)	(156,102)	(1,129,493)	0
Other Sources (Uses)	107,899	109,414	150,806	0	1,379,493	0
Total Other Financing Sources	347,101	473,531	381,909	181,908	373,055	79,000
Rev./Other Sources Over (Under) Exp./Other Uses	(191,510)	372,817	(673,849)	1,372,310	(962,783)	(1,421,987)
Beginning Fund Balance	$3,452,488	$3,260,978	$3,633,795	$2,959,946	$4,462,782[4]	$3,500,000
Ending Fund Balance	$3,260,978	$3,633,795	$2,959,946	$4,332,256	$3,500,000	$2,078,013

(1) Audited Financial Statements, as of June 30, 2009.
(2) Fiscal Year 2010-11 Budget, adopted June 21, 2010.
(3) To facilitate year-to-year comparisons, unaudited expenditures presented by object for all years, although Governmental Accounting Standards Board ("GASB") Procedure No. 34 now requires audited financial statements to present expenditures by function.
(4) Unaudited. Audit adjustment expected.

District Debt Structure

General Obligation Bonds. All of the District's bonds authorized at the November 7, 1995, election have either been paid in due course or were refunded and defeased by issuance of the District's 2001 General Obligation Refunding Bonds, on April 19, 2001, in the aggregate principal amount of $26,570,000. As of the date of this Official Statement, $20,045,000 principal amount of the 2001 refunding bonds remained outstanding. Voter-approved bonds, and bonds issued to refund such bonds, are payable from an unlimited *ad valorem* property tax authorized to be levied by the County as necessary to repay the amounts coming due in each year. See "ESTIMATED SOURCES AND USES OF FUNDS – Scheduled Annual Debt Service" in the front portion of this Official Statement for a description of principal and interest owed on all bonds outstanding.

Capital Leases. The District has entered into various capital lease arrangements to finance acquisition of computer and networking equipment, as described in APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009", Note 8. All rent is payable from the District's general fund. Future minimum lease payments under these leases are as shown in the following table:

Year Ending June 30	Total Lease Payments
2010	$ 292,800
2011	239,426
2012	239,426
2013	239,425
Total	$1,011,077
Less: Amount Representing Interest	(114,155)
Present Value of Minimum Lease Payments	$ 896,922
As of July 1, 2010:	$ 604,122

In June, 2010, the District entered into a 36-month lease with Apple Computer for provision of educational computer equipment for the Burton Valley School. The purchase price financed under the lease is $59,240, and aggregate scheduled lease payments are $20,496 per year for three years. The lease represents a general fund obligation of the District, but the District expects to receive contributions from the Burton Valley Parent Club to make the payments.

Post-Employment Benefits. The District provides post-employment health benefits for eligible retired employees. See discussion above: "FUNDING OF DISTRICT OPERATIONS—District Expenditures—Other Post-Employment Benefits." As of July 1, 2009, the District's actuary estimated the District's unfunded accrued actuarial liability was approximately $4.4 million. See also, "—District Expenditures—*Accrued Vacation and other Obligations.*"

Capital Financing Plan

The District completed its major modernization and facilities reconstruction in Fiscal Year 2002-03, largely from proceeds of the bonds approved at the 1995 election and State matching grants. The District's only current facilities capital plans involve deferred maintenance projects, for which funds have already been set aside in the Deferred Maintenance Fund of approximately $1.23 million.

As a condition to receiving past State modernization or construction funds, the District agrees to fund a restricted maintenance reserve account in the general fund each year for 20 years of at least 3% of its general fund budget. For Fiscal Years 2008-09 through 2012-13, the adopted 2009-10 State Budget has reduced the required reserve contribution from 3% to 1%. In 2010-11, the District has budgeted a maintenance reserve contribution of $720,000 or 2.8%.

Insurance, Risk Pooling and Joint Powers Arrangements

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in joint ventures under joint powers agreements in the County and Northern California to provide workers' compensation, property and liability insurance, and vision and dental insurance. The District purchases comprehensive workers compensation coverage from Contra Costa County Schools Insurance Group (CCCSIG), in coverage amounts as required by the California Workers Compensation Act and comparable to other school districts participating in CCCSIG. For property damage, the District has a deductible of $1,000 per occurrence, covers damage up to $25,000 via a self-insured retention, and purchases excess property insurance in the commercial market to a policy limit of $250 million per occurrence through the Contra Costa and Solano Counties School Districts Self-Insurance Authority (CCSCSDSIA). For liability insurance, the District has a deductible of $1,000 per occurrence, CCSCSDSIA covers liability up to $25,000 via a self-insured retention, the District purchases excess general liability coverage through the Northern California Regional Liability Excess Fund (NorCal ReLiEF) and Schools Association for Excess Risk (SAFER) to a policy limit of $25 million per occurrence. The District purchases vision and dental coverage for its participating employees from Schools Self-Insurance of Contra Costa County (SSICCC).

The District's potential liabilities under its arrangement with these joint powers authorities are described in APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009", Note 15. The District does not directly bear liability for the losses of other members of any of the joint powers authorities; however in the event of numerous large local losses, any of these joint powers authorities' self-insured retention fund could be exhausted, and member districts such as the District could be required to make further contributions to cover member claims.

The District is also a member of the Contra Costa SELPA, a joint powers authority that provides special education funding and support to its 16 school district and county office of education members. In the event of uninsured losses, the District agrees to indemnify the SELPA and its officers and agents to the extent of the District's proportional share of total average daily attendance among SELPA members.

Charter Schools

Charter schools operate as autonomous public schools, under charter from a school district, county office of education, or the State Board of Trustees, with minimal supervision by the local school district. Charter schools receive revenues from the State and from the District for each student enrolled, and thus effectively reduce revenues available for students enrolled in District schools. The District is also required to accommodate charter school students originating in the District in facilities comparable to those provided to regular District students. There are currently no charter schools operating in the District.

SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the Contra Costa County Superintendent of Schools (the "County Superintendent").

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) after also consulting with the district's board, develop and impose revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 ("A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) 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 Superintendent 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 is deemed 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. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District has not received a qualified or negative certification in at least the most recent five fiscal years.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with the definitions, instructions and procedures of the California School Accounting Manual, as required by the State Education Code. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Stephen Roatch Accountancy Corporation audited the District's financial statements for the fiscal year ended June 30, 2009, and that report is attached hereto as APPENDIX B. The District considers its audited financial statements to be public information, and accordingly no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the District since the audit was concluded. The District is required by law to adopt its audited financial statements following a public meeting to be conducted no later than January 31 following the close of each fiscal year. For Fiscal Year 2009-10, the District has engaged Christy White Accountancy Corporation as its auditor.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIIIA of the California Constitution. Article XIIIA of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for payment of the District's bonds approved at the 1995 election, and any bonds lawfully issued to refund those bonds, falls within the exception for bonds approved by a two-thirds vote.

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

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

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

Article XIIIC and Article XIIID of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article 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 school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIIC also 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 XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer and tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

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

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

Expenditures and Appropriations

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

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

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

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

In Fiscal Year 2009-10, the District had an appropriations limit of $17,597,995 and appropriations subject to the limit of $17,597,995. For Fiscal Year 2010-11, the District's appropriations limit is budgeted at $16,982,926.

Future Initiatives. Articles XIIIA, XIIIB, XIIIC, and XIIID, and Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

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APPENDIX B

FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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LAFAYETTE SCHOOL DISTRICT
COUNTY OF CONTRA COSTA
LAFAYETTE, CALIFORNIA

AUDIT REPORT

JUNE 30, 2009

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LAFAYETTE SCHOOL DISTRICT

JUNE 30, 2009

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FINANCIAL SECTION

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STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Lafayette School District
Lafayette, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lafayette School District, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Lafayette School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the provisions of California Code of Regulations, Title 5, Education, Section 19810 and following; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lafayette School District, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009, on our consideration of Lafayette School District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on pages 49 and 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lafayette School District's basic financial statements. The accompanying supplementary information, including the combining statements, the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the remaining schedules listed in the table of contents, are presented for purposes of additional analysis as required by the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09,* and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 4, 2009

This section of the Lafayette School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 and 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 25, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's financial status improved during the current fiscal year. Over the course of the year total net assets increased 3.6%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses and the loss from the disposition of capital assets by $663,756.
- Capital assets, net of depreciation, decreased $205,359 due primarily to accumulated depreciation growing at a faster rate than acquisitions and improvements.
- Total long-term liabilities decreased $877,528, due primarily to the current year payments on the outstanding general obligation bonds and capital leases.
- On the Statement of Revenues, Expenditures and Changes in Fund Balances, total current year expenditures exceeded total current year revenues by $19,961.
- The District's P-2 average daily attendance (ADA) increased 1.1% during the current year, increasing from 3,089 in 2007-08 to 3,122 in 2008-09.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of total general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2008-09, General Fund expenditures and other financing uses totaled $26,962,985. At June 30, 2009, the District has available reserves of $2,152,895 in the General Fund, which represents a reserve of 8.0%.

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
    - Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
    - Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
    - Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the Government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net assets of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

Governmental Activities:

The basic services provided by the District, such as regular and special education and administration are included here, and are primarily financed by state apportionments, property taxes and state formula aid. Non-basic services are also included here, but are financed by a combination of state and federal contract and grants, and local revenues.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. , Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of the Lafayette School District are the General Fund, Special Revenue - Special Reserve Fund, Bond Interest and Redemption Fund and Capital Projects - Special Reserve Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. The District does not maintain any enterprise funds. Internal service funds are reported with the Governmental Funds. The District has one fund of this type, the Self-Insurance Fund.

Fiduciary Funds:

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets increased from $18,289,638 at June 30, 2008 up to $18,953,394 at June 30, 2009, or 3.6%.

Comparative Statement of Net Assets

	Governmental Activities 2008	Governmental Activities 2009
Assets		
Deposits and Investments	$ 14,908,796	$ 14,241,971
Receivables	1,663,788	2,375,338
Capital Assets, net	27,760,938	27,555,579
Total Assets	44,333,522	44,172,888
Liabilities		
Current *	2,644,896	2,849,231
Long-Term *	23,398,988	22,370,263
Total Liabilities *	26,043,884	25,219,494
Net Assets		
Invested in Capital Assets - Net of Related Debt	3,874,140	3,745,422
Restricted	9,317,952	9,559,095
Unrestricted *	5,097,546	5,648,877
Total Net Assets *	$ 18,289,638	$ 18,953,394

Table includes financial data of the combined governmental funds and proprietary fund

* *The prior year balances have been adjusted to reflect the restatement of Net Assets discussed in Note 17.*

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's net assets increased $663,756 during fiscal year 2008-09.

Comparative Statement of Changes in Net Assets

	Governmental Activities	
	2008	2009
Program Revenues		
Operating Grants and Contributions	$ 4,890,360	$ 4,666,532
General Revenues		
Taxes Levied	15,313,358	17,294,735
Federal and State Aid	7,149,048	7,187,351
Interest and Investment Earnings	556,772	217,250
Miscellaneous	779,820	1,279,865
Total Revenues	28,689,358	30,645,733
Expenses		
Instruction	19,472,663	19,976,400
Instruction-Related Services	3,308,572	3,642,628
Pupil Services	768,919	759,726
General Administration	1,676,232	1,473,794
Plant Services	2,957,914	2,885,137
Interest on Long-Term Debt	1,129,333	1,069,563
Other Outgo	85,892	130,562
Total Expenses	29,399,525	29,937,810
Changes in Net Assets Before Special Items	(710,167)	707,923
Special Items	(4,357)	(44,167)
Changes in Net Assets	$ (714,524)	$ 663,756

Table includes financial data of the combined governmental funds and proprietary fund

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

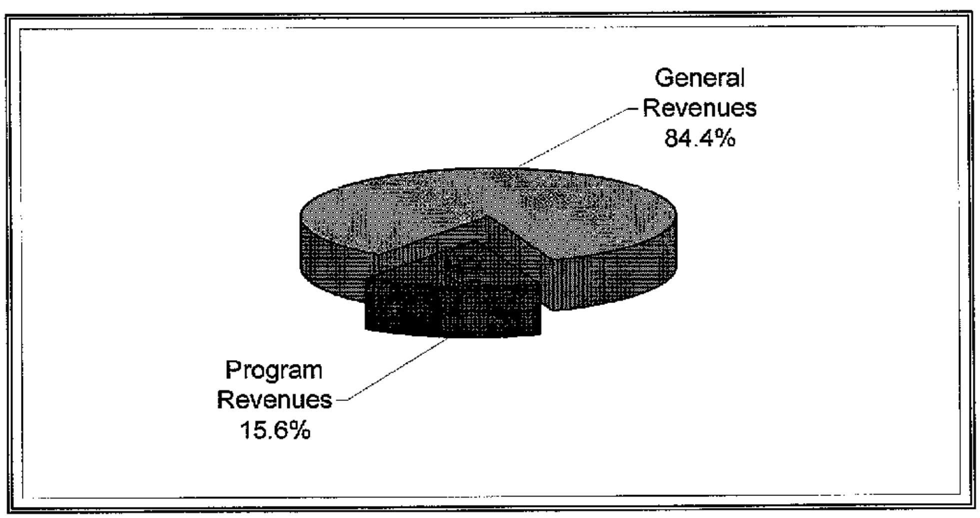
The table below presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The $25,271,278 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed. Further detail is available on page 15 of the audit.

Comparative Schedule of Costs of Services

	Total Cost of Services		Net Cost of Services	
	2008	2009	2008	2009
Instruction	$ 19,472,663	$ 19,976,400	$ 15,577,948	$ 16,358,657
Instruction-Related Services	3,308,572	3,642,628	2,851,961	3,420,112
Pupil Services	768,919	759,726	520,833	581,549
General Administration	1,676,232	1,473,794	1,652,959	1,440,119
Plant Services	2,957,914	2,885,137	2,756,682	2,512,655
Interest on Long-Term Debt	1,129,333	1,069,563	1,129,333	1,069,563
Other Outgo	85,892	130,562	19,449	(111,377)
Totals	$ 29,399,525	$ 29,937,810	$ 24,509,165	$ 25,271,278

Table includes financial data of the combined governmental funds and proprietary fund

Program revenues financed 15.6% of the total cost of providing the services listed above, while the remaining 84.4% was financed by the general revenues of the District.



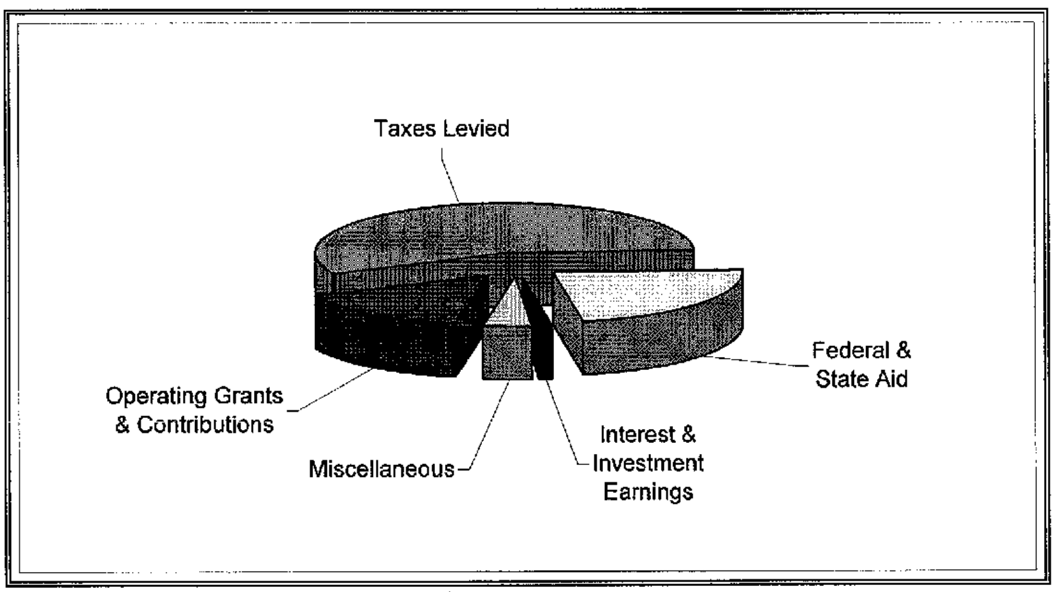
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Summary of Revenues For Governmental Functions

	FYE 2008 Amount	Percent of Total	FYE 2009 Amount	Percent of Total
Program Revenues				
Operating Grants & Contributions	$ 4,890,360	17.05%	$ 4,666,532	15.23%
General Revenues				
Taxes Levied	15,313,358	53.38%	17,294,735	56.43%
Federal & State Aid	7,149,048	24.92%	7,187,351	23.45%
Interest & Investment Earnings	556,772	1.94%	217,250	0.71%
Miscellaneous	779,820	2.72%	1,279,865	4.18%
Total Revenues	$ 28,689,358	100.00%	$ 30,645,733	100.00%

Table includes financial data of the combined governmental funds and proprietary fund



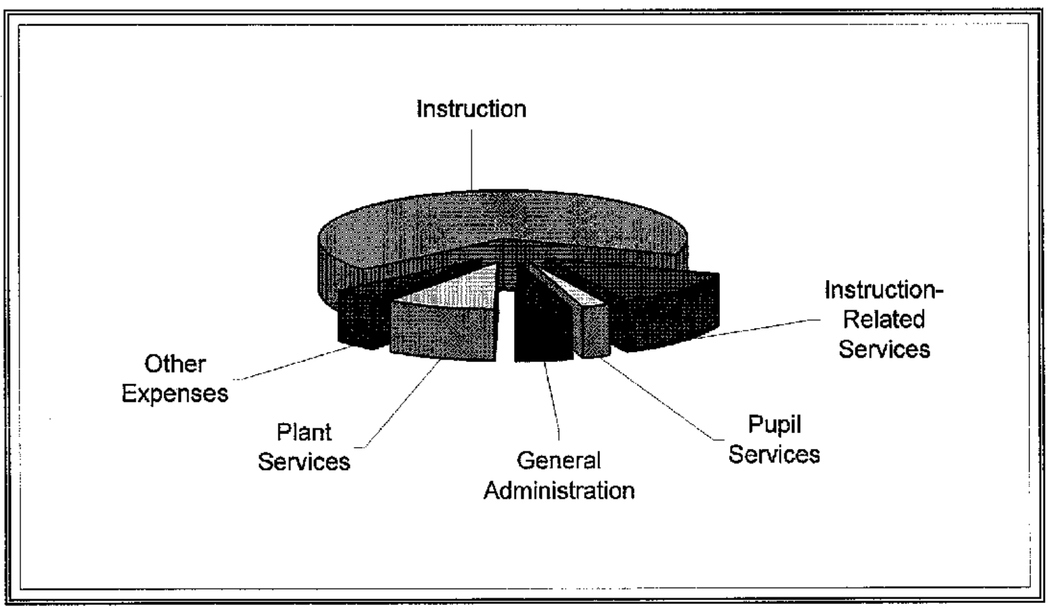
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

	FYE 2008 Amount	Percent of Total	FYE 2009 Amount	Percent of Total
Expenses				
Instruction	$ 19,472,663	66.23%	$ 19,976,400	66.73%
Instruction-Related Services	3,308,572	11.25%	3,642,628	12.17%
Pupil Services	768,919	2.62%	759,726	2.54%
General Administration	1,676,232	5.70%	1,473,794	4.92%
Plant Services	2,957,914	10.06%	2,885,137	9.64%
Other Expenses	1,215,225	4.13%	1,200,125	4.01%
Total Expenses	$ 29,399,525	100.00%	$ 29,937,810	100.00%

Table includes financial data of the combined governmental funds and proprietary fund



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

Comparative Schedule of Capital Assets

	Governmental Activities	
	2008	2009
Land	$ 3,653,530	$ 3,653,530
Sites and Improvements	6,248,109	6,248,109
Buildings and Improvements	31,241,385	31,448,159
Furniture and Equipment	940,509	1,593,033
Subtotals	42,083,533	42,942,831
Less Accumulated Depreciation	(14,322,595)	(15,387,252)
Capital Assets, net	$ 27,760,938	$ 27,555,579

Capital assets, net of depreciation, decreased $205,359 due primarily to accumulated depreciation growing at a faster rate than acquisitions and improvements.

Comparative Schedule of Long-Term Liabilities

	Governmental Activities	
	2008	2009
Compensated Absences	$ 105,970	$ 102,045
General Obligation Bonds	23,570,000	22,450,000
Capital Leases	1,166,564	896,922
Other Post Employment Benefits *	0	516,039
Totals *	$ 24,842,534	$ 23,965,006

* The balances at June 30, 2008 have been adjusted to reflect the restatement described in Note 17.

The general obligation bonds are financed by local taxpayers and represent approximately 94% of the District's long-term liabilities. Capital leases represent approximately 4% of the District's long-term liabilities and are financed by the General Fund and Capital Projects - Special Reserve Fund. The remaining 2% of long-term liabilities are financed by the General Fund and Special Revenue - Special Reserve for Postemployment Benefits Fund.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

Comparative Schedule of Fund Balances

	Fund Balances June 30, 2008	Fund Balances June 30, 2009	Increase (Decrease)
General	$ 2,959,946	$ 4,332,256	$ 1,372,310
Special Revenue - Special Reserve	3,280,356	3,163,508	(116,848)
Bond Interest and Redemption	1,763,508	1,773,226	9,718
Capital Projects - Special Reserve	5,362,954	4,369,829	(993,125)
Deferred Maintenance	1,778,940	1,488,976	(289,964)
Special Revenue - Special Reserve for Postemployment Benefits	14,526	76,160	61,634
Capital Facilities	600,570	537,154	(63,416)
Totals	$ 15,760,800	$ 15,741,109	$ (19,691)

The combined fund balances of all funds remained stable in 2008-09, decreasing only $19,691.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The original budget presented on page 49 includes only new revenues for 2008-09.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

Student enrollment and attendance are primary factors in the computation of funding formulas for public schools in the State of California. Average daily attendance (ADA) increased 33 ADA during fiscal year 2008-09, but is expected to decrease during fiscal year 2009-10.

The State's economic situation is another major factor affecting the District's future. The financial well being of the District is tied in large measure to the state funding formula, and because the State's current year budget does not fully address its budget problem, it is anticipated that further reductions in funding may be forthcoming. As a result, management will need to plan carefully and prudently to provide the resources to meet student needs over the next several years.

The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean and prosperous years for education finances.

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 the Director of Fiscal Services, Lafayette School District, 3477 School Street, Lafayette, California 94549.

LAFAYETTE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

		Governmental Activities
Assets		
Deposits and Investments (Note 2)	$	14,241,971
Receivables (Note 4)		2,375,338
Capital Assets: (Note 6)		
Land		3,653,530
Sites and Improvements		6,248,109
Buildings and Improvements		31,448,159
Furniture and Equipment		1,593,033
Less: Accumulated Depreciation		(15,387,252)
Total Assets		44,172,888
Liabilities		
Accounts Payable and Other Current Liabilities		1,067,775
Deferred Revenue (Note 1K)		186,713
Long-Term Liabilities:		
Portion Due or Payable Within One Year:		
General Obligation Bonds		1,165,000
Capital Leases		246,723
Other Post Employment Benefits		183,020
Portion Due or Payable After One Year:		
Compensated Absences (Note 1K)		102,045
General Obligation Bonds (Note 7)		21,285,000
Capital Leases (Note 8)		650,199
Other Post Employment Benefits (Note 9)		333,019
Total Liabilities		25,219,494
Net Assets		
Investment in Capital Assets, Net of Related Debt		3,745,422
Restricted:		
For Capital Projects		4,906,983
For Debt Service		1,773,226
For Educational Programs		1,379,910
For Other Purposes		1,498,976
Unrestricted		5,648,877
Total Net Assets	$	18,953,394

LAFAYETTE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Governmental Activities					
Instruction	$ 19,976,400		$ 3,617,743		$ (16,358,657)
Instruction-Related Services:					
Supervision of Instruction	1,251,668		222,415		(1,029,253)
Instructional Library and Technology	405,806		101		(405,705)
School Site Administration	1,985,154				(1,985,154)
Pupil Services:					
Home-to-School Transportation	100				(100)
Food Services	27,617				(27,617)
Other Pupil Services	732,009		178,177		(553,832)
General Administration:					
Data Processing Services	24,027				(24,027)
Other General Administration	1,449,767		33,675		(1,416,092)
Plant Services	2,885,137		372,482		(2,512,655)
Interest on Long-Term Debt	1,069,563				(1,069,563)
Other Outgo	130,562		241,939		111,377
Total Governmental Activities	$ 29,937,810	$ 0	$ 4,666,532	$ 0	(25,271,278)
General Revenues					
Taxes Levied for General Purposes					12,252,001
Taxes Levied for Debt Service					2,190,634
Taxes Levied for Specific Purposes					2,852,100
Federal and State Aid - Unrestricted					7,187,351
Interest and Investment Earnings					217,250
Miscellaneous					1,279,865
Total General Revenues					25,979,201
Special Item					
Loss from Disposition of Capital Assets					(44,167)
Change in Net Assets					663,756
Net Assets - July 1, 2008 (As restated - Note 17)					18,289,638
Net Assets - June 30, 2009					$ 18,953,394

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LAFAYETTE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Special Revenue - Special Reserve
Assets		
Deposits and Investments (Note 2)	$ 2,786,058	$ 3,151,679
Receivables (Note 4)	2,309,976	11,829
Total Assets	$ 5,096,034	$ 3,163,508
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	$ 577,065	
Deferred Revenue (Note 1K)	186,713	
Total Liabilities	763,778	
Fund Balances: (Note 11)		
Reserved	1,389,910	
Unreserved:		
Designated	1,594,451	$ 3,163,508
Undesignated	1,347,895	
Total Fund Balances	4,332,256	3,163,508
Total Liabilities and Fund Balances	$ 5,096,034	$ 3,163,508

Bond Interest and Redemption	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
$ 1,773,226	$ 4,324,469	$ 2,121,904	$ 14,157,336
	45,360	7,861	2,375,026
$ 1,773,226	$ 4,369,829	$ 2,129,765	$ 16,532,362
		$ 27,475	$ 604,540
			186,713
		27,475	791,253
$ 1,773,226			3,163,136
	$ 4,366,942	2,016,592	11,141,493
	2,887	85,698	1,436,480
1,773,226	4,369,829	2,102,290	15,741,109
$ 1,773,226	$ 4,369,829	$ 2,129,765	$ 16,532,362

LAFAYETTE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances - Governmental Funds		$ 15,741,109
Amounts reported for governmental activities in the statement of net assets are different due to the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The amount that capital assets exceeded accumulated depreciation was:		
Capital Assets	$ 42,942,831	
Accumulated Depreciation	(15,387,252)	
		27,555,579
The assets and liabilities of internal service funds are not included in the governmental fund statements, but are included in governmental activities. The net assets of the District's self insurance fund were:		84,947
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:		
Compensated Absences	$ 102,045	
General Obligation Bonds	22,450,000	
Capital Leases	896,922	
Other Post Employment Benefits	516,039	
		(23,965,006)
In governmental funds, the unmatured interest on long-term obligations are not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owed at the end of the period was:		(463,235)
Total Net Assets - Governmental Activities		$ 18,953,394

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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LAFAYETTE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General	Special Revenue - Special Reserve
Revenues		
Revenue Limit Sources:		
State Apportionment	$ 4,624,967	
Local Taxes	12,252,001	
Total Revenue Limit Sources	16,876,968	
Federal Revenue	1,964,491	
State Revenue	2,904,318	
Local Revenue	6,251,508	$ 70,162
Total Revenues	27,997,285	70,162
Expenditures		
Instruction	18,624,793	
Supervision of Instruction	1,199,386	
Instructional Library and Technology	389,614	
School Site Administration	1,603,340	
Home-To-School Transportation	100	
Food Services	27,617	
Other Pupil Services	701,433	
Data Processing Services	23,023	
Other General Administration	1,383,438	
Plant Services	2,630,649	
Facilities Acquisition and Construction		
Debt Service:		
Principal Retirement	84,922	
Interest and Issuance Costs	8,006	
Other Outgo	130,562	
Total Expenditures	26,806,883	0
Excess of Revenues Over (Under) Expenditures	1,190,402	70,162
Other Financing Sources (Uses)		
Operating Transfers In	338,010	
Operating Transfers Out	(156,102)	(187,010)
Total Other Financing Sources (Uses)	181,908	(187,010)
Net Change in Fund Balances	1,372,310	(116,848)
Fund Balances - July 1, 2008	2,959,946	3,280,356
Fund Balances - June 30, 2009	$ 4,332,256	$ 3,163,508

Bond Interest and Redemption	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
			$ 4,624,967
			12,252,001
			16,876,968
			1,964,491
$ 17,124		$ 108,852	3,030,294
2,183,629	$ 216,641	50,240	8,772,180
2,200,753	216,641	159,092	30,643,933
			18,624,793
			1,199,386
			389,614
			1,603,340
			100
			27,617
			701,433
			23,023
		45	1,383,483
	41	14,999	2,645,689
	1,175,759	290,142	1,465,901
1,120,000	184,720		1,389,642
1,071,035			1,079,041
			130,562
2,191,035	1,360,520	305,186	30,663,624
9,718	(1,143,879)	(146,094)	(19,691)
	351,754	206,102	895,866
	(201,000)	(351,754)	(895,866)
0	150,754	(145,652)	0
9,718	(993,125)	(291,746)	(19,691)
1,763,508	5,362,954	2,394,036	15,760,800
$ 1,773,226	$ 4,369,829	$ 2,102,290	$ 15,741,109

LAFAYETTE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net Change in Fund Balances - Governmental Funds		$ (19,691)
Amounts reported for governmental activities in the statement of activities are different due to the following:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. The amount that depreciation expense exceeded capital outlays during the year was:		
Depreciation Expense	$ (1,200,366)	
Capital Outlays	1,039,174	
		(161,192)
Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss is:		(44,167)
In the statement of activities, certain operating expenses - compensated absences (vacations) and other post employment benefits are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the amount of earned vacation and other post employment benefits exceeded amounts used by:		(512,114)
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 the repayment of the principal portion of long-term debt were:		
General Obligation Bonds	$ 1,120,000	
Capital Leases	269,642	
		1,389,642
Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest on the general obligation bonds and capital leases decreased by:		9,478
The income and expenses of internal service funds are not included in the governmental fund statements, but are included in governmental activities. The net increase in the internal service fund was:		1,800
Change in Net Assets of Governmental Activities		$ 663,756

LAFAYETTE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

		Governmental Activities
		Internal Service Fund
Assets		
Deposits and Investments (Note 2)	$	84,635
Receivables (Note 4)		312
Total Assets		84,947
Net Assets		
Unrestricted		84,947
Total Net Assets	$	84,947

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LAFAYETTE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities
	Internal Service Fund
Non-Operating Revenues	
Interest Income	$ 1,800
Change in Net Assets	1,800
Net Assets - July 1, 2008	83,147
Net Assets - June 30, 2009	$ 84,947

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LAFAYETTE SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities
	Internal Service Fund
Cash Flows From Investing Activities	
Interest Income	$ 2,109
Net Cash Provided by Investing Activities	2,109
Deposits and Investments - July 1, 2008	82,526
Deposits and Investments - June 30, 2009	$ 84,635

LAFAYETTE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Agency Funds	Total Fiduciary Funds
Assets		
Deposits and Investments (Note 2)	$ 54,995	$ 54,995
Liabilities		
Due to Student Groups	54,995	54,995
Net Assets		
Total Net Assets	$ 0	$ 0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The Lafayette School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Education elected by registered voters of the District, which comprises an area in Contra Costa County. The District was established in 1852 and serves students in kindergarten through eighth grade.

The District prepares its financial statements in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) and complies with the policies and procedures of the Department of Education's *California School Accounting Manual.*

Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

B. Reporting Entity

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

C. Implementation of New Accounting Pronouncements

For the year ended June 30, 2009 the District was required to adopt Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The new statement significantly changes the way state and local governments report their "other post employment benefits" to the public. As a result of GASB 45, state and local governments are required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow. The effect of implementing GASB 45 resulted in a restatement of the beginning net assets balance as of July 1, 2008 due to the other post employment benefits obligation being reset to zero at the beginning of the transition year. Further detail on the restated amount is described in Note 17.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity, within the governmental column, has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, 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. The internal service fund is presented on the proprietary fund statements. 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 assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance premiums. Operating expenses for internal service funds may include the costs of providing workers compensation, dental and vision benefits to District employees.

Fiduciary funds are reported using the economic resources measurement focus.

E. 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. Proprietary and 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. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Concluded)

Revenues – Exchange and Non-exchange Transactions (Concluded):

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.

Expenses/Expenditures:

On an 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.

F. Fund Accounting

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

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting (Concluded)

Major Governmental Funds (Concluded):

The *Special Revenue - Special Reserve Fund* is used to accumulate resources to fully fund the District's obligation for accrued compensated absences, as well as provide a reserve for special projects as determined by the governing board of the District.

The *Bond Interest and Redemption Fund* is used to account for District taxes received and expended to pay bond interest and redeem bond principal.

The *Capital Projects - Special Reserve Fund* is used to account for special building projects as determined by the governing board of the District.

Non-major Governmental Funds:

The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.

The *Special Revenue - Special Reserve for Postemployment Benefits Fund* is used to accumulate resources for future payment of retiree benefits.

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provision of the California Environmental Quality Act (CEQA) and to account for expenditures for the purchase and lease of portable classrooms and unfinished modernization and reconstruction related projects.

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost reimbursement basis within the District. The District maintains one internal service fund, the *Self-Insurance Fund,* which was used to accumulate resources to pay for the deductible portion of the District's insured claims. However, the District is no longer self insured.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains five agency funds to account for student body activities at each school site. The student body funds are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Concluded)

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund and Special Revenue - Special Reserve Fund as required supplementary information on pages 49 and 50.

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 (See Note 3).

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. 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.

J. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows for the District's proprietary fund, the District considers all highly liquid investment instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

K. Assets, Liabilities and Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to $250,000 by the Federal Depository Insurance Corporation (FDIC).

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

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 are either secured by the FDIC or are collateralized.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Capital Assets

Furniture and equipment purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost and capital improvement, acquisition, or construction with an original cost of $50,000 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. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Asset Class	Years
Sites and Improvements	20
Buildings and Improvements	20-50
Furniture and Equipment	5-25

3. 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.

4. Compensated Absences

All vacation pay plus related labor costs are accrued when incurred in the government-wide financial statements. 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

K. Assets, Liabilities and Equity (Concluded)

5. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as liabilities in the Statement of Net Assets. In the fund financial statements, the face amount of the debt issued is reported as other financing sources.

6. Fund Balance Reserves and Designations

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. 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.

7. 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 of Contra Costa 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 alternative 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's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, consist of the following:

	Governmental Funds	Proprietary Fund	Total Governmental Activities	Fiduciary Activities
Cash on Hand and in Banks				$ 54,995
Cash in Revolving Fund	$ 10,000		$ 10,000	
County Pool Investments	5,030,040	$ 1,636	5,031,676	
Local Agency and Investment Fund	9,117,296	82,999	9,200,295	
Total Deposits and Investments	$ 14,157,336	$ 84,635	$ 14,241,971	$ 54,995

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

County Pool Investments

County pool investments consist of District cash held by the Contra Costa County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

Local Agency Investment Fund (LAIF)

Local Agency Investment Fund consists of amounts held in a special fund maintained by the California State Treasury through which local governments may pool investments. Each governmental agency may invest up to $40,000,000 in each account in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest or principal. The full faith and credit of the State of California secure investments in LAIF.

At June 30, 2009, the total cost of the District's investment in LAIF was $9,200,295. The total fair value of the District's investment in LAIF was $9,212,299. The fair value total includes an unrealized gain of $12,004. The unrealized gain was based on a fair market adjustment factor of 1.001304743 that was calculated by the State of California Treasurer's Office.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF) (Concluded)

At June 30, 2009, the fair value of the State of California Pooled Money Investment Account (PMIA) including accrued interest was $50,889,715,337. The State of California Pooled Money Investment Account portfolio had securities in the form of structured notes totaling $5,169,332,000 and asset backed securities totaling $2,296,565,000. The PMIA has policies, goals and objectives for the portfolio to make certain that the goals of safety, liquidity, and yield are not jeopardized. These policies are formulated by investment staff and reviewed by both the PMIA and LAIF Advisory Board on an annual basis.

General Authorization

Limitation as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the following schedule:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Carrying Value	Fair Value	Less Than 1 Year	More Than 1 Year
County Pool Investments	$ 5,031,676	$ 5,045,765	$ 4,377,558	$ 654,118
Local Agency Investment Fund	9,200,295	9,212,299	9,200,295	
Totals	$ 14,231,971	$ 14,258,064	$ 13,577,853	$ 654,118

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Carrying Value	Fair Value	Rating as of Year End AAA	Aa	Unrated
County Pool Investments	$ 5,031,676	$ 5,045,765			$ 5,031,676
Local Agency Investment Fund	9,200,295	9,212,299			9,200,295
Totals	$ 14,231,971	$ 14,258,064	$ 0	$ 0	$ 14,231,971

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2009, the District does not have any investments that are held by counterparties.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Contra Costa County Treasury was not available.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The excess of expenditures over appropriations in the General Fund was as follows:

	Excess Expenditures
Other Expenditures	$ 44,835

The District incurred unanticipated expenditures in the expenditure classification above for which the budget was not revised.

There was no excess of expenditures over appropriations in the Special Revenue - Special Reserve Fund in fiscal year 2008-09.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 consist of the following:

	General Fund	Special Revenue - Special Reserve Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Proprietary Fund	Totals
Federal Government	$ 588,324					$ 588,324
State Government	1,271,270					1,271,270
Local Governments	262,783					262,783
Interest	561	$ 11,829	$ 14,553	$ 7,861	$ 312	35,116
Miscellaneous	187,038		30,807			217,845
Totals	$ 2,309,976	$ 11,829	$ 45,360	$ 7,861	$ 312	$ 2,375,338

NOTE 5 - INTERFUND ACTIVITIES

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. 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.

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers in fiscal year 2008-09 were as follows:

Funds	Transfers In	Transfers Out
General	$ 338,010	$ 156,102
Special Revenue - Special Reserve		187,010
Capital Projects - Special Reserve	351,754	201,000
Deferred Maintenance	145,000	351,754
Special Reserve for Postemployment Benefits	61,102	
Totals	$ 895,866	$ 895,866

Transfer $145,000 from the General Fund to the Deferred Maintenance Fund to match state allocation.

Transfer $11,102 of fiscal solvency funds from the General Fund to the Special Reserve for Postemployment Benefits Fund toward future other post employment benefit costs.

Transfer $137,010 of earned interest income from the Special Revenue - Special Reserve Fund to the General Fund for program reinstatement.

Transfer $50,000 from the Special Revenue - Special Reserve Fund to the Special Reserve for Postemployment Benefits Fund toward future other post employment benefit costs.

Transfer $145,000 from the Capital Projects - Special Reserve Fund to the General Fund to backfill the deferred maintenance match.

Transfer $34,000 from the Capital Projects - Special Reserve Fund to the General Fund for field use clerical support.

Transfer $22,000 from the Capital Projects - Special Reserve Fund to the General Fund for gym use clerical support.

Transfer $351,754 of unmatched funds from the Deferred Maintenance Fund to the Capital Projects - Special Reserve Fund to support technology and other capital needs.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009, is shown below:

	Balances July 1, 2008	Additions	Deletions	Balances June 30, 2009
Land	$ 3,653,530			$ 3,653,530
Sites and Improvements	6,248,109			6,248,109
Buildings and Improvements	31,241,385	$ 206,774		31,448,159
Furniture and Equipment	940,509	832,400	$ 179,876	1,593,033
Totals at Historical Cost	42,083,533	1,039,174	179,876	42,942,831
Less Accumulated Depreciation for:				
Sites and Improvements	4,284,918	303,447		4,588,365
Buildings and Improvements	9,551,383	645,374		10,196,757
Furniture and Equipment	486,294	251,545	135,709	602,130
Total Accumulated Depreciation	14,322,595	1,200,366	135,709	15,387,252
Governmental Activities Capital Assets, net	$ 27,760,938	$ (161,192)	$ 44,167	$ 27,555,579

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	$ 835,568
Supervision of Instruction	52,282
Instructional Library and Technology	16,950
School Site Administration	82,919
Other Pupil Services	30,576
Data Processing Services	1,004
Other General Administration	60,556
Plant Services	120,511
Total Depreciation Expense	$ 1,200,366

NOTE 7 - GENERAL OBLIGATION BONDS

The outstanding general obligation bonds of the District as of June 30, 2009 are as follows:

Date Of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2008	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2009
2001	4.1-5.0	2022	$ 26,570,000	$ 23,570,000	$ 0	$ 1,120,000	$ 22,450,000

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2009, are as follows:

Year Ended June 30	Principal	Interest	Totals
2010	$ 1,165,000	$ 1,022,688	$ 2,187,688
2011	1,240,000	973,230	2,213,230
2012	1,305,000	920,250	2,225,250
2013	1,420,000	862,315	2,282,315
2014	1,510,000	798,565	2,308,565
2015-2019	8,690,000	2,864,122	11,554,122
2020-2024	7,120,000	556,500	7,676,500
Totals	$ 22,450,000	$ 7,997,670	$ 30,447,670

NOTE 8 - CAPITAL LEASES

The District has various lease agreements for computers and network infrastructure upgrades. All lease agreements provide for title to pass to the District upon expiration of the lease periods. Future minimum lease payments under all agreements are as follows:

Year Ended June 30	Lease Payments
2010	$ 292,800
2011	239,426
2012	239,426
2013	239,425
Total payments	1,011,077
Less amount representing interest	(114,155)
Present value of net minimum lease payments	$ 896,922

The District will receive no sublease rental revenue nor pay any contingent rentals for the leased assets.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of post employment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the District recognizes the cost of post employment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Because the District is adopting the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008-09 fiscal year.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Plan Descriptions: The District provides retiree health benefits, based on age, service and eligibility for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS).

The District provides coverage to employees who retire from active status at a minimum age of 55, with at least 10 years of service (certificated), 14 years of service (classified) or 1 year of service (management), and who are eligible for pension benefits from CalSTRS or CalPERS. The District and retirees share in the cost of benefits as follows:

Medical Benefits: The District subsidizes premiums for the retiree and spouse up to the Kaiser two-party rate until the retiree reaches age 65 for certificated and classified retirees. Management retirees receive the District subsidy up to the Kaiser two-party rate for each year of service, but not beyond age 65.

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

The District had 296 total participants as of May 1, 2007, the effective date of the biennial OPEB valuation. The participants were made up of 275 active employees and 21 retired employees.

Funding Policy: The District currently pays for post employment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual Other Post Employment Benefit Cost: For the fiscal year ended June 30, 2009, the District's Annual OPEB Cost (i.e. expense) of $656,217 is equal to the Annual Required Contribution for the initial year. Considering the District's annual OPEB cost as well as the payment of current health insurance premiums, which totaled $140,178, the result was an increase in the District's Net OPEB Obligation of $516,039 for the year ended June 30, 2009.

Benefit Obligations

Actuarial Accrued Liability (AAL)

Retired employees	$ 543,668
Active Employees	5,114,686
Unfunded actuarial accrued liability (UAAL)	$ 5,658,354
Annual covered payroll	$ 17,732,919
UAAL as % of covered payroll	31.9%

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

Level Percent of Payroll Amortization

Calculation of ARC under Entry Age Normal Method

Normal cost with interest to end of year	$	405,591
Amortization of UAAL with interest to end of year		250,626
Annual required contribution (ARC)		656,217
Interest on Net OPEB Obligation		0
Adjustment to ARC		(0)
Annual OPEB cost (expense)		656,217
Contributions for the fiscal year		(140,178)
Increase in Net OPEB Obligation		516,039
Net OPEB Obligation - June 30, 2008		0
Net OPEB Obligation - June 30, 2009	$	516,039
Percent of annual OPEB cost contributed		21.4%

In future years, three-year trend information will be presented. Fiscal year 2008-09 was the first year of implementation for GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The unfunded actuarial accrued liability is being amortized over 30 years on a level percentage of payroll basis.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2007, actuarial valuation, the liabilities were computed using the entry age normal method and level percentage of payroll amortization over 30 years. The actuarial assumptions utilized a 5% discount rate, the expected long-term rate of return on District assets. The compensation increase rate of 3% was provided by the District and based on historical data. The valuation assumes a 4% healthcare cost trend rate based on the actuary's long-term assumption that the average increase over time cannot continue to outstrip general inflation by a wide margin.

NOTE 10 - LONG-TERM LIABILITIES

A schedule of changes in the District's long-term liabilities for the year ended June 30, 2009, is presented below:

	Balances July 1, 2008	Additions	Deductions	Balances June 30, 2009	Due within One Year
Compensated Absences	$ 105,970		$ 3,925	$ 102,045	
General Obligation Bonds	23,570,000		1,120,000	22,450,000	$ 1,165,000
Capital Leases	1,166,564		269,642	896,922	246,723
Other Post Employment Benefits *	0	$ 656,217	140,178	516,039	183,020
Totals *	$ 24,842,534	$ 656,217	$ 1,533,745	$ 23,965,006	$ 1,594,743

* The balances at June 30, 2008 were adjusted to reflect the prospective implementation of GASB Statement No. 45, beginning in fiscal year 2008-09. (Note 17)

NOTE 11 - FUND BALANCES

The District's fund balances at June 30, 2009 consisted of the following:

	General Fund	Special Revenue - Special Reserve Fund	Bond Interest and Redemption Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Totals
Reserved For:						
Revolving Fund	$ 10,000					$ 10,000
Debt Service			$ 1,773,226			1,773,226
Legally Restricted	1,379,910					1,379,910
Unreserved:						
Designated For:						
Economic Uncertainties	805,000					805,000
Other Designations	789,451	$ 3,163,508		$ 4,366,942	$ 2,016,592	10,336,493
Undesignated	1,347,895			2,887	85,698	1,436,480
Total Fund Balances	$ 4,332,256	$ 3,163,508	$ 1,773,226	$ 4,369,829	$ 2,102,290	$ 15,741,109

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under 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 Public Employees' Retirement System (PERS).

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to plan members and 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 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 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2009, 2008, and 2007, were $1,193,371, $1,189,956, and $1,123,202, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-09 was 9.428%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2009, 2008, and 2007, were $310,375, $299,223, and $292,819, respectively, and equal 100% of the required contributions for each year.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

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 as its alternative plan. Contributions made by the District and participating employees vest immediately. The District contributes 6.2% of employees' gross earnings. In addition, employees are required to contribute 6.2% of their gross earnings.

NOTE 13 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) for K-12 education. These payments consist of state general fund contributions of $652,694 to STRS (4.517% of salaries subject to STRS).

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008-09, the District participated in two joint powers authority (JPA) for purposes of pooling risk. There were no significant reductions in coverage during the year.

NOTE 15 - JOINT VENTURES

The District participates in three joint ventures under joint powers agreements (JPAs); the Contra Costa County Schools Insurance Group (CCCSIG) for Workers' Compensation Insurance; the Contra Costa and Solano Counties School Districts Self-Insurance Authority (CCSCSDSIA) for Property and Liability Insurance, and Schools Self-Insurance of Contra Costa County (SSICCC) for dental and vision. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage for its members. The JPAs are governed by a board consisting of a representative from each member district. Each board controls the operations of their JPAs, 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 JPAs.

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

NOTE 16 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

B. 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 17 - RESTATEMENT OF NET ASSETS

The July 1, 2008 government-wide net assets balance has been restated to reflect the adjustment to the Other Post Employment Benefits (OPEB) liability. The OPEB liability has been set at zero at the beginning of fiscal year 2008-09, the transition year for the implementation of GASB Statement No. 45. The effect of the restatement on the current year financial statements is as follows:

	Statement of Activities
Net Assets - July 1, 2008 (as originally stated)	$ 17,451,337
Elimination of OPEB liability	838,301
Net Assets - July 1, 2008 (as restated)	$ 18,289,638

NOTE 18 - ECONOMIC DEPENDENCY

During the year, the District received $2,724,102 of parcel tax revenue that is subject to voter approval. The existing parcel tax rate of $313 per parcel increases by 3% annually, and will be assessed through June 30, 2015.

NOTE 19 - SUBSEQUENT EVENT

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of $24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, $1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill $1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

NOTE 19 - SUBSEQUENT EVENT (CONCLUDED)

The District recorded the revenues and related receivables associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenues and the related receivables has been included in these financial statements.

SUPPLEMENTARY INFORMATION SECTION

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LAFAYETTE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Revenue Limit Sources:				
State Apportionment	$ 5,103,232	$ 4,623,782	$ 4,624,967	$ 1,185
Local Sources	12,043,078	12,252,001	12,252,001	
Total Revenue Limit Sources	17,146,310	16,875,783	16,876,968	1,185
Federal Revenue	821,053	1,953,476	1,964,491	11,015
Other State Revenue	2,800,722	2,987,154	2,904,318	(82,836)
Other Local Revenue	5,767,975	6,234,882	6,251,508	16,626
Total Revenues	26,536,060	28,051,295	27,997,285	(54,010)
Expenditures				
Certificated Salaries	14,080,257	14,252,569	14,252,234	335
Classified Salaries	4,119,103	4,239,111	4,238,872	239
Employee Benefits	5,348,608	5,167,630	5,167,542	88
Books and Supplies	830,206	970,169	969,859	310
Services and Other Operating Expenditures	2,030,727	1,955,440	1,954,886	554
Debt Service:				
Principal Retirement	84,922	84,922	84,922	
Interest and Fiscal Charges	8,007	8,007	8,006	1
Other Expenditures	76,759	85,727	130,562	(44,835)
Total Expenditures	26,578,589	26,763,575	26,806,883	(43,308)
Excess of Revenues Over (Under) Expenditures	(42,529)	1,287,720	1,190,402	(97,318)
Other Financing Sources (Uses)				
Operating Transfers In	361,000	338,010	338,010	
Operating Transfers Out	(145,000)	(156,102)	(156,102)	
Total Other Financing Sources (Uses)	216,000	181,908	181,908	0
Net Change in Fund Balances	173,471	1,469,628	1,372,310	$ (97,318)
Fund Balances - July 1, 2008	2,959,946	2,959,946	2,959,946	
Fund Balances - June 30, 2009	$ 3,133,417	$ 4,429,574	$ 4,332,256	

LAFAYETTE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE - SPECIAL RESERVE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Other Local Revenue	$ 167,500	$ 70,162	$ 70,162	
Other Financing (Uses)				
Operating Transfers Out	(160,000)	(187,010)	(187,010)	
Net Change in Fund Balances	7,500	(116,848)	(116,848)	$ 0
Fund Balances - July 1, 2008	3,280,356	3,280,356	3,280,356	
Fund Balances - June 30, 2009	$ 3,287,856	$ 3,163,508	$ 3,163,508	

LAFAYETTE SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

	Deferred Maintenance	Special Reserve Postemployment Benefits	Capital Facilities	Total Non-Major Governmental Funds
Assets				
Deposits and Investments	$ 1,483,287	$ 76,160	$ 562,457	$ 2,121,904
Receivables	5,689		2,172	7,861
Total Assets	$ 1,488,976	$ 76,160	$ 564,629	$ 2,129,765
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable			$ 27,475	$ 27,475
Total Liabilities			27,475	27,475
Fund Balances:				
Unreserved:				
Designated	$ 1,482,245		534,347	2,016,592
Undesignated	6,731	$ 76,160	2,807	85,698
Total Fund Balances	1,488,976	76,160	537,154	2,102,290
Total Liabilities and Fund Balances	$ 1,488,976	$ 76,160	$ 564,629	$ 2,129,765

LAFAYETTE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Deferred Maintenance	Special Reserve Postemployment Benefits	Capital Facilities	Total Non-Major Governmental Funds
Revenues				
State Revenue	$ 108,852			$ 108,852
Local Revenue	36,966	$ 532	$ 12,742	50,240
Total Revenues	145,818	532	12,742	159,092
Expenditures				
Other General Administration			45	45
Plant Services	14,999			14,999
Facilities Acquisition and Construction	214,029		76,113	290,142
Total Expenditures	229,028	0	76,158	305,186
Excess of Revenues Over (Under) Expenditures	(83,210)	532	(63,416)	(146,094)
Other Financing Sources (Uses)				
Operating Transfers In	145,000	61,102		206,102
Operating Transfers Out	(351,754)			(351,754)
Total Other Financing Sources (Uses)	(206,754)	61,102	0	(145,652)
Net Change in Fund Balances	(289,964)	61,634	(63,416)	(291,746)
Fund Balances - July 1, 2008	1,778,940	14,526	600,570	2,394,036
Fund Balances - June 30, 2009	$ 1,488,976	$ 76,160	$ 537,154	$ 2,102,290

LAFAYETTE SCHOOL DISTRICT

ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

ORGANIZATION

The Lafayette School District originated in approximately 1852, and is comprised of an area of approximately 560 square miles located in Contra Costa County. There were no changes in the boundaries of the District during the current year. The District is currently operating four elementary schools and one middle school.

BOARD OF EDUCATION

Name	Office	Term Expires
Teresa Gerringer	President	December, 2010
Ann Appert	Clerk	December, 2010
Shayne Silva	Member	December, 2012
Stephenie Teichman	Member	December, 2012
Art Kapoor	Member	December, 2010

ADMINISTRATION

Fred Brill, Ed.D.
Superintendent

Lenee Cadotte
Director of Fiscal Services

Rachel Zinn
Director of Curriculum and Instruction

Dana Sassone
Director of Special Services

LAFAYETTE SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Second Period Report	Annual Report
Elementary		
Kindergarten	325	326
First through Third	991	991
Fourth through Sixth	983	982
Seventh and Eighth	784	783
Home and Hospital	1	1
Special Education	34	33
Extended Year	4	4
Totals	3,122	3,120

Supplemental Hours	Hours of Attendance
Elementary	664

SEE NOTES TO SUPPLEMENTARY INFORMATION

LAFAYETTE SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Required	2008-09 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	31,680	36,000	36,000	180	N/A	In Compliance
Grade 1	50,740	50,400	51,465	180	N/A	In Compliance
Grade 2	50,740	50,400	51,465	180	N/A	In Compliance
Grade 3	50,740	50,400	51,465	180	N/A	In Compliance
Grade 4	53,380	54,000	54,095	180	N/A	In Compliance
Grade 5	53,380	54,000	54,095	180	N/A	In Compliance
Grade 6	57,940	54,000	58,294	180	N/A	In Compliance
Grade 7	57,940	54,000	58,294	180	N/A	In Compliance
Grade 8	57,940	54,000	58,294	180	N/A	In Compliance

LAFAYETTE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Program Name	Federal Catalog Number	Pass-Through Identification Number	Federal Program Expenditures
U.S. Department of Education:			
Passed through California Department of Education (CDE):			
NCLB: Title I Basic Grant	84.010	14329	$ 97,947
NCLB: Title II Improving Teacher Quality	84.367	14341	79,428
NCLB: Title II Enhancing Education Through Technology	84.318	14334	1,157
NCLB: Title III Immigrant Education Program	84.365	14346	6,650
NCLB: Title III Limited English Proficient	84.365	10084	5,865
NCLB: Title IV Drug Free Schools	84.186	14347	6,813
NCLB: Title V Innovative Education Strategies	84.298A	14354	1,276
Passed through Contra Costa SELPA:			
Special Education Cluster:			
IDEA Part B Local Assistance	84.027	13379	496,090
IDEA Part B Preschool Grant	84.173	13430	37,959
IDEA Part B Preschool Local Entitlement	84.027A	13682	84,551
ARRA IDEA Part B Local Assistance	84.391	15003	96,851
ARRA IDEA Part B Preschool Grants	84.392	15000	6,058
ARRA IDEA Part B Preschool Local Entitlement	84.391	15002	21,240
Total			$ 941,885

LAFAYETTE SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

		General Fund
June 30, 2009 Annual Financial and Budget Report Fund Balance	$	4,462,783
Adjustment Decreasing Fund Balance: Overstatement of State Revenues *		(130,527)
June 30, 2009 Audited Financial Statements Fund Balance	$	4,332,256

* The adjustment was made as a result of the state budget amendments described in Note 19.

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2009.

LAFAYETTE SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	GENERAL FUND			
	(Budget) * 2009-10	2008-09	2007-08	2006-07
Revenues and Other Financial Sources	$ 25,676,286	$ 28,335,295	$ 26,418,240	$ 26,603,211
Expenditures	26,763,208	26,806,883	26,947,089	26,125,394
Other Uses and Transfers Out	0	156,102	145,000	105,000
Total Outgo	26,763,208	26,962,985	27,092,089	26,230,394
Change in Fund Balance	(1,086,922)	1,372,310	(673,849)	372,817
Ending Fund Balance	$ 3,245,334	$ 4,332,256	$ 2,959,946	$ 3,633,795
Available Reserves	$ 1,911,821	$ 2,152,895	$ 1,825,487	$ 2,451,259
Designated for Economic Uncertainties	$ 810,000	$ 805,000	$ 803,000	$ 790,000
Undesignated Fund Balance	$ 1,101,821	$ 1,347,895	$ 1,022,487	$ 1,661,259
Available Reserves as a Percentage of Total Outgo	7.1%	8.0%	6.7%	9.3%
Total Long-Term Liabilities **	$ 22,370,263	$ 23,965,006	$ 24,842,534	$ 24,878,734
Average Daily Attendance at P-2	3,053	3,122	3,089	3,082

* Amounts reported for the 2009-10 budget are presented for analytical purposes only and have not been audited.

** The balances at June 30, 2007 and June 30, 2008 exclude the liability for other post employment benefits to provide better comparability to fiscal year 2008-09, the implementation year for GASB 45.

The fund balance of the General Fund increased $698,461 (19.2%) over the past two years. The fiscal year 2009-10 budget projects a decrease of $1,086,922 (25.1%). For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit of $673,849 during fiscal year 2007-08, and produced operating surpluses of $1,372,310 and $372,817 during fiscal years 2008-09 and 2006-07, respectively.

Long-term liabilities decreased $913,728 over the past two years.

Average daily attendance (ADA) increased 40 ADA (1.3%) over the past two years. The District projects a decrease of 69 ADA during fiscal year 2009-10.

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

B. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

C. Schedule of Average Daily Attendance

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

D. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

E. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the Annual Financial and Budget Report to the audited financial statements.

G. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

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OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

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STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Lafayette School District
Lafayette, California

We have audited the basic financial statements of Lafayette School District, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 4, 2009. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of California Code of Regulations, Title 5, Education, Section 19810 and following; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures in Education Audit Appeals Panel's Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable (a)
Regional Occupational Centers and Programs	6	Not Applicable (a)
Instructional Time for School Districts	6	Yes
Instructional Time for County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Not Applicable (a)
Instructional Materials Program:		
General Requirements	12	1 (b)
Grades K-8	1	Not Applicable (a)
Grades 9-12	1	Not Applicable (a)
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes

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Description	Procedures In Education Audit Appeals Panel's Audit Guide	Procedures Performed
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable [(a)]
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving Grades K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	4	Not Applicable
Before School	5	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	1	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	3	Not Applicable

(a) This program is not required to be audited per flexibility provisions in SBx3 4.

(b) The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

We did not perform tests for independent study program because the ADA claimed by the District does not exceed the threshold that requires testing.

Based on our audit, we found that, for the items tested, Lafayette School District complied with the state laws and regulations of the state programs referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Lafayette School District had not complied with the state laws and regulations, except as described in the accompanying Schedule of Findings and Questioned Costs.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 4, 2009

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

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

Board of Education
Lafayette School District
Lafayette, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lafayette School District, as of and for the fiscal year ended June 30, 2009, which collectively comprise Lafayette School District's basic financial statements and have issued our report thereon dated December 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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Board of Education
Lafayette School District
Page Two

Internal Control Over Financial Reporting (Concluded)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. The significant deficiency that we consider to be a material weakness is described in the accompanying Schedule of Findings and Questioned Costs.

Compliance and Other Matters

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

The District's response to the finding is included in the accompanying Schedule of Findings and Questioned Costs. However, we did not audit the response and, accordingly, we express no opinion on it.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 4, 2009

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Lafayette School District
Lafayette, California

Compliance

We have audited the compliance of Lafayette School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements, applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Lafayette School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lafayette School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lafayette School District's compliance with those requirements.

In our opinion, Lafayette School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Cost.

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Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. The control deficiency that we consider to be a significant deficiency is described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the significant deficiencies identified in this report to be material weaknesses.

The District's response to the finding is included in the accompanying Schedule of Findings and Questioned Cost. However, we did not audit the response and, accordingly, we express no opinion on it.

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 4, 2009

FINDINGS AND QUESTIONED COSTS SECTION

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LAFAYETTE SCHOOL DISTRICT

SCHEDULE OF FINDING AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? X Yes ______ No

Significant deficiencies identified not considered to be material weaknesses? ______ Yes X No

Noncompliance material to financial statements noted? ______ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? ______ Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes ______ None reported

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

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

Identification of major programs:

CFDA Numbers	Federal Program
84.027 / 84.173 / 84.391 / 84.392	Special Education Cluster

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

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

State Awards

Internal control over state programs:

Material weaknesses identified? ______ Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes ______ No

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

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SECTION II - FINANCIAL STATEMENT FINDINGS

09 - 1 / 30000

MATERIAL WEAKNESS

FINANCIAL REPORTING - UNAUDITED ACTUALS

Criteria:	Each year, school districts are responsible for preparing complete and accurate financial information, which is reported to the California Department of Education in the form of the "Unaudited Actuals" Financial Report. In addition, each year the governing board certifies that the report was prepared in accordance with Education Code Section 41010, and approves the report as the official submission of financial information that will be used as the basis for the District's annual financial statements.
Condition:	The District's "Unaudited Actuals" included misstatements that we consider to be material to the District's annual financial statements.
Questioned Costs:	None.
Context:	On July 28, 2009, Governor Schwarzenegger signed budget amendments, that in part, un-appropriated $1.6 billion of categorical funding that was designated for fiscal year 2008-09 and re-appropriated $1.5 billion for fiscal year 2009-10. Since the State did not recognize the $1.5 billion as an obligation for fiscal year 2008-09, under GASB Statement No. 33, districts should not have accrued the corresponding receivables for the un-appropriated categorical programs.
Effect:	The District accrued receivables in various categorical programs for which the State had not recorded a corresponding obligation. The adjustments that were made as a result of this audit to comply with the revenue recognition guidance included in GASB Statement No. 33 to ensure the financial statements were fairly stated are presented on page 57 of this report.
Cause:	The advisory instructing districts on the proper treatment of the un-appropriated $1.5 billion of categorical funding was issued on November 6, 2009, which was well after the September 15, 2009 SACS reporting deadline. Prior to the receipt of the November 2009 advisory, the vast majority of guidance available to the District when they were closing their books advised them to close as normal and accrue 2008-09 categorical funding as they had done in prior years. In addition, although the State identified the various categorical programs affected by the July 2009 budget amendments, there was no way to readily identify the District's specific share of the un-appropriated categorical amounts.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

FINANCIAL REPORTING - UNAUDITED ACTUALS (CONCLUDED)

Recommendation: If budget amendments are made by the State of California that un-appropriate any current year funding amounts in future years, the District should contact the State Controller's Office and obtain proper guidance for the treatment of revenues and have them identify the District's specific share of any un-appropriated revenues during the year-end closing process.

District Response: **Background:** As a result of the foregoing circumstances and absent a definite method of identifying or calculating the various categorical programs affected by the July 2009 budget amendments, Lafayette School District recognized a total of $130,527 as revenues in 2008-09 and booked these as accounts receivables. When the advisory issued on November 6, 2009, and well past the State's September 15, 2009 unaudited actual SACS reporting deadline was finally released, it was too late for the District to revise its unaudited financial position and consequently, the ending fund balance was overstated by $130,527 due to revenues that were un-appropriated by the State in 2008-09 and then re-appropriated for 2009-10.

District Corrective Action: The District, with the assistance of the auditor and County Office of Education, will process journal entries for $ 130,527, to restate 2008-09 ending fund balance which is now the beginning fund balance in 2009-10 from $4,462,783 (presented at the September board meeting) to $4,332,256.

The District has not been remiss of appropriate procedures in insuring that revenue recognition is in accordance with applicable sections of GASB Statement No. 33. Had definitive information been available at the time of closing, the District would have not booked the revenues as receivables.

In the future, if budget amendments are made by the State of California that un-appropriate any current year funds into the following year, the District will work closely with the County Office of Education and its auditors to obtain proper guidance for treatment of these revenues from the State Controller's Office.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

09 - 2 / 50000 / 30000

SIGNIFICANT DEFICIENCY

U.S. Department of Education

Passed through Contra Costa SELPA

Special Education Cluster CFDA 84.027 / 84.173 / 84.391/ 84.392 2008-09

PERIOD OF AVAILABILITY

Criteria: Federal funds appropriated under the Special Education ARRA-funded programs (CFDAs 84.391 and 84.392) are available for obligation beginning with the date of enactment of the American Recovery and Reinvestment Act of 2009, February 17, 2009.

Condition: The District charged excess special education costs incurred outside the period of availability to the special education ARRA local assistance resource.

Questioned Costs: $3,893. (The expenditures, charged to the ARRA resource, which were incurred prior to February 17, 2009.)

Context: The condition appears to be isolated to the ARRA IDEA Part B Basic Local Assistance resource. The District was able to provide appropriate documentation to show that there were eligible special education salaries that could have been charged to the resource to replace the questioned excess costs.

Effect: Based on the expenditures charged to the special education ARRA resource on the general ledger, the District did not comply with the period of availability compliance requirement.

Cause: The District was unaware that the period of availability for the special education ARRA funding began on February 17, 2009.

Recommendation: The District should establish appropriate procedures to ensure that they are aware of all applicable compliance requirements associated with federal programs.

District Response:

1. The District will work closely with SELPA as additional ARRA funds are received to account and budget for these accurately.
2. The District will create a worksheet and collect back-up documents that will allow easy review of expenditures supported by ARRA funds to insure that these meet the compliance requirements associated with the federal programs in terms of timing of expenses and reporting.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

PERIOD OF AVAILABILITY (CONCLUDED)

District Response (Concluded):

3. At year-end closing, the District will perform a thorough analysis of both revenues and expenditures to allow for any corrections and adjustments, as necessary, before the unaudited actual report is finalized.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

09 - 3 / 40000

SIGNIFICANT DEFICIENCY

EXPENDITURES IN EXCESS OF APPROPRIATIONS

Criteria:	The total amount budgeted as proposed expenditures for each major expenditure classification is the maximum amount that may be expended during the school year. In accordance with Education Code Section 42600, expenditures cannot legally exceed appropriations by major object account.
Condition:	Total General Fund expenditures exceeded total General Fund appropriations by $43,308 during fiscal year 2008-09.
Questioned Costs:	None.
Context:	General Fund activity for fiscal year 2008-09.
Effect:	The District did not comply with the legal requirements of Education Code Section 42600.
Cause:	Expenditures were made when no appropriations for such expenditures were available.
Recommendation:	Expenditures should not be made when there are no available appropriations in the expenditure classification.
District Response:	**Background:** The expenditure in question that exceeded its appropriation (budget amount) was for Special Education transportation whose calculations were finalized by the County Office of Education very late in the yearend closing process. Due to cuts in State funding for transportation, the final District share was significantly higher than the revised budget. The object code for the expense is in the 7000s but more specifically a 7100 account. Although the total account code 7000 had a positive balance (not in excess), the 7100 account was "overdrawn" or exceeded its appropriation and a yearend budget revision should have been processed to allow for the higher expenditure. **District Corrective Action:** Unlike other major expenditure accounts (1000-6000s) where an excess in appropriation is apparent from summary reports, the overdrawn 7100, Special Education transportation account balance, was masked by the positive fund balance of the 7000s account total which also includes the reserves.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

EXPENDITURES IN EXCESS OF APPROPRIATIONS (CONCLUDED)

District Response (Concluded):

To insure that expenditures are not made in excess of its appropriations, especially in the 7000s account codes, and specifically the 7100 and 7200 accounts, the District will:

1) Run a separate report that details the balances for the 7100, 7200, 7300, and 7900 account codes to delineate the expenditure accounts from the reserve accounts.

2) Review the accounts and process budget revisions to insure appropriations are adequate for the expenditures throughout the year and especially before the books are closed.

LAFAYETTE SCHOOL DISTRICT

STATUS OF PRIOR YEAR RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Recommendations	Current Status	Explanation If Not Fully Implemented
FINANCIAL STATEMENTS		
08 - 1 / 30000		
MATERIAL WEAKNESS		
FINANCIAL REPORTING - UNAUDITED ACTUALS		
The District should develop a comprehensive financial reporting checklist, which can be used by staff during the year-end closing process, to prevent material misstatements from occurring in the future.	Partially Implemented	Comment Repeated **(09 - 1 / 30000)**
08 - 2 / 30000		
SIGNIFICANT DEFICIENCY		
CASH DISBURSEMENTS		
Procedures should be in place to prevent the issuance of duplicate payments for the same charges. Outstanding balances that are carried forward from a prior statement should be investigated to determine whether or not a payment has already been issued for the outstanding amount prior to paying the entire balance on the current statement.	Implemented	
Procedures should be in place to prevent the payment for items that are not approved by the required employees. The District should ensure that invoiced items are properly authorized on a purchase order prior to issuing payments to vendors.	Implemented	

LAFAYETTE SCHOOL DISTRICT

STATUS OF PRIOR YEAR RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Recommendations	Current Status	Explanation If Not Fully Implemented
STATE AWARDS		
08 - 3 / 70000		
SIGNIFICANT DEFICIENCY		
INSTRUCTIONAL MATERIALS FUNDING REALIGNMENT PROGRAM		
The District should review their procedures for purchasing materials that are charged to the Instructional Materials Funding Realignment Program resource and revise them as needed to prevent ineligible purchases from being charged to the resource in the future.	Implemented	

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APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Governing Board
Lafayette Elementary School District
Lafayette, California

Lafayette Elementary School District
<u>2010 General Obligation Refunding Bonds</u>
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Lafayette Elementary School District (the "District"), which is located in the County of Contra Costa, California (the "County"), in connection with the issuance by the District of $__________ aggregate principal amount of bonds designated as "Lafayette Elementary School District 2010 General Obligation Refunding Bonds" (the "Bonds"), as authorized by a resolution of the Governing Board of the District adopted on August 18, 2010 (the "Resolution"), and in accordance with the terms of a Paying Agent Agreement dated as of September 1, 2010 (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"). The Bonds are issued to refund a portion of the outstanding Lafayette Elementary School District 2001 General Obligation Refunding Bonds.

In such connection, we have reviewed the Resolution, the Paying Agent Agreement, the Tax Certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, the Paying Agent, the County, and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Paying Agent Agreement, and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Paying Agent Agreement, and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the District.

2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.

3. The Paying Agent Agreement has been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes a valid and binding obligation of the District. Assuming due authorization, execution and delivery of the Paying Agent Agreement and authentication of the Bonds by the Paying Agent, the Bonds are entitled to the benefits of the Paying Agent Agreement.

4. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

LAFAYETTE ELEMENTARY SCHOOL DISTRICT
2010 GENERAL OBLIGATION REFUNDING BONDS

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Lafayette Elementary School District (the "District") in connection with the issuance of the above-named bonds (the "Bonds"). The Bonds are being issued by the District pursuant to a resolution (the "Resolution") adopted by the Governing Board of the District on August 18, 2010, and in accordance with the terms of a Paying Agent Agreement, dated as of September 1, 2010, between the District and The Bank of New York Mellon Trust Company, N.A., as paying agent. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule ("S.E.C.") 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Paying Agent Agreement, 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 District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

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

"Holder" shall mean the person in whose name any Bond shall be registered.

"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 other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at *http://emma.msrb.org.*

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with 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 District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2009-10 Fiscal Year (which is due not later than April 1, 2011), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may crossreference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District) file a report with the District 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 District's Annual Report shall contain or include by reference the following:

- Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), 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.

To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

- Adopted budget of the District for the current fiscal year, or a summary thereof, and any interim budget reports approved as of the date of filing of the Annual Report.
- District average daily attendance.
- District outstanding debt.
- Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.
- Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been filed with the MSRB. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bond holders;
8. Optional, unscheduled or contingent Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) 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 Paying Agent Agreement. The notice of Listed Event must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District 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 the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c) and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this 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 District 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 District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Contra Costa or in U.S. District Court in or nearest to the County. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: ____________________.

LAFAYETTE ELEMENTARY SCHOOL DISTRICT

By ___________[Draft – Not for Signature]_____________
Authorized District Representative

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of District: LAFAYETTE ELEMENTARY SCHOOL DISTRICT

Name of Bond Issue: LAFAYETTE ELEMENTARY SCHOOL DISTRICT
2010 GENERAL OBLIGATION REFUNDING BONDS

Date of Issuance: ______________________

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Issuance. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

LAFAYETTE ELEMENTARY SCHOOL DISTRICT

_______________[to be signed only if filed]___________

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APPENDIX E

CONTRA COSTA COUNTY
STATEMENT OF INVESTMENT POLICY
and
MONTHLY INVESTMENT REPORT

The following information has been furnished by the Treasurer-Tax Collector of the County of Contra Costa. It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the Director of Finance and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Office of the Treasurer, County of Contra Costa, 625 Court Street, Room 100 (P.O. Box 631), Martinez CA 94553-1231

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CONTRA COSTA COUNTY

INVESTMENT POLICY

JUNE 2010

STANDARDS AND OBJECTIVES

§53600.3.[1] Standard for Governing Bodies or Persons Authorized to Make Investment Decisions for Local Agencies

Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the ***prudent investor standard***. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part to an overall strategy, investments may be acquired as authorized by law.

§53600.5. Trustee's Objectives Regarding Funds

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to ***safeguard the principal*** of the funds under its control. The secondary objective shall be to ***meet the liquidity*** needs of the depositor. The third objective shall be to ***achieve a return*** on the funds under its controls.

[1] Number refers to Government Code number and section.

INSTRUMENTS AUTHORIZED FOR INVESTMENT

§53601. Instruments Authorized for Investment

A. ***Bonds issued by the local agencies***, including bonds payable solely out of the revenues from a revenue-producing property, owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

B. ***United States Treasury notes, bonds, bills or certificates of indebtedness***, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

C. ***Registered state warrants or treasury notes or bonds of this state***, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of the state.

D. ***Bonds, notes, warrants or other evidences of indebtedness of any local agency within this state***, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency, or by a department, board, agency or authority of the local agency.

E. ***Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments***, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

F. ***Bankers acceptances otherwise known as bills of exchange or time drafts*** drawn on and accepted by a commercial bank. Purchases of banker's acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the banker's acceptances of any one commercial bank pursuant to this section. This subdivision does not preclude a municipal utility district from investing any money in its treasury in any manner authorized by the Municipal Utility District Act (Division 6, commencing with Section 11501, of the Public Utilities Code).

G. ***Commercial paper*** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria:
  (A) Is organized and operating in the United States as a general corporation.
  (B) Has total assets in excess of five hundred million dollars ($500,000,000).

(C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).

(2) The entity meets the following criteria:
(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
(B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their money in eligible commercial paper. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635. Following are the concentration limits (Government Code Section 53635, subdivision (a)):

1. Not more than 40 percent of the local agency's money may be invested in eligible commercial paper.
2. Not more than 10 percent of the total assets of the investments held by a local agency may be invested in any one issuer's commercial paper.

H. ***Negotiable certificates of deposit*** issued by a nationally- or state-chartered bank or a savings association or federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's money that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposits do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

I. Investments in ***repurchase agreements*** or ***reverse repurchase agreements*** of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

1. **"Repurchase agreement"** means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the

securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

a. **"Securities,"** for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date and maturity.

b. Investments in repurchase agreements may be made on any investment authorized in this section when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

2. **"Reverse repurchase agreement"** means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

   Reverse repurchase agreements may be utilized only when all of the following conditions are met:

   The security to be sold on reverse repurchase agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale; the total of all reverse repurchase agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio; the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.

   Investments in reverse repurchase agreements shall only be made with primary dealers of the Federal Reserve Bank of New York, or with a nationally- or state-chartered bank that has or has had a significant banking relationship with a local agency…"Significant banking relationship" means any of the following activities of a bank:

   a. Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, notes, or other evidence of indebtedness.

b. Financing of a local agency's activities.

c. Acceptance of a local agency's securities or funds as deposits.

J. ***Medium-term notes*** of a maximum of five-years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally-recognized rating service. Purchases of medium-term notes may not exceed 30 percent of the agency's money that may be invested pursuant to this section.

K. 1. ***Shares of beneficial interest*** issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, or subdivision (m) or (n) and that comply with the investment restrictions of this article and Article 2.

2. ***Shares of beneficial interest*** issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (I5 U.S.C. Sec. 80a-1 et seq.).

3. If investment is in shares issued pursuant to paragraph (2), the company shall have met the following criteria:

   a. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

   b. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

4. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's money that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

L. ***Moneys held by a trustee or fiscal agent*** and pledged to the payment of security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are not specific statutory provision, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

M. ***Notes, bonds, or other obligations that are at all times secured by a valid first-priority security interest*** in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

N. ***Any mortgage pass-through security, collaterialized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond*** of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of **"AA"** or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

O. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n) , inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n) inclusive.
(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

P. Local Agency Investments – LAIF - (All references in this section to the Treasurer and the Controller pertain to the State Treasurer and the State Controller).

§16305.9. (a) All money in the Local Agency Investment Fund shall be held in trust in the custody of the Treasurer.

(b) All money in the Local Agency Investment Fund is nonstate money. That money shall be held in a trust account or accounts. The Controller shall be responsible for maintaining those accounts to record the Treasurer's accountability, and shall maintain a separate account for each trust deposit in the Local Agency Investment Fund.

(c) That money shall be subject to audit by the Department of Finance and to cash count as provided for in Sections 13297,13298, and 13299. It may be withdrawn only upon the order of the depositing entity or its disbursing officers. The system that the Director of Finance has established for the handling, receiving, holding, and disbursing of state agency money shall also be used for the money in the Local Agency Investment Fund.

(d) All money in the Local Agency Investment Fund shall be deposited, invested and reinvested in the same manner and to the same extent as if it were state money in the State Treasury.

§16429.1. Existence and Appropriation of Fund; Investment and Distribution of Deposits

(a) There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

(b) Notwithstanding any other provisions of law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(c) Notwithstanding any other provisions of law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(d) Notwithstanding any other provision of law or of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agency engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.

(e) The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

(f) The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.

(g) The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.

(h) The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.

(i) The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2.

(j) Money in the fund shall be invested to achieve the objective of the fund, that is to realize the maximum return consistent with safe and prudent treasury management.

(k) All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.

(l) Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of one-half of one percent of the earnings of this fund, shall be deducted from the earnings prior to distribution. The amount of this deduction shall be credited as reimbursements to the state agencies having incurred costs in carrying out the provisions of this section.

(m) The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.

FURTHER RESTRICTIONS/LIMITATIONS BY GOVERNMENT CODE AND COUNTY TREASURER

Further Restrictions Set by Treasurer

A. Reverse repurchase agreements will be used strictly for the purpose of supplementing income with a limit of 10 percent of the total portfolio without prior approval of the Treasurer.

B. Swaps and Trades will each be approved on a per-trade basis by Treasurer or Assistant Treasurer.

C. SBA loans require prior approval of the Treasurer in every transaction.

D. Repurchase Agreements will generally be limited to Wells Fargo Bank, Bank of America or other institutions with whom the County treasury has executed tri-party agreements. Collateral will be held by a third party to the transaction that may include the trust department of particular banks. Collateral will be only securities that comply with Government Code 53601.

E. Securities purchased through brokers will be held in safekeeping at The Bank of New York Trust Company, N.A. or as designated by the specific contract(s) for government securities and tri-party repurchase agreements.

F. Bank C.D.s or non-negotiable C.D.s will be collateralized at 110 percent by government securities or 150 percent by current mortgages. There will be no waiver of the first $100,000 collateral except by special arrangement with the Treasurer.

G. All investments purchased by the Treasurer's Office shall be of investment grade. The minimum credit rating of purchased investments shall be as defined by Government Code 53600 et. seq.

H. All legal securities issued by a tobacco-related company are prohibited. A tobacco-related company is defined as an entity that makes smoking products from tobacco used in cigarettes, cigars or snuff or for smoking in pipes or a company that has total revenues of 15 percent or more from the sale of such products. The tobacco-related issuers restricted from any investment are British American Tobacco, Gallaher Group PLC, Imasco Ltd., Lowes Companies, ALTRIA Group, Inc., RJ Reynolds Tobacco Holdings, Inc., Brooke Groupe LTD., UST, Inc. and Universal Corp. However, tobacco-related companies will not be limited to the foregoing list. Additional companies will be prohibited as long as said entities fall within the definition of tobacco-related companies.

I. Financial futures or financial option contracts will each be approved on a per trade basis by the County Treasurer.

J. No more than 10 percent of the local agency's money may be invested in the outstanding commercial paper of any single issuer.

K. No more than 10 percent of the outstanding commercial paper of any single issuer may be purchased by the local agency.

§53601.6. Prohibited Investments by Government Code

A. A local agency shall not invest any funds pursuant to this Article or pursuant to Article 2 (commencing with Section 53630) in ***inverse floaters, range notes or interest-only strips*** that are derived from a pool of mortgages.

B. A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630)in ***any security that could result in zero interest accrual if held to maturity***. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1,et seq.) that are authorized for investment pursuant to subdivision (k) of Section 53601.

§53601. Instruments Authorized for Investments: Maturity

Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, **no investment shall be made in any security**, other than a security underlying a repurchase or reverse repurchase agreement authorized by this section, that at the time of the investment **has a term remaining to maturity in excess of five years**, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

Quality of Investment Instruments, Issuers and Sources

Regular financial review and analysis of issuers and sources of securities such as banks and brokerage firms shall be performed. These will be based on credit-rating services' evaluations, financial documents such as audits, Form 10-Q filings to the Securities and Exchange Commission and other reliable financial information.

SAFEKEEPING AND CUSTODY

§53601. Instruments Authorized for Investment

A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered or non-registered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisors, consultants or managers using the agency's funds, by book entry, physical delivery or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term of remaining maturity at the time of the investment, no investment shall be made in any security other than a security underlying a repurchase or reverse repurchase agreement authorized by this section.

In compliance with this section, the securities of Contra Costa County and its agencies shall be in safekeeping at The Bank of New York Trust Company, N. A., a counterparty bank's trust department or as defined in the debt indenture and contract.

AUTHORIZED BROKERS AND DEALERS

Securities for Contra Costa County and its agencies shall be purchased from the following:

- Primary dealers of the Federal Reserve Bank of New York and their subcontracts.
- Banks and financial institutions that sell and buy instruments authorized for investments per Government Code 53600 et. seq. and their subcontracts.
- Issuers of securities authorized by Government Code 53601 et. seq.

Securities shall not be purchased from brokers, brokerages, dealers or securities firms who within any 48-month period following January 1, 1996, made a political contribution to the local treasurer, any member of the governing board of the local agency or any candidate for those offices in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

LIMITS ON THE RECEIPT OF HONORARIA, GIFTS AND GRATUITIES

Gift Prohibitions

All state and local officials who are listed in Government Code Section 87200, and candidates for those elective offices (except judges), are prohibited from accepting a gift or gifts aggregating more than **as stated in California Government Code §89502(a) and §89503(f)** in a calendar year from a single source.

Beginning on January 1, 1993, the State Fair Political Practices Commission shall adjust the gift limitations in this section on January 1st of each odd-numbered year to reflect changes in the Consumer Price Index rounded to the nearest ten dollars ($10). §89503(f)

Honorarium Prohibition

All state and local officials who are listed in Government Code Section 87200, and candidates for those elective offices (except judges), are prohibited from accepting any honorarium for any speech given, article published or attendance at any public or private conference, convention, meeting, social event, meal or like gathering.

Exceptions

- The gift limit and honorarium prohibitions do not apply to a part-time member of the governing board of a public institution of higher education unless the member is also an elected official.

- For state board and commission members, the gift limit and honorarium prohibition are applicable only if the member would be required to report the receipt of income or gifts from the source on his or her statement of economic interests. The $10 gift limit is applicable only to lobbyists and lobbying firms registered to lobby the board or commission member's agency.

Disqualification

Public officials are, under certain circumstances, required to disqualify themselves from making, participating in, or attempting to influence governmental decisions that will affect any of their financial interests, not just those that they are required to disclose on a statement of economic interests.

Enforcement

The Fair Political Practices Commission may impose penalties for statements of economic interests that are filed late. The fine is $10 per day, beginning the day after the filing deadline, up to a maximum of $100. Late-filing penalties can be reduced or waived under certain circumstances.

In addition, the Fair Political practices Commission may initiate investigations with respect to any suspected violation of the Political Reform Act. Other law enforcement agencies (the Attorney General or District Attorney) may initiate investigations under certain circumstances. If violations are found, the Commission may initiate administrative enforcement proceedings that could result in the imposition of monetary penalties of up to **$5,000** per violation. In lieu of administrative prosecution, a civil action may be brought for negligent or intentional violations by the appropriate civil prosecutor (the Commission, Attorney General or District Attorney) where the measure of damages for most violations is the amount of value not properly reported. Persons who violate the conflict-of-interest disclosure provisions of the Political Reform Act can also be subject to discipline by their agency, including dismissal.

Finally, a knowing or willful violation of any provision of the Political Reform Act is a misdemeanor. Persons convicted of a misdemeanor may be disqualified for four years from the date of the conviction from serving as a lobbyist or running for elective office in addition to other penalties that may be imposed. The Act also provides for numerous civil penalties, including monetary penalties and damages, and injunctive relief from the courts.

FURTHER AMENDMENTS TO THE CONFLICT OF INTEREST CODES
(Per a Contra Costa County Board of Supervisors' Order dated February 6, 1996)

Amend all local Conflict of Interest Codes as follows:

Pursuant to Government Code Sections 87302 and 87306 et. seq., this Board hereby amends every local Conflict of Interest Code previously approved by the Board of Supervisors to add the following:

"All other provisions of this Code notwithstanding, the following provisions hereafter apply:

1. No designated employee shall accept **any** honorarium.

   Subdivisions (b), (c) and (e) of Government Code Section 89502 shall apply to the prohibitions in this Section. This Section shall not limit or prohibit payments, advances or reimbursements for travel and related lodging and subsistence authorized by Government Code Section 89506.

2. No designated employee shall accept any gifts with a total value of more than four hundred twenty dollars ($420) in a calendar year from any single source.

   Subdivision (d) of Government Code Section 89504 shall apply to this Section."

This amendment is necessary to assure that all local codes comply with recent amendments to Government Code Section 89502.

INVESTMENT REPORT

The Treasurer may render a quarterly report "…to the Chief Executive Officer, the Internal Auditor and the legislative body of the local agency…" (Government Code 53646).

The County shall submit copies of its second and fourth quarter reports to the California Debt and Investment Advisory Commission within 60 days after the close of the second and fourth quarters of each calendar year (Government Code 53646(g)).

In addition the County Treasurer will provide "…the County Treasury Oversight Committee with an investment report as required by the Board of Supervisors…" (Government Code 27133 (e)).

The County shall submit copies of its investment policy each calendar year to the California Debt and Investment Advisory Commission. All subsequent policy amendment(s) have to be submitted within 60 days.

PLEDGE REPORT

Any securities that are pledged or loaned for any purpose shall be reported in the Quarterly Investment Report. The transaction detail will be provided, including purpose, beginning and termination dates and all parties to the contract. The security descriptions as to type, name, maturity date, coupon rate, CUSIP and other material information will be included.

REVERSE REPURCHASE AGREEMENTS

All reverse repurchase agreements entered into, whether active or inactive by the end of each quarter, shall be reported in the Treasurer's Quarterly Investment Report.

LOCAL AGENCY INVESTMENTS

To be eligible to receive local agency money, a bank, savings association, federal association, or federally-insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisorial agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. (Government Code 53635)

METHODOLOGY OF CALCULATING AND APPORTIONING TREASURY COSTS

Regular and Routine Investments

- $20 per investment transaction; i.e., $20 at placement and $20 at maturity.
- .00333 of interest income; i.e., $3.33 per $1,000 of interest income.

Charged quarterly by journal entry.

Special Reports and Research

Actual staff time and materials.

Special Bank Transactions

Actual bank fee schedule, staff time and materials.

§53684. Alternative Procedure for Investment of Excess Funds

B. The County Treasurer shall, at *least* quarterly, apportion any interest or other increment derived from the investment of funds pursuant to this section in an amount proportionate to the average daily balance of the amounts deposited by the local agency *and to the total average daily balance of deposits in the investment pool. In apportioning and distributing that interest or increment, the county treasurer may use the cash method, the accrual method, or any other method in accordance with generally accepted accounting principles.* *

Prior to distributing that interest or increment, the County Treasurer may deduct the actual costs incurred by the county in administering this section in proportion to the average daily balance of the amounts deposited by the local agency and *to the total average daily balance of deposits in the investment pool.*

C. The County Treasurer shall disclose to each local agency that invests funds pursuant to this section the method of accounting used, whether cash, accrual, or other, and shall notify each local agency of any proposed changes in the accounting method at least 30 days prior to the date on which the proposed changes take effect. *

* In Contra Costa County, the Auditor-Controller performs these functions for fiscal control purposes.

NON-MANDATED DEPOSITS AND WITHDRAWALS IN THE TREASURY

Following are the terms and conditions for deposit of funds for investment purposes by entities that are not legally required to deposit their funds in the County Treasury.

- Resolution by the County Board of Supervisors authorizing the acceptance of outside participants by the County Treasury.
- Resolution by the legislative or governing body of the local agency authorizing the investment of funds pursuant to Government Code 53684.
- Treasury investments will be directed transactions.

Withdrawal of funds in the Treasury shall coincide with investment maturities or authorized sale of securities by the legislative or governing body of the local agency. Except for funds in the California State Local Agency Investment Fund, a five-business-days notification may be required when authorized sale of securities is involved. However, the section on evaluation of request for withdrawal of funds for use outside the County treasury pool by both mandated and non-mandated treasury pool participants shall also apply.

WITHDRAWAL OF FUNDS BY MANDATED TREASURY PARTICIPANTS

The withdrawal of mandated deposits in the Treasury will coincide with investment maturities and/or authorized sale of securities by authorized personnel of the local agency. Except for funds in the California State Local Agency Fund, a five-business-days notification may be required when authorized sale of securities is involved. However, the section on evaluation of request for withdrawal of funds for use outside the County treasury pool by both mandated and non-mandated treasury pool participants shall also apply.

Evaluation of Request For Withdrawal of Funds For Use Outside the County Treasury Pool by Both Mandated and Non-Mandated Treasury Pool Participants

Pursuant to Section 27136(a):

"Notwithstanding any other provisions of law, any local agency, public agency, public entity or public official that has funds on deposit in the County treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the County treasury pool shall first submit the request for withdrawal to the County Treasurer before withdrawing funds from the County treasury pool."

The County Treasurer shall evaluate each proposed withdrawal and may request up to 30 days in order to assess the effect of the proposed withdrawal on the stability and predictability of the investments in the County treasury and that the interests of the other depositors will not be adversely affected.

APPROVED BROKERS AND ISSUERS

ABN AMRO, Incorporated
American Express Credit Corporation
Associates Corporation of North America
Associates First Capital
Bank of America
Bank of the West
Bankers Trust Company
Barclays Capital, Incorporated
California Arbitrage Management Program
Chase Securities, Incorporated
Chevron Corporation
Chevron Funding
Citibank
Citigroup Funding Inc.
Credit Suisse First Boston
Deere & Company
Donaldson, Lufkin & Jenrette Securities Corporation
Exxon Mobil Corporation and Subsidiaries
First Commercial Bank
General Electric Capital Corporation
General Electric Capital Services
General Electric Company
Gilford Securities, Incorporated
Goldman, Sachs & Company
Government Perspectives
John Deere Capital Corporation
Mechanics Bank
Mellon Bank
Prudential Securities, Incorporated
Public Financial Management, Incorporated
Rauscher Pierce Refsnes, Incorporated
Salomon Smith Barney, Incorporated
Sumitomo Bank of California
Toyota Motors Credit Corporation
UBS Financial Services
Union Bank
US Bancorp
Wells Fargo Bank
Westamerica Bank

Note: The County Treasury will not be limited to the above list. Others will be included as long as all conditions for authorized brokers and dealers set forth in this policy are met. Additionally, deletions and additions are based on the maintenance of required credit quality as rated by Standard and Poor's, Moody's and other recognized rating services and reliable financial sources.

APPROVED PRIMARY GOVERNMENT SECURITIES DEALERS REPORTING TO THE MARKET REPORTS DIVISION OF THE FEDERAL RESERVE BANK OF NEW YORK AS OF APRIL 1, 2010

BNP Paribas Securities Corp.
Banc of America Securities LLC
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets, Inc.
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J.P. Morgan Securities, Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities Inc.
RBS Securities Inc.
UBS Securities LLC.

GLOSSARY

Agencies A colloquial term for securities issued by the federal agencies.

Bankers Acceptances A time bill of exchange drawn on and accepted by a commercial bank to finance the exchange of goods. When a bank "accepts" such a bill, the time draft becomes, in effect, a predated, certified check payable to the bearer at some future specified date. Little risk is involved for the investor because the commercial bank assumes primary liability once the draft is accepted.

Basis Point One basis point is equal to 1/100 of one percent. For example, if interest rates increase from 8.25% to 8.50%, the difference is referred to as a 25-basis-point increase.

Blue Sky Laws Common term for state securities law, which vary from state to state. Generally refers to provision related to prohibitions against fraud, dealer and broker regulations and securities registration.

Book Value Refers to value of a held security as carried in the records of an investor. May differ from current market value of the security.

Certificates of Deposit (C/Ds) Certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified rate of return. They are issued in two forms, negotiable and non-negotiable.

- **Negotiable Certificates of Deposit** May be sold by one holder to another prior to maturity. This is possible because the issuing bank agrees to pay the amount of the deposit plus interest earned to the bearer of the certificate at maturity.

- **Non-Negotiable Certificates of Deposit** These certificates are collateralized and are not money market instruments since they cannot be traded in the secondary market. They are issued on a fixed-maturity basis and often pay higher interest rates than are permissible on other savings or time-deposit accounts.

Commercial Paper Short-term, unsecured promissory notes issued in either registered or bearer form and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

Coupon Rate The annual rate of interest payable on a security expressed as a percentage of the principal amount.

CUSIP Numbers CUSIP is an acronym for Committee on Uniform Security Identification Procedures. CUSIP numbers are identification numbers assigned each maturity of a security issue and usually printed on the face of each individual security in the issue. The CUSIP numbers are intended to facilitate identification and clearance of securities.

Inverse Floaters An adjustable interest rate note keyed to various indices such as LIBOR, commercial paper, federal funds, treasuries and derivative structures. The defined interest rate formula is the opposite or inverse of these indices. Interest rates and pay dates may reset daily, weekly, monthly, quarterly, semi-annually or annually.

Liquidity Usually refers to the ability to convert assets (such as investments) into cash.

Mark to Market Valuing the inventory of held securities at its current market value.

Market Value Price at which a security can be traded in the current market.

Maturity The date upon which the principal of a security becomes due and payable to the holder.

Medium-Term Notes (MTNs) Corporate debt obligations continuously offered in a broad range of maturities. MTNs were created to bridge the gap between commercial paper and corporate bonds. The key characteristic of MTNs is that they are issued on a continuous basis.

Money Market Instruments Private and government obligations of one year or less.

Offer The price of a security at which a person is willing to sell.

Par Value The stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

Premium The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor.

Range Notes A security whose rate of return is pegged to an index. The note defines the interest rate minimum or floor and the interest rate maximum or cap. An example of an index may be federal funds. The adjustable rate of interest is determined within the defined range of the funds.

Repurchase Agreement or RP or REPO An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer and the bank or dealer agrees to repurchase the securities at the same price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. Reverse repurchase agreements are the mirror image of the RPs when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

Settlement Date The date used in price and interest computations, usually the date of delivery.

SLUGS An acronym for State and Local Government Series. SLUGS are special United States Government securities sold by the Secretary of the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLUGS are arranged to comply with arbitrage restrictions imposed under Section 103 of the Internal Revenue Code. SLUGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds.

STRIPS US Treasury acronym for “separate trading of registered interest and principal of securities." Certain registered Treasury securities can be divided into separate interest and principal components, which may then be traded as separate entities.

SWAP Generally refers to an exchange of securities, with essentially the same par value, but may vary in coupon rate, type of instrument, name of issuer and number of days to maturity. The purpose of the SWAP may be to enhance yield, to shorten the maturity or any benefit deemed by the contracting parties.

Treasury Securities Debt obligations of the United States Government sold by the Treasury Department in the form of bills, notes and bonds:

- **Bills** Short-term obligations that mature in one year or less and are sold at a discount in lieu of paying periodic interest.

- **Notes** Interest-bearing obligations that mature between one year and 10 years.

- **Bonds** Interest-bearing long-term obligations that generally mature in 10 years or more.

Zero-Coupon Security A security that makes no periodic interest payments but instead is sold at a deep discount from its face value.

APPENDIX

THE BOARD OF SUPERVISORS OF CONTRA COSTA COUNTY, CALIFORNIA

Adopted this Resolution on January 20, 2009 by the following vote:

AYES: GIOIA, UILKEMA, PIEPHO, & BONILLA

NOES: NONE

ABSENT: GLOVER

ABSTAIN:

RESOLUTION OF CONTRA COSTA COUNTY
(Account #99-07-000)

Resolution No. 2009/25

AGENCY ADDRESS: 625 Court Street, Room 102, Martinez, CA 94553

AGENCY PHONE NUMBER: 925-957-2850

AUTHORIZING INVESTMENT OF MONIES IN THE LOCAL AGENCY INVESTMENT FUND

WHEREAS, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

WHEREAS, the Board of Supervisors does hereby find that the deposit and withdrawal of money in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein as in the best interests of the CONTRA COSTA COUNTY.

NOW THEREFORE, BE IT RESOLVED, that the Board of Supervisors does hereby authorize the deposit and withdrawal of **CONTRA COSTA COUNTY** monies in the Local Agency Investment Fund in the State Treasury in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard.

BE IT FURTHER RESOLVED, that the following CONTRA COSTA COUNTY officers or their successors in office shall be authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund:

William J. Pollacek	Russell V. Watts	Brice E. Bins
(NAME)	(NAME)	(NAME)
Treasurer-Tax Collector	Chief Deputy Treasurer-Tax Collector	Assistant Treasurer
(TITLE)	(TITLE)	(TITLE)
William Pollacek	Russell V. Watts	B. E. Bins
(SIGNATURE)	(SIGNATURE)	(SIGNATURE)

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown

ATTESTED: January 20, 2009
DAVID TWA, Clerk of the Board of Supervisors
And County Administrator

By G. Wilson Deputy

RESOLUTION NO. 2008/25

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CONTRA COSTA COUNTY

TREASURER'S QUARTERLY INVESTMENT REPORT

AS OF MARCH 31, 2010

EXECUTIVE SUMMARY

- The Treasurer's investment portfolio is in compliance with Government Code 53600 et. seq..

- The Treasurer's investment portfolio is in compliance with the Treasurer's current investment policy.

- The Treasurer’s investment portfolio has no securities lending, reverse repurchase agreements or derivatives.

- The total cost of the investment portfolio was equal to **$1,983,361,932** on March 31, 2010. The fair value was **$1,985,771,356** which was 100.1% of cost.

- The weighted average maturity of the total investment pool was 129 days. More than 87 percent of the portfolio or over $1.73 billion will mature in less than a year. Historical activities combined with future cash flow projections indicate that the County is able to meet its cash flow needs for the next six months. However, the State’s deferral policies and budget deficit could have a significant impact on the County’s cash flow during the next six months.

CONTRA COSTA COUNTY INVESTMENT POOL
As of March 31, 2010

TYPE	PAR VALUE	COST	FAIR VALUE	PERCENT OF TOTAL COST
A. Investments Managed by Treasurer's Office				
1. U.S. Treasuries (STRIPS, Bills, Notes)	$22,827,000.00	$22,398,009.57	$22,983,827.92	1.13%
2. U.S. Agencies				
Federal Agriculture Mortgage Corporation	6,751,000.00	7,032,398.93	7,095,186.25	0.35%
Federal Home Loan Banks	124,629,000.00	126,141,767.77	126,853,918.61	6.36%
Federal National Mortgage Association	81,060,000.00	80,933,956.41	81,302,737.86	4.08%
Federal Farm Credit Banks	23,593,000.00	23,939,540.83	23,998,324.08	1.21%
Federal Home Loan Mortgage Corporation	74,241,000.00	74,959,669.40	74,777,553.94	3.78%
Municipal Bonds	1,000,000.00	1,000,000.00	1,000,000.00	0.05%
Subtotal	311,274,000.00	314,007,333.34	315,027,720.74	15.83%
3. Money Market Instruments				
Bankers Acceptances	32,712,930.00	32,677,207.65	32,691,602.16	1.65%
Repurchase Agreement	230,000,000.00	230,000,000.00	230,000,000.00	11.60%
Commercial Paper	506,449,000.00	506,218,852.79	506,326,736.10	25.52%
Negotiable Certificates of Deposit	178,550,000.00	178,550,000.00	178,602,512.88	9.00%
Corporate Notes	40,747,000.00	41,535,083.53	41,158,687.73	2.09%
Time Deposit	3,076.96	3,076.96	3,076.96	0.00%
Subtotal	988,462,006.96	988,984,220.93	988,782,615.83	49.86%
TOTAL	1,322,563,006.96	1,325,389,563.84	1,326,794,164.49	66.83%
B. Investments Managed by Outside Contractors				
1. Local Agency Investment Fund	419,948,982.07	419,948,982.07	420,445,819.93	21.17%
2. Other				
a. California Asset Management Program	29,295.47	29,295.47	29,359.92	0.00%
b. Miscellaneous (BNY, Mechanics, CCFCU)	277,002.69	277,002.69	242,977.62	0.01%
c. Wells Fargo Asset Management	44,985,089.00	44,985,089.00	45,193,743.28	2.27%
d. Columbia Management Group	38,129,917.00	38,129,917.00	38,463,209.00	1.92%
e. CalTRUST	88,627,825.68	88,627,825.68	88,627,825.68	4.47%
Subtotal	172,049,129.84	172,049,129.84	172,557,115.50	8.67%
TOTAL	591,998,111.91	591,998,111.91	593,002,935.43	29.85%
C. Cash	65,974,256.12	65,974,256.12	65,974,256.12	3.33%
***GRAND TOTAL (FOR A , B, & C)**	$1,980,535,374.99	$1,983,361,931.87	$1,985,771,356.04	100.00%

* Does not include the Futuris Public Entity Trust of the Contra Costa Community College District Retirement Board of Authority

NOTES TO INVESTMENT PORTFOLIO SUMMARY AS OF MARCH 31, 2010

1. All report information is unaudited but due diligence was utilized in its preparation.

2. There may be slight differences between the portfolio summary page and the attached exhibits and statements for investments managed by outside contractors or trustees. The variance is due to the timing difference in recording transactions associated with outside contracted parties during interim periods and later transmitted to the appropriate county agency and/or the Treasurer’s Office. In general, the Treasurer’s records reflect booked costs at the beginning of a period.

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CONTRA COSTA COUNTY
TREASURER'S OFFICE
INVESTMENT INVENTORY WITH MARKET VALUE

(RPTMKT)

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INVESTMENTS OUTSTANDING AS OF 03/31/10
MAJOR SORT KEY IS ICC#

INVEST NUMBER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP	BANK BROK	FUND SAFE	CPN RATE YTM TR	PAR/SHARES BOOK	MARKET VALUE MARKET PRICE	CURR ACCR INT PRICE SOURCE	UNREALIZED GAIN UNREALIZED LOSS
SUBTOTAL	(Inv Type) 10 TREASURY NOTES - STRIPS		.06%(M)		8.1600	837,000.00	832,996.88	477,900.50	25,281.33
					10.1922	329,815.05	99.52172900000		
SUBTOTAL	(Inv Type) 12 TREASURY NOTES		1.67%(M)		1.5380	21,990,000.00	22,150,831.04	96,394.86	102,036.43
					1.4072	22,068,194.52	100.7313830000		-15,533.88
SUBTOTAL	(Inv Type) 20 FEDERAL AGRICULTURE MOR		.53%(M)		4.9234	6,751,000.00	7,095,186.25	51,356.93	62,787.32
					3.7458	7,032,398.93	105.0983000000		
SUBTOTAL	(Inv Type) 22 FEDERAL HOME LOAN BANKS		9.44%(M)		3.1002	122,975,000.00	125,201,250.05	1,010,199.55	1,136,363.07
					2.5942	124,491,683.16	101.8103270000		-388,632.04
SUBTOTAL	(Inv Type) 23 FEDERAL NATIONAL MORTGA		3.71%(M)		2.4260	48,965,000.00	49,263,328.14	341,262.19	366,983.28
					2.4225	48,930,838.20	100.6092680000		-33,144.73
SUBTOTAL	(Inv Type) 27 FEDERAL FARM CREDIT BAN		1.81%(M)		2.8773	23,593,000.00	23,998,324.08	117,824.89	176,084.32
					2.2120	23,939,540.83	101.7179840000		-112,343.54
SUBTOTAL	(Inv Type) 28 FEDERAL HOME LOAN MORTG		.06%(M)		.2699	750,000.00	748,429.86	518.12	3.82
					.2707	748,168.75	99.79064800000		-260.83
SUBTOTAL	(Inv Type) 29 FHLMC NOTES		5.58%(M)		1.7620	73,491,000.00	74,029,124.08	362,171.07	165,753.35
					1.2552	74,211,500.65	100.7322310000		-298,511.73
SUBTOTAL	(Inv Type) 31 MUNICIPAL BONDS		.08%(M)		4.5760	1,000,000.00	1,000,000.00	5,847.11	.00
					4.5760	1,000,000.00	100.0000000000		
SUBTOTAL	(Inv Type) 41 FNMA DISCOUNT NOTES		2.41%(M)		.3122	32,095,000.00	32,039,409.72	30,289.60	6,978.58
					.3132	32,003,118.21	99.82679400000		-976.67
SUBTOTAL	(Inv Type) 43 FHLB DISCOUNT NOTES		.12%(M)		.2675	1,654,000.00	1,652,668.56	2,023.91	563.04
					.2683	1,650,084.61	99.91950200000		-3.00
SUBTOTAL	(Inv Type) 51 BA, DOMESTIC		2.46%(M)		.2364	32,712,930.00	32,691,602.16	14,847.55	163.62
					.2367	32,677,207.65	99.93480300000		-616.66
SUBTOTAL	(Inv Type) 61 REPURCHASE AGREEMENTS		17.34%(M)		.1200	230,000,000.00	230,000,000.00	766.67	.00
					.1200	230,000,000.00	100.0000000000		
SUBTOTAL	(Inv Type) 70 COMMERCIAL PAPER INT BE		9.91%(M)		.2122	131,449,000.00	131,449,000.00	35,819.34	.00
					.2122	131,449,000.00	100.0000000000		
SUBTOTAL	(Inv Type) 71 COMMERCIAL PAPER DISCOU		28.25%(M)		.2275	375,000,000.00	374,877,736.10	110,274.97	2,576.40
					.2277	374,769,852.79	99.96739600000		-4,968.06

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INVEST NUMBER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP	BANK BROK	FUND SAFE	CPN RATE YTM TR	PAR/SHARES BOOK	MARKET VALUE MARKET PRICE	CURR ACCR INT PRICE SOURCE	UNREALIZED GAIN UNREALIZED LOSS
SUBTOTAL (Inv Type) 72 NEGOTIABLE CERT OF DEPC 13.46%(M)					.2696 .2696	178,550,000.00 178,550,000.00	178,602,512.88 100.0294110000	79,456.79	52,512.88
SUBTOTAL (Inv Type) 75 CORPORATE NOTES 3.10%(M)					3.7129 2.8236	40,747,000.00 41,535,083.53	41,158,687.73 101.0103510000	460,290.28	272,730.25 -524,820.50
SUBTOTAL (Inv Type) 1000 PD WITH CALC CODE OF .00%(M)					3.7500 3.7500	3,076.96 3,076.96	3,076.96 100.0000000000	451.93	.00
GRAND TOTAL					.8610 .7373	1322563006.96 1325389563.84	1326794164.49 100.3199210000	3,197,696.26	2,370,817.69 -1,379,811.64

NET OF RETIREMENT $1,450,000

* MARKET = BOOK LESS PURCHASE INTEREST

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this APPENDIX F has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the District, and "Agent" means the Paying Agent.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities 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 Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede &

Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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.

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or 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.

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

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

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