PRELIMINARY OFFICIAL STATEMENT DATED JUNE 8, 2011

NEW ISSUE—BOOK-ENTRY ONLY

RATING
S&P: "SP-1+"
See "RATING" herein

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the District with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

$15,000,000*
FREMONT UNION HIGH SCHOOL DISTRICT
(Santa Clara County, California)
2011 Tax and Revenue Anticipation Notes

Dated: Date of Delivery **Due: June 29, 2012**

The above-captioned Notes (the "Notes") issued by the Board of Supervisors of Santa Clara County, California (the "County") on behalf of the Fremont Union High School District (the "District") will be issued in fully registered form, without coupons. The Notes will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Notes. Individual purchases of Notes will be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. Purchasers of the Notes will not receive securities certificates representing their ownership interest in the Notes. The principal of and interest on the Notes will be paid at maturity by the Director of Finance of the County, as paying agent (the "Paying Agent"), to DTC, which is obligated in turn to remit such principal and interest to its DTC participants for subsequent disbursement to the Beneficial Owners of the Notes, as described herein. See "THE NOTES" herein.

The Notes will not be subject to redemption prior to maturity.

The Notes are issued to finance, in part, the general fund cash flow requirements of the District during Fiscal Year 2011-2012.

The Notes, in accordance with California law, are general obligations of the District but are payable only out of taxes, income, revenue, cash receipts and other moneys of the District attributable to Fiscal Year 2011-2012 and legally available for payment thereof. See "THE NOTES—Security for and Sources of Payment" herein. The Notes are secured by a pledge of the first taxes, income, revenues, cash receipts, and other monies to be received (a) in an amount equal to fifty percent (50%) of the principal amount of the Notes to be received by the County on behalf of the District in January, 2012, (b) in an amount equal to fifty percent (50%) of the principal amount of the Notes to be received by the County on behalf of the District in April, 2012, and (c) an amount equal to all interest due on the Notes, to be received by the County on behalf of the District in May, 2012, intended as receipts for the General Fund of the District for fiscal year 2011-2012 and generally available for the payment of current expenses and obligations of the District.

THE NOTES ARE SECURED BY AND PAYABLE FROM THE PLEDGED REVENUES OF THE DISTRICT. THE OBLIGATION OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE NOTES IS A GENERAL OBLIGATION OF THE DISTRICT AND NEITHER THE GENERAL FUND, CREDIT NOR TAXING POWER OF THE DISTRICT ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE NOTES.

This cover page contains certain information for general reference only. It is **not** intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Coupon	Yield	CUSIP†

The Notes are offered when, as and if issued by the District and accepted by the Underwriter, subject to the approval of legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain disclosure matters will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, Disclosure Counsel. It is expected that the Notes in definitive form will be available for delivery to DTC in New York, New York, on or about July 1, 2011.

Dated: June __, 2011

*Preliminary, subject to change.

This Official Statement does not constitute an offering of any security other than the original offering of the Notes 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 or the Underwriter.

The issuance and sale of the Notes have not been registered under the Securities Act of 1933 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 securities 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 opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Any statement made in this Official Statement involving a forecast, estimate or matter of expectation or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements". Such statements are generally identifiable by the terminology used, such as, "are expected to," "will continue," "is anticipated," "forecast," "expect," "intend," "estimate," "plan," "budget," "project," or similar words and phrases. The achievement of the outcomes projected in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from the expected results expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur or fail to occur.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES 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 NOTES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE NOTES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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SPECIAL SERVICES

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

Bond Counsel and Disclosure Counsel
Quint & Thimmig LLP
San Francisco, California

Paying Agent
Santa Clara County Director of Finance
Santa Clara County
San Jose, California

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OFFICIAL STATEMENT

$15,000,000*
FREMONT UNION HIGH SCHOOL DISTRICT
(Santa Clara County, California)
2011 Tax and Revenue Anticipation Notes

INTRODUCTION

This introduction is not a summary of this official statement (the "Official Statement"). It is only a brief description of and guide to, and is more qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Notes to potential investors is made only by means of the entire Official Statement.

This Official Statement is provided to furnish information in connection with the sale of $15,000,000*. 2011 Tax and Revenue Anticipation Notes (the "Notes") by the Board of Supervisors (the "County Board") of the County of Santa Clara (the "County"), in the name and on behalf of the Fremont Union High School District (the "District").

General

The Notes are general obligations of the District but are payable only out of taxes, income, revenue, cash receipts and other moneys of the District attributable to the fiscal year ending June 30, 2012 (the "Fiscal Year 2011-2012") and legally available therefor (the "Pledged Revenues"). The District may, under existing law, issue the Notes only if the principal of and interest on the Notes will not exceed 85% of the estimated moneys which will be lawfully available for the payment of the Notes. The Notes will be dated their date of delivery and will mature on the date set forth on the cover hereof.

Pursuant to the State of California (the "State") Constitution and laws of the State, specifically Section 53850 *et seq.* of the California Government Code, the District has pledged for the payment of the Notes and the interest thereon certain unrestricted moneys to be received by the District in the months of January, April and May of 2012.

The District

The District provides educational services to the residents of the Cities of Sunnyvale and Cupertino and portions of the Cities of San Jose, Los Altos, Saratoga and Santa Clara in Santa Clara County, California. Enrollment in the District for the 2010-11 school year is approximately 10,350. The District is governed by a five-member Board of Trustees (the "District Board") which is elected in alternating four-year terms. The chief executive officer of the District is the Superintendent, who is appointed by the District Board. More detailed information regarding the area served by the District, the student population of the District, and the financial position of the District may be found under "DISTRICT INFORMATION," and "COUNTY ECONOMIC PROFILE" herein.

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* Preliminary, subject to change.

Authority for Issuance of the Notes

The Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the Government Code (the "Act") and pursuant to a resolution adopted by the District Board on May 3, 2011 (the "District Resolution") and a resolution adopted by the County Board on May 24, 2011 (the "County Resolution" and, with the District Resolution, the "Resolutions"), and, under such statute, are obligations of the District, but are payable solely from Pledged Revenues. See "THE NOTES—Authority for Issuance."

Purpose of the Notes

Proceeds of the Notes will be used and expended for any purpose for which the District is authorized to expend funds from the general fund of the District, including, but not limited to, current expenses, capital expenditures, investment, and reinvestment, and the discharge of other obligations or indebtedness of the District. See "THE NOTES—Purpose of the Notes."

Continuing Disclosure

The District has covenanted for the benefit of the registered owners of the Notes to provide notice of the occurrence of certain enumerated events, which notice will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the notices of enumerated events is summarized in APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). In the last five years, the District has not failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Professionals Involved in the Offering

With respect to the Notes, KNN Public Finance, a division of Zions First National Bank, Oakland, California has acted as Financial Advisor to the District (the "Financial Advisor") (see "FINANCIAL ADVISOR"), and Quint & Thimmig LLP, San Francisco, California, has acted as bond counsel to the District (the "Bond Counsel") and disclosure counsel to the District ("Disclosure Counsel"). The Financial Advisor, Bond Counsel and Disclosure Counsel will receive compensation from the District contingent upon the sale and delivery of the Notes.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Information concerning this Official Statement, the Notes, the District or any other information relating to the sale and delivery of the Notes, including the Resolutions and audited financial statements of the District, are available for public inspection and may be obtained by contacting the District at 589 West Fremont Avenue, Sunnyvale, CA 94087, Telephone: (408) 522-2201.

THE NOTES

Authority for Issuance

The Notes are issued pursuant to section 53850 *et. seq.* of the California Government Code (the "Government Code"), and pursuant to the Resolutions adopted by the District Board and by the County Board. The District Board adopted its resolution authorizing the Notes (the

"District Resolution") on May 3, 2011. The County Board adopted its resolution authorizing the Notes (the "County Resolution" and, with the District Resolution, the "Resolutions") on May 24, 2011.

Purpose of the Notes

The Notes are issued in anticipation of future receipt of moneys intended as general revenues of the District. Proceeds of the Notes will be deposited in the general fund of the District in the treasury of the County and shall be used and expended by the District for any purpose for which the District is authorized to expend funds from their general fund, including, but not limited to, current expenses, capital expenditures, investment and reinvestment and the discharge of other obligations or indebtedness of the District.

Description of the Notes

The Notes will be issued in fully registered form without coupons, initially registered in the name of Cede & Co. ("Cede & Co."), nominee of The Depository Trust Company, New York, New York ("DTC"). As long as the Notes are held by DTC or a successor securities depository, ownership of the Notes will be evidenced by book-entry. See "THE NOTES—Book-Entry Only System."

The Notes will be dated the date of delivery, will mature (without option of prior redemption) on June 30, 2012, shall bear interest (payable at maturity and calculated on the basis of a 360-day year of twelve 30-day months) at the rate indicated on the cover page hereof, and will be issued in fully registered form in denominations of $5,000 principal amount or any integral multiple thereof. Both the principal of and the interest on the Notes will be payable to the registered owners of the Notes. The Director of Finance of the County (the "Director of Finance") will act as Paying Agent, Registrar, and Transfer Agent (the "Paying Agent") with respect to the Notes

The Notes are not subject to redemption prior to their stated maturity date.

Limitations on Remedies

The rights of the Owners of the Notes are subject to certain limitations. Enforceability of the rights and remedies of the Owners of the Notes, and the obligations incurred by the District may become subject to the Federal Bankruptcy Code (defined below) and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against school and community college districts in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Notes to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Under Chapter 9 of the Federal Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the District, there are no involuntary petitions in bankruptcy. If the District was to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Paying Agent and the District could be prohibited from taking certain steps to enforce their rights under the Resolutions. In a decision dated March 8, 1995, the United States Bankruptcy Court for the Central District of California ruled that a pledge granted by Orange County pursuant to a resolution adopted by that county in connection with the issuance of tax and revenue anticipation notes ("TRANs") was not effective with respect to general revenues accruing to Orange County after the filing of a petition in bankruptcy. The resolution obligated Orange County to set aside a specified amount of revenues in certain months in order to secure the payment of its TRANs. On July 12, 1995, the United States District Court for the Central District of California reversed the order of the Bankruptcy Court and determined that the obligation created under the resolution adopted by Orange County is a statutory lien which survived the filing of Orange County's bankruptcy petition. The parties subsequently negotiated a settlement. No assurance can be made that future allegations would not be raised in another bankruptcy proceeding.

Investment of Note Proceeds

Pursuant to the Resolutions, proceeds from the sale of the Notes will be deposited by the Director of Finance in a proceeds fund to the credit of the District. Moneys in such proceeds fund shall be invested as permitted by the laws of the State and the Resolutions, including the State Treasurer's Local Agency Investment Fund and in investment agreements. The proceeds of the Notes will be invested to mature on or before the maturity date of the Notes. See "SANTA CLARA COUNTY INVESTMENT POOL."

Book-Entry-Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, 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.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered initially 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 Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on a 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, the Paying Agent, the District or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the County or the District, or the County or the District may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, fully registered physical certificates are required to be printed and delivered.

In the event that the book-entry-only system is discontinued, payments of principal and interest with respect to the Notes shall be payable as described herein under the caption "THE NOTES—Payment," and transfers will be governed as described herein under the caption "Registration and Transfer of Notes."

Paying Agent

Payments of interest on and principal of the Notes will be paid by the Paying Agent directly to DTC. DTC will remit such payments to DTC Participants and such payments will thereafter be paid by DTC Participants to the Beneficial Owners. No assurance is given by the District that DTC or DTC Participants will make prompt transfer of payments to Beneficial Owners. The District is not responsible or liable for payments or failures to pay by DTC or any DTC Participant, for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or any DTC Participant, or for any other act or omission of DTC or any DTC Participants. The Paying Agents, the District, the County and the Underwriter of the Notes have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Notes.

The Paying Agent cannot and does not give any assurances that DTC, DTC Participants or others will distribute payments with respect to the Notes received by DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will provide service and act in the manner described in this Official Statement.

The Paying Agent shall be entitled to treat the person in whose name any Note is registered as the owner thereof for all purposes of the County Resolution and for purposes of payment of interest on and principal of the Notes, notwithstanding any notice to the contrary received by the Paying Agent; and the Paying Agent shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the Notes; and the Paying Agent will have no responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party, including DTC or its successors (or substitute depository or its successor), except as the registered owner of any Notes, and the Paying Agent may rely conclusively on its records as to the identity of the registered owners of the Notes.

So long as the outstanding Notes are registered in the name of Cede & Co. or its registered assigns, the Paying Agent shall cooperate with Cede & Co., as sole registered owner, or its registered assigns in effecting payment of the principal of and interest on the Notes by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Registration and Transfer of Notes

The Notes shall be initially issued and registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York and shall be evidenced by a single Note for each of the Notes. Registered ownership of the Notes, or any portion thereof, may not thereafter be transferred except as set forth in the County Resolution.

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

Subject to the provisions of the County Resolution, the registration of any Note may, in accordance with its terms, be transferred or exchanged for a like aggregate principal amount of Notes in authorized denominations, upon the registration books kept by the Paying Agent for such purpose, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Note for cancellation, and in the case of a transfer, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Paying Agent.

Whenever any Note shall be surrendered for transfer or exchange, the County shall execute and the Paying Agent shall deliver a new Note or Notes of authorized denominations, for a like aggregate principal amount. The Paying Agent shall require the registered owner requesting such registration of transfer to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange.

The Paying Agent will keep or cause to be kept, at its office in Santa Clara, California, sufficient books for the registration and transfer of the Notes, which shall at all times be open to inspection. Upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Notes as hereinbefore provided.

All Notes surrendered for payment or registration of transfer, if surrendered to any person other than the Paying Agent, shall be delivered to the Paying Agent and shall be promptly canceled. No Note shall be delivered in lieu of or in exchange for any canceled Notes except as expressly permitted under the terms of the County Resolution.

SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES

Security for the Notes

Unrestricted Revenues. The principal amount of the Notes, together with interest thereon will be payable only out of taxes, income, revenue, cash receipts and other moneys which are received by the District for Fiscal Year 2011-12 and which are lawfully available for the payment of current expenses and other obligations of the District (the "Unrestricted Revenues"). Pursuant to the Act, the District has, as described below, pledged certain Unrestricted Revenues for the payment of the Notes and the interest thereon.

Pledged Revenues. As security for the payment of the interest on and principal of the Notes, the County (for and on behalf of the District) has agreed to deposit in trust in a special fund (the "Repayment Fund"): the first Unrestricted Revenues to be received (a) in an amount equal to fifty percent (50%) of the principal amount of the Notes to be received by the County on behalf of the District in January, 2012, (b) in an amount equal to fifty percent (50%) of the principal amount of the Notes to be received by the County on behalf of the District in April, 2012, and (c) an amount equal to all interest due on the Notes, to be received by the County on behalf of the District in May, 2012, intended as receipts for the General Fund of the District for fiscal year 2011-12 and generally available for the payment of current expenses and obligations of the District (the "Pledged Revenues").

FREMONT UNION HIGH SCHOOL DISTRICT
Amount of Pledge

January, 2012	April, 2012	May 2012
$7,500,000*	$7,500,000*	Interest*

In the event that there have been insufficient Unrestricted Revenues received by the District to permit the deposit into the Repayment Fund of the full amount of the Pledged Revenues required to be deposited with respect to such month, then the amount of any deficiency in the Repayment Fund shall be satisfied and made up from any other moneys of the District lawfully available for the payment of the interest on and principal of the Notes (all as provided in the Resolutions and sections 53856 and 53857 of the Government Code).

The Notes are by statute general obligations of the District, and to the extent the Notes are not paid from the Pledged Revenues, the principal of and interest on the Notes shall be paid from any other moneys of the District lawfully available therefor.

No additional notes may be issued and secured by the Pledged Revenues.

Available Sources of Payment

The Notes, in accordance with California law, are general obligations of the District, and to the extent not paid from taxes, income, revenue, cash receipts and other moneys received by the District during or allocable to the Fiscal Year pledged for the payment thereof, will be paid with interest thereon from any other moneys of the District legally available therefor. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS." The District may, under existing law, issue the Notes only if the principal of and interest on the Notes and any other short-term debt will not exceed 85% of the moneys estimated to be legally available for the payment of the Notes and such other debt during the applicable fiscal year.

In addition to the District's obligation to repay the Notes, the District has other contractual commitments that must be paid from general fund revenues. For information regarding the levels of the District's expenditure commitments for the Fiscal Year and its projected commitments for 2011-12, see "CASH FLOW PROJECTIONS," "DISTRICT FINANCIAL INFORMATION—Budget" and "DISTRICT FINANCIAL INFORMATION—Significant Accounting Policies and Audited Financial Statements."

The District filed its 2011-12 First Interim Financial Report with the County Office of Education (the "SCCOE") with a "positive certification" and its 2011-12 Second Interim Financial Report with the SCCOE with a "positive certification" within the meaning of Section 42133 of the California Education Code. See THE DISTRICT—Significant Accounting Policies and Financial Statements.

* Preliminary, subject to change.

Other District Funds

The District maintains a substantial balance in the following funds. Such funds are generally restricted in purpose but may be used on a temporary basis by Board action. See "THE NOTES—Other District Funds."

	June 30, 2010 Balance (1)	June 30, 2011 Estimated Balance (2)
Special Revenue Funds		
Adult Education	$ 833,944	$ 939,374
Cafeteria	43,321	43,321
Deferred Maintenance	1,906,619	1,906,620
Subtotal for Special Revenue Funds	2,783,884	2,889,315
Capital Project Funds		
Building Fund	59,442,356	20,875,413 (3)
Capital Facilities	383,316	962,096
County School Facilities	1,559,400	926,399
Subtotal for Capital Project Funds	61,385,072	22,763,908
Total Other District Funds	$64,618,956	$25,653,223

(1) Audited
(2) 2010-11 Second Interim Report adopted March 15, 2011.
(3) District subsequently issued general obligation bonds.

COUNTY OF SANTA CLARA POOLED INVESTMENT FUND

In accordance with Education Code Section 41001, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer-tax collector serves as ex officio treasurer for those school districts located within the county. Each treasurer-tax collector has the authority to invest school district funds held in the county treasury. Generally, the treasurer-tax collector pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis.

Each treasurer-tax collector is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 et seq. In addition, each Director of Finance is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. A copy of the County investment policy and periodic reports on the County investment pool are available from the County Director of Finance, County 70 West Hedding Street, East Wing, Second Floor, San Jose, California 95110, Telephone: (408) 299-5201. It is not intended that such information be incorporated into this Official Statement by such references. Certain information concerning the County's pooled investment portfolio as of December 31, 2010, is included herein in APPENDIX D—EXCERPTS FROM THE SANTA CLARA COUNTY INVESTMENT PORTFOLIO REPORT.

CASH FLOW PROJECTIONS

General Fund operating expenditures of the District tend to occur in level amounts throughout the fiscal year. Conversely, receipts have followed an uneven pattern, primarily as a result of secured and unsecured property-tax-installment payment dates in December and April. As a result, the General Fund cash balance has typically been negative for a portion of each fiscal year and has been covered by temporary borrowings under the pooled-investments program from restricted funds of the District, which the District is obligated to pay back during the ensuing fiscal year. The District has prepared the accompanying monthly cash-flow statements covering the past fiscal year and projected fiscal year 2010-11. The projected fiscal 2010-11 cash flow shows and takes into consideration the Notes. Without the proceeds of the Notes, a cumulative cash-flow deficit of $13,284,148 is anticipated in November, 2011. The anticipated deficit occurs due to the timing of expenditures occurring prior to the timing of the receipts during the fiscal year.

The estimates of amounts and timing of receipts and disbursements in the tables on the following pages are based on certain assumptions and should not be construed as statements of fact. The assumptions are based on present circumstances and currently available information and are believed to be reasonable. The assumptions may be affected by numerous factors, and there can be no assurance that such estimates will be achieved.

Fremont Union High School District
2011 Tax and Revenue Anticipation Notes

GENERAL FUND

2010/11 ACTUAL CASH FLOW (Actuals through March 31, 2011, Projected April through June 2011)

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	$ 21,167,760	$ 28,444,001	$ 25,342,157	$ 18,395,426	$ 15,130,001	$ 7,787,858	$ 34,745,217	$ 27,425,236	$ 20,329,891	$ 15,552,119	$ 22,780,328	$ 15,448,620	$ 21,167,760
Receipts													
Revenue Limit: State Aid	(286,395)	272,542	(14,642)	(14,688)	(20,455)	(40,910)	(19,827)	(1,639)	0	(17,389)	0	(94,814)	**(238,217)**
Revenue Limit: Property Tax	0	0	87,844	4,888,179	1,591,798	34,275,042	5,088,881	0	7,246,463	20,150,551	235,000	2,238,900	**75,802,658**
Federal Revenue	93,064	282,480	2,747,944	(1,113,158)	0	496,881	(275,986)	71,435	(1,124,292)	82,213	15,481	1,184,619	**2,460,681**
Other State Revenues	190,326	(190,326)	103,184	129,295	239,639	404,878	1,243,188	151,626	90,440	372,484	372,484	372,484	**3,479,703**
Other Local Revenues	57,194	64,467	59,969	952,318	151,705	659,821	224,327	621,654	761,770	340,886	404,447	3,836,885	**8,135,443**
Other Receipts	0	0	0	0	0	101,062	0	0	0	0	0	0	**101,062**
Total Receipts	**54,189**	**429,163**	**2,984,299**	**4,841,946**	**1,962,687**	**35,896,774**	**6,260,583**	**843,076**	**6,974,381**	**20,928,745**	**1,027,412**	**7,538,074**	**89,741,330**
Disbursements													
Certificated Salaries	738,694	679,930	4,342,264	5,373,595	4,390,959	4,472,887	4,338,331	4,356,691	4,430,623	4,252,890	4,252,890	4,252,890	**45,882,645**
Classified Salaries	583,551	815,268	1,315,602	1,397,457	1,326,953	1,554,595	1,488,745	1,329,587	1,424,271	1,335,992	1,335,992	1,335,992	**15,244,004**
Employee Benefits	952,388	1,124,415	1,387,891	1,510,778	2,860,686	1,531,003	1,531,931	1,526,953	1,552,958	1,443,939	1,443,939	1,443,939	**18,310,820**
Other Disbursements	801,842	1,204,978	1,951,141	1,353,477	1,682,329	1,245,338	1,294,618	771,348	1,262,543	1,285,629	1,285,629	1,285,629	**15,424,500**
Total Disbursements	**3,076,475**	**3,824,591**	**8,996,898**	**9,635,307**	**10,260,927**	**8,803,823**	**8,653,625**	**7,984,579**	**8,670,395**	**8,318,450**	**8,318,450**	**8,318,450**	**94,861,969**
Prior Year Transactions													
Prior Year Receipts	834,932	610,909	(713,713)	2,546,365	1,161,840	(57,880)	439,021	487	(5,071,764)	2,023,710	2,023,710	2,023,710	**5,821,328**
Prior Year Disbursements	1,636,285	317,325	220,419	1,018,429	205,743	77,712	(134,040)	(45,671)	(1,990,006)	1,905,797	1,905,797	1,905,797	**7,023,588**
Total Prior Year Transactions	**(801,353)**	**293,584**	**(934,132)**	**1,527,936**	**956,097**	**(135,592)**	**573,061**	**46,158**	**(3,081,758)**	**117,913**	**117,913**	**117,913**	**(1,202,260)**
Note Related Cash Flows	**11,099,880**	**0**	**0**	**0**	**0**	**0**	**(5,500,000)**	**0**	**0**	**(5,500,000)**	**(158,583)**	**58,703**	**0**
Net Increase/Decrease	**7,276,241**	**(3,101,844)**	**(6,946,731)**	**(3,265,425)**	**(7,342,143)**	**26,957,359**	**(7,319,981)**	**(7,095,345)**	**(4,777,772)**	**7,228,209**	**(7,331,707)**	**(603,759)**	**(6,322,898)**
Ending Cash	**28,444,001**	**25,342,157**	**18,395,426**	**15,130,001**	**7,787,858**	**34,745,217**	**27,425,236**	**20,329,891**	**15,552,119**	**22,780,328**	**15,448,620**	**14,844,862**	**14,844,862**

2011/12 PROJECTED CASHFLOW

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	$ 14,844,862	$ 25,861,643	$ 22,417,050	$ 13,113,951	$ 9,190,406	$ 1,715,852	$ 31,896,794	$ 21,479,276	$ 13,863,600	$ 13,197,701	$ 18,218,386	$ 10,146,151	$ 14,844,862
Receipts													
Revenue Limit: State Aid	(300,561)	286,023	(15,366)	(15,415)	(21,467)	(42,934)	(20,808)	(1,720)	0	(18,249)	0	(99,504)	**(250,000)**
Revenue Limit: Property Tax	0	0	90,188	5,018,615	1,634,274	35,189,639	5,224,673	0	7,439,828	20,688,250	241,271	2,298,643	**77,825,381**
Federal Revenue	172,487	523,555	459,545	253,626	0	364,904	44,508	132,399	232,990	152,375	28,693	2,195,599	**4,560,681**
Other State Revenues	0	0	58,704	73,560	136,338	230,347	707,285	86,264	51,454	211,917	211,917	211,917	**1,979,703**
Other Local Revenues	50,797	57,257	53,262	845,810	134,738	586,026	199,238	552,127	676,573	302,761	359,213	3,407,763	**7,225,565**
Other Receipts	0	0	0	0	0	3,081,038	0	0	0	0	0	0	**3,081,038**
Total Receipts	**(77,277)**	**866,834**	**646,333**	**6,176,196**	**1,883,883**	**39,409,020**	**6,154,897**	**769,071**	**8,400,845**	**21,337,054**	**841,094**	**8,014,418**	**94,422,368**
Disbursements													
Certificated Salaries	757,497	697,237	4,452,791	5,510,373	4,502,725	4,586,739	4,448,758	4,467,585	4,543,399	4,361,142	4,361,142	4,361,142	**47,050,531**
Classified Salaries	607,952	849,359	1,370,615	1,455,892	1,382,440	1,619,601	1,550,998	1,385,184	1,483,828	1,391,857	1,391,857	1,391,857	**15,881,440**
Employee Benefits	961,971	1,144,761	1,734,965	1,734,965	1,734,965	1,734,965	1,734,965	1,734,965	1,734,965	1,734,965	1,734,965	1,734,965	**19,456,381**
Other Disbursements	828,522	1,245,071	2,016,061	1,398,511	1,738,305	1,286,774	1,337,694	797,013	1,304,552	1,328,405	1,328,405	1,328,405	**15,937,719**
Total Disbursements	**3,155,942**	**3,936,428**	**9,574,432**	**10,099,742**	**9,358,436**	**9,228,079**	**9,072,414**	**8,384,748**	**9,066,743**	**8,816,370**	**8,816,370**	**8,816,370**	**98,326,071**
Prior Year Transactions													
Prior Year Receipts	2,750,000	1,375,000	1,375,000	0	0	0	0	0	0	0	0	0	**5,500,000**
Prior Year Disbursements	3,500,000	1,750,000	1,750,000	0	0	0	0	0	0	0	0	0	**7,000,000**
Total Prior Year Transactions	**(750,000)**	**(375,000)**	**(375,000)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(1,500,000)**
Note Related Cash Flows	**15,000,000**	**0**	**0**	**0**	**0**	**0**	**(7,500,000)**	**0**	**0**	**(7,500,000)**	**(96,958)**	**96,958**	**0**
Net Increase/Decrease	**11,016,781**	**(3,444,593)**	**(9,303,099)**	**(3,923,546)**	**(7,474,553)**	**30,180,941**	**(10,417,517)**	**(7,615,677)**	**(665,898)**	**5,020,684**	**(8,072,234)**	**(704,993)**	**(5,403,703)**
Ending Cash	**25,861,643**	**22,417,050**	**13,113,951**	**9,190,406**	**1,715,852**	**31,896,794**	**21,479,276**	**13,863,600**	**13,197,701**	**18,218,386**	**10,146,151**	**9,441,159**	**9,441,159**

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2012, provides coverage of 1.63* times the principal of and interest due on the Notes at maturity. See "THE NOTES—Security for and Sources of Payment."

FREMONT UNION HIGH SCHOOL DISTRICT
Estimated Note Coverage Ratio

Projected Beginning Cash Balance 7/1/11	$ 14,844,862
Plus: Projected 2011-12 Cash Receipts (including Note Proceeds)*	99,922,368
Less: Projected 2011-12 Disbursement (excluding Note Repayment)	(90,229,113)
Ending Cash Balance	24,538,117
Estimated Note Repayment*	$ 15,096,958
NOTE COVERAGE RATIO*	1.63:1

DISTRICT INFORMATION

General Information

The District provides educational services to the residents of the Cities of Sunnyvale and Cupertino and portions of the Cities of San Jose, Los Altos, Saratoga and Santa Clara in Santa Clara County, California.

The District operates five comprehensive high schools (9-12) and one adult and community education school. The District's average class size is 32:1 for grades 9-12.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in staggered elections. The day-to-day operations are managed by a Board-appointed Superintendent of Schools. Polly M. Bove has served in this capacity since December 5, 2006.

The years in which the current terms for each member of the District Board expire are set forth below:

BOARD OF EDUCATION

Name	Office	Term Expires (November)
Barbara F. Nunes	President	2014
Hung Wei	Vice President	2014
Nancy A. Newton	Clerk	2012
Homer H.C. Tong	Trustee	2012
Bill Wilson	Trustee	2014

* Preliminary, subject to change.

Average Daily Attendance

The following table reflects the District's historical A.D.A. for the last three years and projections for 2010-11 and 2011-12.

FREMONT UNION HIGH SCHOOL DISTRICT
Average Daily Attendance

Academic Year	Average Daily Attendance at P-2	Enrollment
2007-08	9,983	10,333
2008-09	10,000	10,339
2009-10	9,961	10,235
2010-11 (a)	9,968	10,350
2011-12 (a)	10,056	10,410

Source: Fremont Union High School District
(a) Projected

District Employees

The District employs approximately 490 full-time equivalent certificated employees and 290 full-time equivalent classified employees and 63 management personnel. There are two formal bargaining organizations that are active in the District.

FREMONT UNION HIGH SCHOOL DISTRICT
Labor Relations

Labor Organization	Number of Employees In Organization	Contract Expiration Date
Fremont Education Association	509	June 30, 2011
California Schools Employees Association	311	June 30, 2011

Source: Fremont Union High School District.

Retirement System

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

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, California 95814.

Funding Policy - Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 9.709% of annual payroll; for fiscal year 2010-11 it is 10.707%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2010 was $1,851,600 and is budgeted at $2,849,741 for fiscal year 2010-11.

State Teachers' Retirement System (STRS)

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a costsharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy - Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contribution to STRS for fiscal year 2009-10 was $3,709,847, and is budgeted at $4,062,994 for fiscal year 2010-11.

See NOTE 13— EMPLOYEE RETIREMENT PLANS in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010.

Other Post-Employment Benefits

Plan Description - The Retiree Health and Welfare Benefit (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the plan consists of 113 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and 887 active plan members. The Plan is presented in the District's financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

Funding Policy - The contribution requirements of plan members and the District are established and may be amended by the District and the Fremont Educators Association ("FEA"), the local California Service Employees Association ("CSEA"), and unrepresented groups. The required contribution is based on a closed 30 year amortization period and the level dollar method for the implementation year, and an open 30 year amortization period and level percentage of payroll method for subsequent years. For fiscal year 2009-10, the District contributed $1,353,667 to the plan, of which $1,383,472 was used for current premiums. Plan members receiving benefits contributed approximately 21% of the total premiums. District contributes $553, $500 and $480.80 monthly for FEA, CSEA and FMS, respectively. Any premiums over the District's contribution are paid by plan members..

Annual OPEB Cost and Net OPEB Obligation - The District's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 1,591,731
Interest on net OPEB obligation	134,500
Annual OPEB cost (expense)	1,726,231
	1,353,667
Contributions made	
Increase in net OPEB obligation	372,564
Net OPEB obligation, beginning of year	4,483,877
Net OPEB obligation, end of year	$4,856,441

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2008	$2,916,713	54.06 %	$3,004,865
2009	$2,990,261	53.05%	$4,483,877
2010	$1,726,231	78.81%	$4,856,441

See NOTE 14—POSTEMPLOYMENT HEALTH CARE PLAN AND OPEB OBLIGATION in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010.

District Investments

Substantially all District operating funds are held by the Santa Clara Director of Finance and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See APPENDIX D—EXCERPTS FROM THE SANTA CLARA COUNTY INVESTMENT PORTFOLIO REPORT, herein.

Insurance

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker's compensation as are adequate, customary and comparable with such insurance maintained by similarly situated elementary school districts. The District contributes to a joint powers authority for workers' compensation, property insurance and liability insurance with excess carried by Schools Excess Liability Fund. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

Economy of the District

Population. The population of the County is set forth in the following table.

SANTA CLARA COUNTY
Population

Calendar Year	Santa Clara County
2006	1,771,291
2007	1,797,623
2008	1,828,977
2009	1,857,516
2010	1,880,876

Source: California State Department of Finance.

Building Permits and Valuation. The following presents the number of building permits issued and the building permit valuations for the years 2008, 2009 and 2010 within the County.

SANTA CLARA COUNTY
Building Permits and Construction Valuation

	2008	2009	2010
Building Permits:			
Single Family	1,254	667	826
Multi-Family	2,417	450	3,627
Total	3,671	1,117	4,453
Building Permit Valuation			
Residential:			
Single Family	$ 382,423	$ 245,033	$ 307,367
Multi Family	302,105	74,466	457,924
Alterations-Additions	366,602	259,190	320,583
Total Residential	$1,051,129	$ 578,690	$1,085,874
Non-Residential:			
New Commercial	$ 489,101	$ 215,434	$ 267,010
New Industrial	48,565	0	33,862
Other	389,032	213,976	119,683
Alterations-Additions	987,855	758,366	735,059
Total Non-Residential	$1,914,552	$1,187,776	$1,155,614

Source: Construction Industry Research Board.

Employment. The table below shows employment statistics for the County, the State and the United States for the past five years.

SANTA CLARA COUNTY,
CALIFORNIA, AND UNITED STATES
Labor Force, Employment, and Unemployment

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
2006				
Santa Clara County	829,900	792,700	37,200	4.5%
California	17,718,500	16,851,600	866,900	4.9
United States	151,413,000	144,419,000	7,001,000	4.6
2007				
Santa Clara County	852,300	812,300	40,000	4.7%
California	17,928,700	16,970,200	958,500	5.3
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Santa Clara County	874,100	822,000	52,100	6.0%
California	18,191,000	16,883,400	1,307,600	7.2
United States	154,648,000	144,046,000	10,602,000	6.9
2009				
Santa Clara County	877,800	781,400	96,400	11.0%
California	18,204,200	16,141,500	2,062,700	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
Santa Clara County	874,000	776,500	97,400	11.1%
California	18,176,200	15,916,300	2,259,900	12.4
United States	153,888,667	139,063,917	14,824,750	9.6

Source: California State Employment Development Department, March 2010 Benchmark; U.S. Department of Labor.

Major Employers Within the County. The following table lists the County's major employers.

SANTA CLARA COUNTY
Major Employers
2010

Company Name	Location	Business Type
AAA-Affordable Tutoring	Santa Clara	Tutoring
Adobe Systems Inc	San Jose	Publishers-computer software (mfrs)
Advanced Micro Devices Inc	Sunnyvale	Semiconductors & related devices (mfrs)
Apple Inc	Cupertino	Computers-electronic-manufacturers
Avago Technologies Ltd	San Jose	Exporters (whls)
Cadence Design Systems Inc	San Jose	Computers-system designers & consultants
Café Adobe	San Jose	Full-service restaurant
California's Great America	Santa Clara	Marketing programs & services
Christopher Ranch LLC	Gilroy	Garlic (mfrs)
Cisco Systems Inc	San Jose	Computer peripherals (mfrs)
E4e Inc	Santa Clara	Venture capital companies
El Camino Hospital	Mountain View	Hospitals
Flextronics International	Los Altos	Solar energy equipment-manufacturers
Fujitsu IT Holdings Inc	Sunnyvale	Computers-wholesale
Goldsmith Seeds Inc	Gilroy	Florists-retail
Hewlett-Packard	Cupertino	Computer & equipment dealers
Hewlett-Packard Co	Palo Alto	Computers-electronic-manufacturers
HP Pavilion at San Jose	San Jose	Stadiums arenas & athletic fields
Intel Corp	Santa Clara	Semiconductor devices (mfrs)
Kaiser Permanente Medical Ctr	San Jose	Hospitals
Microsoft Corp	Mountain View	Computer software-manufacturers
National Semiconductor Corp	Santa Clara	Semiconductor devices (mfrs)
Net App Inc	Sunnyvale	Computers-electronic-manufacturers
Santa Teresa Community Hosp	San Jose	Hospitals
VA Medical Ctr-Palo Alto	Palo Alto	Hospitals

Source: America's Labor Market Information System (ALMIS) Employer Database, 2011 1st Edition. Employer information is provided by infoUSA®, Omaha, NE, 800/555-5211.

Industry. The following table shows the estimated number of labor force by industry group for 2005 through 2009 in the County.

SANTA CLARA COUNTY
Labor Force and Industry Employment
Annual Averages by Industry

	2005	2006	2007	2008	2009 (1)
Total, All Industries	860,100	879,800	900,300	905,200	847,200
Total Farm	3,800	3,800	3,900	3,700	3,700
Natural Resources & Mining	200	300	300	300	200
Construction	42,700	44,900	45,500	42,800	32,900
Manufacturing	168,000	160,600	163,800	165,200	153,500
Trade, Transportation & Utilities	130,300	134,500	137,300	135,300	124,200
Wholesale Trade	35,400	37,800	39,400	39,400	35,200
Retail Trade	82,200	84,000	84,600	82,700	77,200
Information	35,200	37,400	39,500	42,200	41,000
Financial Activities	36,000	36,700	36,800	34,200	31,400
Professional & Business Services	159,100	170,300	176,600	178,000	161,200
Educational & Health Services	96,100	99,700	102,500	107,200	107,300
Leisure & Hospitality	71,400	73,700	75,300	76,600	72,900
Other Services	24,200	24,300	24,600	25,000	23,900
Government	92,900	93,600	94,300	94,900	95,000

Source: California State Employment Development Department.
(1) Latest available full-year data.

Commercial Activity. Taxable transactions in the County from 2005 through 2009 are summarized below. In early 2007 the Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System (NAICS) codes. This process is now complete; over one million permit holders were converted from the previous business coding system to the NAICS codes. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years.

SANTA CLARA COUNTY
Taxable Transactions
(in thousands)

	2005	2006	2007	2008
Retail Stores				
Apparel	$ 1,169,069	$ 1,264,215	$ 1,334,050	$ 1,422,687
General Merchandise	2,839,877	2,979,387	3,112,536	2,946,466
Specialty Stores	3,377,917	3,674,311	*	*
Food	830,483	849,281	890,341	868,612
Eating and Drinking	2,440,418	2,645,787	2,813,519	2,876,837
Home Furnishings and Appliances	850,634	879,872	901,164	1,068,519
Building Materials	1,577,165	1,659,844	1,581,859	1,356,505
Automotive	5,289,878	5,534,342	3,468,163	2,709,927
Service Stations	**	**	2,320,507	2,526,073
Other	528,067	552,873	4,368,119	3,537,686
Total Retail Stores	18,903,508	20,039,932	20,790,258	19,313,313
Business and Personal Services	1,214,550	1,265,315	1,244,445	1,111,792
All Other Outlets	10,075,744	10,967,991	11,628,745	11,849,202
Total All Outlets	$30,193,802	$32,273,238	$33,663,448	$32,274,306

	2009 (1)
Retail and Food Services	
Motor Vehicles and Parts Dealers	$2,284,032
Furniture and Home Furnishings Stores	427,418
Electronics and Appliance Stores	1,195,466
Bldg Mtrl. and Garden Equip. and Supplies	1,164,960
Food and Beverage Stores	975,086
Health and Personal Care Stores	494,462
Gasoline Stations	1,800,162
Clothing and Clothing Accessories Stores	1,690,211
Sporting Goods, Hobby, Book and Music Stores	625,799
General Merchandise Stores	2,272,162
Miscellaneous Store Retailers	621,409
Food Services and Drinking Places	2,705,143
Total Retail and Food Services	16,385,238
All Other Outlets	11,042,471
Totals All Outlets	$27,427,709

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).
(1) Latest available full-year data.
* Beginning in 2007, "Specialty Stores" were combined in "Other Retail Stores" category.
** Beginning in 2007, "Service Stations" is reported in a separate category from "Automotive."

DISTRICT FINANCIAL INFORMATION

District Budget

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

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than September 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget may be disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent two fiscal years. 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.

In connection with its Second Interim Report for 2010-11, the District was certified as "positive," because, based upon then current projections, the District will meet its financial obligations for the current fiscal year or two subsequent fiscal years.

General Fund Budget

The District's general fund actual results for the fiscal years ended June 30, 2008, 2009, and 2010, and the proposed general fund budget for the fiscal year ending June 30, 2011, are set forth below:

FREMONT UNION HIGH SCHOOL DISTRICT
GENERAL FUND BUDGET
Comparison of Actuals for Fiscal Years Ended June 30, 2008 2009 and 2010, and Budget for Fiscal Year Ending June 30, 2011

	Actuals			Budget
	2007-08	2008-09	2009-10	2010-11
REVENUES				
Revenue Limit Sources	$71,120,426	$ 77,241,309	$ 79,296,411	$ 78,075,381
Federal	2743,794	4,698,153	5,122,357	2,460,681
State	8,657,359	8,366,256	8,282,529	3,729,703
Local	12,945,127	12,827,269	11,605,809	10,975,565
Total Revenues	95,466,706	103,165,988	104,307,106	95,241,330
EXPENDITURES				
Certificated Salaries	45,574,207	48,537,097	44,890,983	46,682,645
Classified Salaries	14,626,156	15,869,830	15,390,198	16,244,004
Benefits	16,986,896	18,155,875	19,724,093	19,510,820
Supplies	5,715,074	4,309,456	3,244,355	9,304,904
Operating Expenditures	11,397,303	11,259,166	11,351,804	11,225,511
Capital Outlay	97,946	74,027	60,803	10,213
Other Outgo	17,146	81,892	(186,703)	88,985
Transfers of Indirect/Direct Support Costs	(232,604)	(227,774)	0	(169,802)
Total Expenditures	94,192,125	98,059,570	94,480,533	102,897,280
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources and Uses	1,274,581	5,106,417	9,826,573	(7,655,950)
OTHER FINANCING SOURCES/USES				
Interfund Transfers				
Transfers In	0	0	101,062	0
Transfers Out	1,450,711	876,340	1,416,682	1,235,329
Other Sources/Uses				
Sources	0	0	0	0
Uses	0	0	0	0
Contributions	0	2	0	0
Total, Other Financing Sources/Uses	(1,450,711)	(876,342)	(1,315,621)	(1,235,329)
Net Increase (Decrease) in Fund Balance	176,129	4,230,072	8,510,952	(8,891,279)
				19,965,500
Beginning Fund Balance (July 1)	9,593,301	9,417,172	11,454,548	
Audit Adjustments	0	0	0	(229,360)
Ending Balance (June 30)	$ 9,417,172	$11,454,548	$19,965,500	$10,844,861

Source: Fremont Union High School District.

Significant Accounting Policies and Audited Financial Statements

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual.

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2008, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, District at 589 West Fremont Avenue, Sunnyvale, CA 94087, Telephone: (408) 522-2201. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. The District's audited financial statements for the year ended June 30, 2010, are included in Appendix B hereto. The District's auditors have not specifically approved the inclusion of such excerpts herewith. The District has not requested, and its auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

California Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. Many provisions affect District operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the District. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based on then-current projections.

The District filed its 2010-11 First Interim Financial Report with the SCCOE using financial information available as of October 31, 2010, with a "positive" certification within the meaning of section 42133 of the California Education Code. The District filed its 2010-11 Second Interim Financial Report with the SCCOE using financial information available as of January 31, 2011, with a "positive" certification within the meaning of section 42133 of the California Education Code.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year.

FREMONT UNION HIGH SCHOOL DISTRICT
GENERAL FUND
Revenues, Expenditures and Fund Balance
Fiscal Years 2007-08, 2008-09 and 2009-10

	Audited 2007-08	Audited 2008-09	Audited 2009-10
Revenues			
Revenue Limit Sources	$71,120,426	$ 77,241,308	$ 79,296,411
Federal Revenue	2,743,794	4,698,153	5,122,357
Other State Revenue	10,675,818	8,192,442	8,282,529
Other Local Revenue	12,945,127	12,827,267	11,605,809
Total Revenues	97,485,165	102,959,170	104,307,106
Expenditures			
Current:			
Instruction	57,137,998	56,584,464	55,644,381
Instruction-related activities			
Supervision of instruction	4,067,027	3,929,187	4,025,250
Instructional library, media, and technology	1,658,163	1,710,769	1,549,550
School site administration	8,843,541	9,470,690	9,834,026
Pupil services			
Home-to-school transportation	1,247,990	1,317,784	1,555,077
Food services	410		208
All other pupil services	5,140,371	5,998,063	6,415,151
General administration			
Data processing	4,721,010	109,951	205,593
All other general administration	7,397,175	10,853,623	5,414,278
Plant services	9,577,896	9,484,111	9,377,520
Facility acquisition and construction	90,865	55,042	38,836
Ancillary services	79,565	89,892	152,621
Other outgo	17,146	81,893	6,680
Debt service			
Interest	480,335	359,985	261,362
Total Expenditures	96,210,583	(1,422,739)	94,480,533
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,274,582	2,913,716	9,826,573
Other Financing Sources (Uses):			
Transfers In	-	-	101,062
Transfers Out	(1,450,711)	(876,340)	(1,416,682)
Net Financing Sources (Uses)	(1,450,711)	(876,340)	(1,315,621)
Net change in Fund Balance	(176,129)	2,037,376	8,510,952
Fund Balances, July 1	9,593,301	9,417,172	11,454,548
Fund Balances, June 30	$ 9,417,172	$ 11,454,548	$19,965,500

Source: Fremont Union High School District audited financial statements.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Short-Term Obligations. On July 14, 2020, the District issued $11,000,000 in tax and revenue anticipation notes which are due on June 30, 2011. Amounts required for the payment of such notes have been set aside as required by the documents authorizing such notes.

Long-Term Obligations. Voters of the District previously authorized bonds of the District to be issued in the amount of $144 million in 1998 and $198 million in 2008. All or substantially all of the bonds authorized in 1998 have been issued, then later refunded with the issuance of refunding bonds in 2005. In August 2008, the District issued the first series of bonds under the 2008 authorization in the aggregate principal amount of $80,000,000. In March 2011, the District issued additional bonds under the 2008 authorization in the aggregate principal amount of $69,995,108.30.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Original Issue	Balance June 30, 2010
2005 Refunding	1/20/05	9/1/23	$143,400,000.00	$118,880,000.00
2008	8/14/08	8/1/33	80,000,000.00	77,100,000.00
2010 A	3/23/10	8/1/44	28,905,000.00	28,905,000.00
2010 B	3/23/10	8/1/40	16,090,108.30	16,090,108.30
2010 D	3/23/10	2/1/26	25,000,000.00	25,000,000.00
			$293,935,108.30	$265,975,108.30

LOCAL PROPERTY TAXATION

Ad Valorem Property Taxation

Taxes are levied for each fiscal year on taxable real and personal property located in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and 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 then part of the assessment roll also containing State-assessed property, and property, the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 20, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month from the time of becoming tax delinquent to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are due on February 1 and if unpaid become delinquent on August 1. A penalty of 1% attaches immediately to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property improvements or possessor's interest belonging or assessed to the delinquent taxpayer.

Taxation of State-Assessed Utility Property

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

Changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq*. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities. Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to secured property tax levies. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts, special assessment districts, and benefit assessment districts.

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The primary source of revenue for the payment of the Notes will be the general fund of the District. Amounts available to the District for such payment will vary, dependent in large part upon funding available from the State. See "GENERAL SCHOOL DISTRICT INFORMATION—State Funding of School Districts."

Article XIIIA of the California Constitution

Article XIIIA of the California Constitution limits the amount of any ad valorem tax on real property, to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "status." Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIIIB of the California Constitution

In 1979, an initiative added Article XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district's revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year.

Article XIIIC and Article XIIID of the California Constitution

The so-called "Right to Vote on Taxes Act" ("Proposition 218") was approved by the voters in 1996. 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 mandatory, statutory duty on a county treasurer-tax collector to levy a property tax sufficient to pay debt service on general obligation 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 the payment of general obligation bonds or to otherwise interfere with performance of the mandatory, statutory duty of the District and the County with respect to such taxes which are pledged as security for payment of the general obligation bonds. 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 neither pledged nor available to pay the Notes.

Proposition 62

In 1986, California voters adopted Proposition 62, a statutory initiative which amended the Government Code by the addition of sections 53720-53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Although by its terms Proposition 62 applies to school districts, the District has not experienced any substantive adverse financial impact as a result of the passage of this initiative or the *Santa Clara* or *La Habra* decisions and believes that any impact experienced by the District will not adversely effect the ability of the District to make payments of principal of and interest on the Notes.

Proposition 98

In 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, "K-14 districts").

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (a) in general, a fixed percent of the State's General Fund (the "State General Fund") revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIIIB by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income ("Test 3"). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of the 1988-89 fiscal year, implementing Proposition 98, determined the K-14 districts' funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 districts' minimum funding formula for a one-year period. In the fall of 1989, the Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIIIB limit to K-14 districts.

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years' estimated Proposition 98 minimum funding levels. The State determined that there were loans to K-14 districts of $1.3 billion during fiscal year 1990-91, $1.1 billion during fiscal year 1991-92, $1.3 billion during fiscal year 1992-93 and $787 million during fiscal year 1993-94. These loans have been combined with the K-14 1992-93 loans into one loan totaling $1.760 billion. The State proposed that repayment of this loan would be from future years' Proposition 98 entitlements, and would be conditioned on maintaining current funding levels per pupil for K-12 schools.

In 1992, a lawsuit, *California Teachers' Association et al. v. Gould*, was filed, which challenged the validity of the off-budget loans. As part of the negotiations leading to the 1995-96 Budget Act, an agreement was reached to settle this case. The agreement provides that both the State and K-14 districts share in the repayment of prior years' emergency loans to schools. Of the total $1.76 billion in loans, the State will repay $935 million, while K-14 districts will repay $825 million. The State's share of the repayment will be reflected as expenditures above the current Proposition 98 base calculation. The K-14 districts' share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, and thus are treated as from "below" the current base. Repayments are spread over the eight-year period of 1994-95 through 2001-02 to mitigate any adverse fiscal impact. In April 1996, a court settlement was reached and $360 million in appropriations from the 1995-96 fiscal year was disbursed to districts in August 1996.

Substantially increased State General Fund revenues, above initial budget projections, in the fiscal years 1994-95 and thereafter have resulted or will result in retroactive increases in Proposition 98 appropriations from subsequent fiscal years' budgets. Because of the State's increasing revenues, per-pupil funding at the K-12 level has increased by about 42% from the level in place from 1991-92 through 1993-94. A significant amount of the "extra" Proposition 98 moneys in the last few years has been allocated to special programs, most particularly an initiative to allow each classroom from grades K-3 to have no more than 20 pupils by the end of the 1997-98 school year. There are also new initiatives to improve reading skills and to upgrade technology in high schools, as well as numerous programs approved by the State Budget Act. The economy of the State has slowed and the State is experiencing severe budget shortfalls. For a discussion of State funding of the District, see "GENERAL SCHOOL DISTRICT INFORMATION—State Funding of School Districts."

Proposition 111

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990" ("Proposition 111"), which modified the State Constitution to alter the Article XIIIB spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

The most significant provisions of Proposition 111 are summarized as follows:

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

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

c. *Exclusions from Spending Limit*. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the then current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

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

e. *School Funding Guarantee*. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 districts a certain amount of State general fund revenues. Under prior law, K-14 districts were guaranteed the greater of (1) a certain percentage of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID ("Article XIIIC" and "Article XIIID," respectively), 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.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as 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 further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, section 4.

Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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 to levy a property tax sufficient to pay debt service on the districts' outstanding general obligation 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 District's outstanding general obligation bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes which are pledged as security for payment of the District's outstanding general obligation bonds. 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.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. The District does, however, receive a portion of the basic 1% percent *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends section 1 of Article XIIIA, section 18 of Article XVI of the California Constitution and section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55 percent of the vote, rather than the two-thirds majority required under section 18 of Article XVI of the Constitution. The 55 percent voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIIIA has been added to except from the one percent ad valorem tax limitation under section 1(a) of Article XIIIA of the Constitution levies to pay bonds approved by 55 percent of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the California Education Code. Under amendments to sections 15268 and 15270 of the California Education Code, the following limits on ad valorem taxes apply in any single election: (1) for a school district, indebtedness shall not exceed $30 per $100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed $60 per $100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed $25 per $100,000 of taxable property. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Proposition 1A

Proposition 1A (SCA 4), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, and the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate below 0.65 percent the State must provide local governments with equal replacement revenues. Further, Proposition 1A required the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Future Initiatives and Legislation

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 98, 111, 218, 39 and 1A were each adopted as measures that qualified for the ballot pursuant to California's initiative process and various State measures have been adopted by the State Legislature. From time to time, other initiative measures or legislation could be adopted, further affecting the District revenues or the District's ability to expend revenues.

GENERAL SCHOOL DISTRICT INFORMATION

The information in this section concerning funding procedures of K-12 school districts in the State is provided as supplementary information only. For specific financial information on the District, see "DISTRICT FINANCIAL INFORMATION."

State Funding of School Districts

The State Constitution requires that from all State revenues there will first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from State appropriations.

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit (as described below) per unit of average daily attendance ("ADA").

Generally, such apportionments will amount to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (i.e., unified, high school or elementary). State law also provides for State support of specific school-related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

The State revenue limit is calculated three times a year for each school district. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for the June 25th Second Principal Apportionment, and the final calculation for the end of the year Annual Principal Apportionment. Calculations are reviewed by the County Office of Education and submitted to the State Department of Education to review the calculations for accuracy, calculate the amount of State aid owed to such school district and notify the State Controller of the amount, who then distributes the State aid.

The calculation of the amount of State aid a school district is entitled to receive each year is a five step process. First, the prior year State revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year State revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average State revenue limit per ADA for the school districts. Third, the current year's State revenue limit per ADA for each school district is multiplied by such school district's ADA for either the current or prior year. Fourth, revenue limit add-ons are calculated for each school district if such school district qualifies for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the State revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the State revenue limit to arrive at the amount of state aid based on the State revenue limit each school district is entitled to for the current year.

Basic Aid Districts

In the event that a school district's property tax revenue exceeds its calculated revenue limit entitlement, that school district retains all of its property tax revenue, and State apportionments to that district are limited to the minimum "basic aid" amount of $120 per

A.D.A. set forth in the Constitution. Currently the State allocates basic aid funding to categorical entitlements that would have been received in any event. Such districts are commonly known as "Basic Aid Districts." The District is a Basic Aid District.

State Funding of Schools Without a State Budget

On May 29, 2002, the Court of Appeal of the State for the Second Appellate District in *White v. Davis et al.* (combined with *Howard Jarvis Taxpayers Association et al. v. Westly* in appeal) held, among other things, that absent adoption of a budget bill or an emergency appropriation by the Legislature, the State Controller may disburse State funds authorized by (a) a continuing appropriation enacted by the Legislature, (b) a self-executing provision of the State Constitution, including payment of certain funds for public schools under Article XVI, section 8.5 of the State Constitution, and (c) mandate of federal law, such as prompt payment of minimum wage and overtime compensation mandated by the federal Fair Labor Standards Act and benefits under federal food stamp, foster care and adoption, child support and child welfare programs. The Court of Appeal specifically concluded that Article XVI, section 8.0 of the State Constitution does not constitute a self-executing authorization to disburse revenue limit apportionment to school districts; legislative appropriation is required for revenue limit disbursement. On May 1, 2003, the California Supreme Court in its decision in *White v. Davis* et al granted review to two other matters and let these particular conclusions of the Court of Appeal stand without ruling on them.

During the 2003-04 State budget impasse, the State Controller announced that only "payments of prior year obligations, constitutional authorizations, federal mandates and continuous legislative appropriations would be made." The State Controller concluded that revenue limit apportionments to school districts, under provisions of the California Education Code implementing Article XVI, section 8 of the State Constitution, are authorized as continuous legislative appropriations, so disbursed these funds without a budget bill or emergency appropriation enacted. The State Controller did not disburse certain categorical and other funds to school districts until the 2003-04 Budget Act was enacted.

County Office of Education

In each county there is a county superintendent of schools (the "County Superintendent") and a county board of education. The Office of the County Superintendent, frequently known as the "County Office of Education" (the "County Office") in each county provides the staff and organization that carries out the activities and policies of the County Superintendent and county board of education for that county.

County Offices provide instructional and support services to school districts within their counties, and various State mandated services county-wide, particularly in special education and juvenile court education services. County Office business services departments act as a control point for a variety of information, including pupil data collection, attendance accounting, teacher credential registration, payroll accounting, retirement and tax information and school district budgets, and also report such information to the State Department of Education. All school district budgets must be approved by their County Office and the District must provide its County Office with scheduled interim reports throughout the fiscal year. County Offices also act as enforcement entities which intervene in district fiscal matters should a district fail to meet State budget and reporting criteria.

The District is under the jurisdiction of, and is served by, the RCOE.

School District Budget Process

School districts are required by provisions of the California Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. School District's annual general fund expenditures are characterized in large part by multi-year expenditure commitments such as union contracts. Year-to-year fluctuations in State and local funding of school district general funds could result in revenue decreases which, if large enough, may not easily be offset by an equal reduction in expenditures until at least the following fiscal year. School districts are required by State law to maintain general fund reserves which can be drawn upon in the event of a resulting excess of expenditures over revenues for a given fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed. For both dual and single budgets submitted on July 1, the County Superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations and is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the County Superintendent will approve or disapprove the adopted budget for each school district. 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.

Subsequent to approval, the County Superintendent throughout the fiscal year is authorized to monitor each school district under his or her jurisdiction pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If a 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 the County Superintendent may 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) develop and impose, after also consulting with the district's board, 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 any collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

At minimum, school districts are required by statute to file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15th covering financial operations from July 1 through October 31st, and a Second Interim Financial Report by March 15th covering financial operations from November 1 through January 31st. Section 42131 of the California Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report by June 1st covering financial operations from February 1st through April 30th. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

Temporary Inter-fund Borrowing

The California Education Code generally authorizes a school district to temporarily transfer cash from a specific purpose fund to any other district fund by district board action; *provided that*, (a) the transferred cash is repaid to the original fund within the same fiscal year or (b), if transferred within the final 120 days of a fiscal year, then repaid to the original fund within the following fiscal year. However, depending on the circumstances of a particular such transfer, other State law, grant or contractual restrictions, or in the case of proceeds of tax-exempt obligations, federal tax law, may apply and may further restrict the use of such cash.

Accounting Practices

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

Revenue Sources

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

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the actual daily attendance for such district by (2) a base revenue limit per unit of average daily attendance ("A.D.A."). The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

Funding of the District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the actual daily attendance for such district by (2) a base revenue limit per unit of average daily attendance ("A.D.A."). The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

Funding of the District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The revenue limit sources comprised approximately 76.01% of general fund revenues in fiscal year 2009-10 and are estimated to equal approximately 82.01% of such revenues in fiscal year 2010-11.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 4.9% of general fund revenues in fiscal year 2009-10 and are estimated to equal approximately 2.6% of such revenues in fiscal year 2010-11.

Other State Revenues. As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues.

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, School Improvement Program, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation and instructional materials. Other State revenues comprised approximately 7.9% of general fund revenues in fiscal year 2009-10 and are estimated to equal approximately 3.9% of such revenues in fiscal year 2010-11.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, transportation fees, leases and rentals, special education support and other local sources. Other local revenues comprised approximately 11.1% of general fund revenues in fiscal year 2009-10 and are estimated to equal approximately 11.5% of such revenues in fiscal year 2010-11.

State Funding of School Construction

The State makes funding for school facility construction and modernization available to K-12 districts throughout the State through the Office of Public School Construction ("OPSC") and the State Allocation Board ("SAB"), from proceeds of State general obligation bonds authorized and issued for this purpose. Such bonds were authorized in the amount of $13.05 billion, $11.40 billion of which were for K-12 school facilities and $1.65 billion of which were for higher education facilities, on November 5, 2002 under Proposition 47, passed by 58.9% of the State-wide vote. An additional bond measure for education capital projects was approved on March 2, 2006, under Proposition 55, passed by 50.6% of the State-wide vote, in an authorization amount of $12.3 billion, $10.0 billion of which is for K-12 school facilities and $2.3 billion of which is for higher education facilities. A State general obligation bond measure that includes $7.329 billion for construction, modernization and related purposes for K-12 school districts was approved by a majority of voters in the November 7, 2006, State-wide election.

The SAB allocates bond funds for 50% of approved new construction costs, 60% of approved modernization costs (80% for modernization project applications made prior to February 1, 2002), or up to 100% of approved costs of any type if the school district is approved for "hardship" funding. The school district is responsible for the portion of costs not funded by the State, commonly funding their portion with their own general obligation bonds, certificates of participation or accumulated builder's fee revenue. School districts routinely apply for such funding whenever they have projects they believe meet OPSC and SAB criteria for funding.

State Assistance

School districts' principal funding formulas and revenue sources are derived from the budget of the State. The following discussion of the California State budget has been obtained from publicly available information which the District believes to be reliable; however neither District nor the Underwriter guaranty the accuracy or completeness of this information and have not independently verified such information. Additional information regarding State budgets is available at various State-maintained websites, including www.dof.ca.gov. These websites are not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

Final 2010-11 Budget. The 2010 Budget Act was signed by Governor Schwarzenegger on October 8, 2010 and closed an estimated budget gap of $19.3 billion by a combination of expenditure reductions, federal funds and other solutions. The 2010 Budget Act holds General Fund spending essentially flat compared to the prior year ($86.6 billion in fiscal year 2010-11 compared to $86.3 billion in fiscal year 2009-10). In order to create a prudent reserve for economic uncertainties, the Governor exercised his line-item veto authority to reduce General Fund spending by an additional $963 million, raising the reserve level from $375 million to $1.3 billion. The 2010 Budget Act also makes a number of reductions in health and human services programs, but does not eliminate CalWORKs, community mental health programs, Adult Day Health care, or reductions proposed to the In Home Supportive Services program.

The 2010 Budget Act includes: (i) savings of over $1.1 billion for corrections, from reduced inmate medical care costs ($820 million), cuts from inmate and parole population savings ($200 million), and delayed local assistance payments ($50 million); (ii) reduced spending for state employees by $1.5 billion, including $547.7 million in savings through a five percent reduction to departmental personnel costs and by pre-funding other post employment benefit costs, as well as $2.5 billion in revenue solutions, comprising $1.4 billion from the Legislative Analyst's revenue forecast, which was $1.4 billion higher than the Governor's May Revision; (iii) the extension of the Net Operating Loss corporate tax benefit suspension for an additional two years, which results in increased tax revenue of about $1.2 billion in fiscal year 2010-11 and revisions to recent corporate tax law changes related to penalties assessed when a corporation underpays their tax liability by more than $1 million; and (iv) various changes to State pension laws for new State employees including those in bargaining units that do not currently have a Memorandum of Understanding with the State, as well as employees of the California State University, the judicial branch of government, and the Legislature.

As it relates to K-14 Education, the 2010 Budget Act includes the following:

- Department of Education — A decrease of $2.6 million and 22.0 positions associated with administering categorical programs. School districts have been granted flexibility to shift funds among and away from approximately 40 categorical programs, resulting in less workload for departmental administration and oversight.

- Proposition 98 — A suspension of the Proposition 98 Guarantee by $4.1 billion. Even with the suspension, the Proposition 98 Guarantee funding level for K-14 education remains the same as fiscal year 2009-10 in an effort to protect education; and with assumed federal funding increases, it improves year over year. The 2010 Budget Act reduces the Proposition 98 Guarantee from the estimated minimum funding level of $53.8 billion down to a level of $49.5 billion. In addition, a repayment of $300 million in settle-up payments related to fiscal year 2009-10 is provided to pay for mandated costs. The actions necessary to reduce the level of appropriations in fiscal year 2010-11 to match the desired appropriations level include (i) a decrease of $1.7 billion, in Proposition 98 General Fund in fiscal year 2010-11 to reflect a deferral of revenue limit apportionments for K-12 school districts, county offices of education and charter schools, to be repaid in fiscal year 2011-12; (ii) a decrease of $700 million in unallocated ending balances as of June 30, 2010 from a variety of K-12 categorical programs. Of these unallocated funds, approximately $360 million are as a result of program savings; the balance of $340 million is attributable to Special Education, all of which will be repaid with one-time fiscal year 2009-10 savings from the Class Size Reduction program.

- Class Size Reduction Program Savings — A reduction of $550 million to reflect projected savings in the K-3 Class Size Reduction program in fiscal year 2010-11. A reduction of $340 million to reflect projected savings in the K-3 Class Size Reduction program in fiscal year 2009-10. Since the penalties for exceeding class size limits were significantly reduced in fiscal year 2009-10, program savings due to schools increasing class sizes are anticipated.

A complete copy of the 2010 Budget Act is posted by the California Department of Finance website at www.ebudget.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

Legislative Analyst's Office Overview of 2010 Budget Act. The Legislative Analyst's Office ("LAO") Overview of the 2010 Budget Act (the "2010 LAO Overview") released October 8, 2010, acknowledges the 2010 Budget Act's attempt to address one of the most vexing State budget shortfalls in California's history, the product of a continuing structural imbalance between State revenues and expenditures and a slow recovery from a severe recession that began in 2007 and ended in 2009. The 2010 LAO Overview notes that in May 2010, the Administration estimated that there would be a gap of $17.9 billion between General Fund resources and expenditures in fiscal year 2010-11 under then-existing laws and policies. To address this projected gap, the Legislature opted for a package of budget actions (prior to vetoes) including $6.8 billion of expenditure-related solutions, $5.4 billion of new federal funding (most of it not yet approved by Congress), $3.3 billion of revenue actions, $2.7 billion of largely one-time loans, transfers, and funding shifts. The LAO also notes that the 2010 Budget Act does not include the Governor's proposed elimination of the CalWORKs and subsidized childcare, and it does not include reductions in social services grant levels. The LAO believes that if all of the assumptions are met in the 2010 Budget Act and accompanying legislation, the State would be left with a

$364 million General Fund reserve at the end of fiscal year 2010-11, however, the LAO also notes that two-thirds of the 2010 Budget Act solutions are one-time or temporary in nature, such that California will continue to face sizable annual budget problems in fiscal year 2011-12 and beyond.

As the 2010 Budget Act relates to K-14 education, the 2010 LAO Overview states that ongoing Proposition 98 funding is slightly higher in fiscal year 2010-11 ($49.7 billion) than the revised fiscal year 2009-10 level ($49.5 billion) and that to fund at this level the State Legislature suspended the Proposition 98 minimum guarantee for fiscal year 2010-11. The LAO reports that the State is ending fiscal year 2009-10 with a "settle-up obligation" to the effect that the State appropriated less in fiscal year 2009-10 than the revised estimate of the minimum guarantee for that year. The LAO estimates that the fiscal year 2009-10 settle-up obligation is $1.8 billion.

In addition, the 2010 Budget Act spends $242 million in fiscal year 2010-11 using one-time Proposition 98 funds available from prior years and increases Proposition 98 funding for community colleges, and provides $300 million as a payment to begin to meet the State's outstanding fiscal year 2009-10 Proposition 98 settle-up obligation. On top of State funding, related budget bills provide K-12 education with $1.5 billion in special one-time federal funding, $1.2 billion of which is from recent federal grants provided specifically to help retain K-12 jobs, and $272 million from the last round of federal stabilization funding from the 2009 stimulus package. The LAO recognizes that, though the State is providing slightly more ongoing funding in fiscal year 2010-11 than fiscal year 2009-10, the large reliance on one-time solutions in fiscal year 2009-10 resulted in the need for fiscal year 2010-11 reductions, and that under the 2010 Budget Act and accompanying legislation, the reductions are largely treated as deferrals of payments rather than cuts, specifically deferring $1.9 billion in additional K-14 payments ($1.7 billion for K-12 education and $189 million for community colleges). The LAO also recognizes that virtually all other K-12 reductions are technical adjustments designed to align appropriations with anticipated program costs, such as for the K-3 Class Size Reduction program.

A complete copy of the 2010 LAO Overview is posted by the Office of the Legislative Analyst at www.lao.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

LAO's November 2010 Report. On November 10, 2010, the LAO released its report entitled *The 2011-12 Final Budget: California's Fiscal Outlook* (the "LAO's November 2010 Report") in which the LAO recognizes that the State's budget challenges include a $6 billion projected deficit for fiscal year 2010-11 and a $19 billion gap between projected revenues and spending in fiscal year 2011-12. The LAO's November 2010 Report assumes that the State will be unable to secure around $3.5 billion of budgeted federal funding in fiscal year 2010-11 and projects higher than budgeted costs in prisons and other programs, and that the passage of Proposition 22 will prevent the State from achieving approximately $800 million of budgeted solutions in fiscal year 2010-11. The LAO's November 2010 Report states that the temporary nature of most of the State Legislature's 2010 budget-balancing actions and the extremely slow economic recovery will contribute to the $19 billion projected operating deficit in fiscal year 2011-12 and that actions taken by the State Legislature during the fiscal year 2010-11 budget process to reduce Proposition 98 education spending are a major contributor to the decline. Accordingly, the LAO projects annual budget problems of about $20 billion each year through fiscal year 2015-16. In fiscal year 2012-13, when the State must repay its 2010 borrowing of local property tax revenues and the full effect of Propositions 22 and 26 hit the State's bottom line, the LAO's November 2010 Report forecast shows the State's operating deficit will grow to $22.4 billion and that, because the LAO's methodology generally assumes no cost-of-living adjustments, these projections likely understate the magnitude of the State's fiscal problems during that forecast period.

The LAO's November 2010 Report also states that additional savings from Proposition 98 will be very difficult in light of the LAO forecast that State General Fund revenues and transfers will decline by over $8 billion in fiscal year 2011-12 due to the expiration of the temporary tax increases adopted in 2009. Because the Proposition 98 minimum school funding guarantee is affected by this drop, the LAO's budget forecast already reflects a $2 billion fall in the minimum guarantee between fiscal year 2010-11 and fiscal year 2011-12, a reduction that would come at the same time that school districts exhaust the billions of dollars of one-time federal money they have received through the stimulus program and other legislation. For these reasons, the LAO believes it may be very difficult for the State to achieve substantial additional budget reductions in Proposition 98 in fiscal year 2011-12 so that, if the Legislature funds schools at our projected minimum guarantee in fiscal year 2011-12, it would mean billions of dollars in programmatic cuts to education but would not contribute a single dollar to closing the State's $25 billion budget problem.

For fiscal year 2011-12, the LAO projects the Proposition 98 minimum guarantee will be about $2 billion lower than the fiscal year 2010-11 spending level due to the expiration of tax increases that temporarily raised tax revenues in fiscal year 2009-10 and fiscal year 2010-11. The LAO's November 2010 Report also projects that local property tax revenues are likely to modestly grow and that the State will have an outstanding maintenance factor obligation of $9.5 billion at the end of fiscal year 2010-11 and $4 billion in new maintenance factor in fiscal year 2011-12. The LAO also predicts that the minimum guarantee will fall $5.2 billion short of fully funding baseline K-14 costs in fiscal year 2011-12 so that, if the State funded at the minimum guarantee level in fiscal year 2011-12, school and community college districts would face significant programmatic reductions due to the decline in Proposition 98 funding in fiscal year 2011-12 coupled with the cost of backfilling for the loss of one-time fiscal year 2010-11 budget solutions. These reductions would occur at the same time as school districts exhaust one-time revenues from the federal ARRA of 2009 and the Education Jobs and Medicaid Assistance Act of 2010. While the minimum guarantee funding level in subsequent years could be sufficient to cover growth and COLA, funding would be insufficient to restore reductions made in fiscal year 2008-09 through fiscal year 2010-11. The LAO believes that given the potentially sizeable drop in the minimum guarantee in fiscal year 2011-12, the State Legislature should eliminate the $1.8 billion in K-14 payments deferred until July 2011 as part of the Final 2010-11 Budget as such deferrals translate into K-14 cuts almost double the level otherwise needed in fiscal year 2011-12. The LAO also states that, given that most K-14 districts have been cautious in increasing fiscal year 2010-11 program support as a result of the deferrals and some districts have been unable to access cash sufficient to support new spending paid for by the new deferrals, many districts would not be significantly impacted in fiscal year 2010-11 if the new deferral payments were eliminated.

The LAO's November 2010 Report projects that the State Legislature and Governor Brown will be tempted to continue patching over the State's budget problems with temporary fixes and that unless plans are put in place to begin tackling California's ongoing budget problem, it will continue to be difficult for the state to address fundamental public sector goals, such as rebuilding aging infrastructure, addressing massive retirement liabilities, maintaining service levels of high-priority government programs, and improving the State's tax system. Accordingly, the LAO believes that the State will face the basic choice to either begin to address today's huge, frustrating budget problems now or defer the State's budgetary and policy problems into the future. Accordingly, the LAO's November 2010 Report recommends that the State Legislature initiate a multiyear approach to solving the State's recurring structural budget deficit. In fiscal year 2011-12, the LAO believes that such an approach might involve $10 billion of permanent revenue and expenditure actions and $15 billion of temporary budget solutions and another few billion of permanent actions each year could be initiated in the next following fiscal years, along with other temporary budget solutions, until the structural deficit is eliminated. The LAO believes that, barring another sharp economic decline, such an approach could fix the State's near-term budget problems by the end of our forecast period in fiscal year 2015-16 and give the State flexibility to begin building reserves needed to address the next economic downturn and addressing long-term fiscal liabilities.

A complete copy of the LAO's November 2010 Report is posted by the Office of the Legislative Analyst at www.lao.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

Proposed 2011-12 Budget. Governor Edmund G. Brown Jr. released his proposed fiscal year 2011-12 State budget (the "Proposed 2011-12 Budget") on January 10, 2011. The Proposed 2011-12 Budget projects that the State will face a budget gap of $25.4 billion in fiscal year 2011-12 as a result of a shortfall of $8.2 billion attributable to fiscal year 2010-11 and a shortfall of $17.2 billion attributable to fiscal year 2011-12. The Governor believes that the 2010 Budget Act relied in part on unrealistic assumptions, including the receipt of $3.6 billion in federal funds and $1.7 billion in reductions that were not achieved, and that a reasonable reserve of $1 billion, $26.4 billion in cuts, taxes and other budget solutions will be necessary to close the fiscal year 2011-12 budget gap.

The Proposed 2011-12 Budget recognizes that fiscal year 2010-11 revenues are $3.1 billion lower than were projected at the time of the 2010 Budget Act, in part due to the recently enacted federal tax relief, unemployment insurance reauthorization, and the Job Creation Act of 2010, as well as the passage of Proposition 22, which created an additional budget shortfall of $1.6 billion. The Proposed 2011-12 Budget also anticipates that other workload adjustments including population and caseload changes will add $2.1 billion to the budget gap. The Proposed 2011-12 Budget includes $26.4 billion in spending cuts, revenues and other solutions and reduces spending by $12.5 billion, including substantial cuts to most major programs, such as $1.7 billion to Medi-Cal, $1.5 billion to California's welfare-to-work program, $1 billion to the University of California and California State University, $750 million to the Department of Developmental Services and $580 million to State operations and employee compensation.

The Proposed 2011-12 Budget calls for an accelerated timeline to restore balance to the State's finances and assumes that all necessary statutory changes to implement budget solutions will be adopted by the State Legislature and signed by the Governor by March of 2011 to allow certain ballot measures to be placed before the voters at a special election to be called for June 2011.

The Proposed 2011-12 Budget includes some one-time savings and borrowing, including $1.8 billion in borrowing from special funds, $1.7 billion in property tax shifts, $1.0 billion from the Proposition 10 reserve to fund children's programs, and $0.9 billion from Proposition 63 moneys to fund community mental health services. $8.2 billion of the budget gap is expected to be one-time in nature. The Proposed 2011-12 Budget projects the State will have sufficient cash to repay the entire $10 billion of State Revenue Anticipation Notes as scheduled in May and June 2011 but that, absent corrective action, it will once again face substantial challenges in meeting all General Fund cash needs beginning in July of 2011 so that, in addition to budget solutions, the State will need to obtain external financing early in the 2011-12 fiscal year.

The Proposed 2011-12 Budget recognizes that school funding has been disproportionately reduced since fiscal year 2007-08 and maintains Proposition 98 funding for K-12 programs at the same level for fiscal year 2011-12 as is in effect for fiscal year 2010-11. In an effort to maintain funding for schools, fund public safety services at the local level and to balance the budget, the Proposed 2011-12 Budget anticipates that current tax rates will be continued for another five years and also proposes to apply the single sales factor income allocation rules uniformly to certain corporate taxpayers and to eliminate an ineffective tax expenditure program. These proposals are expected to generate savings of $12 billion.

As it relates to K-12 education, the Proposed 2011-12 Budget maintains Proposition 98 programmatic funding for schools at the same level in fiscal year 2011-12 as in effect in fiscal year 2010-11 and also extends flexibility reforms adopted in 2009 to assist school districts to maintain their core services. Total funding for K-12 education is projected to be $63.8 billion in fiscal year 2011-12, $59.5 billion of which is State, federal and local property tax funding accounted for in the Proposed 2011-12 Budget. Total per-pupil expenditures from all sources are projected to be $11,154 in fiscal year 2010-11 and $10,703 in fiscal year 2011-12, including funds provided for prior year "settle-up" obligations. K-12 Proposition 98 per-pupil expenditures in the Proposed 2011-12 Budget are $7,344 in 2011-12, down slightly from $7,358 per-pupil provided in fiscal year 2010-11.

Major workload adjustments for K-12 education included in the Proposed 2011-12 Budget include the following:

- Cost-of-Living Adjustment Increases — The Proposed 2011-12 Budget does not provide a cost-of- living-adjustment ("COLA") for any K-14 program in 2011-12. The projected COLA for 2011-12 is 1.67 percent, which would have provided an increase of $964.5 million overall, to the extent Proposition 98 resources were sufficient to provide that adjustment.

- Property Tax — A decrease of $47.9 million for school district and county office of education revenue limits is made in fiscal year 2010-11 as a result of higher offsets of property tax revenues. An increase of $155.7 million for school district and county office of education revenue limits in fiscal year 2011-12 as a result of reduced offsets of local property tax revenues.

- Average Daily Attendance — An increase of $81.4 million in fiscal year 2010-11 for school district and county office of education revenue limits is made as a result of an increase in projected ADA and an increase of $357.5 million in 2011-12 for school district and county office of education revenue limits as a result of continued projected growth in ADA for fiscal year 2011-12.

- Unemployment Insurance — An increase of $351.8 million in fiscal year 2011-12 is made to fully fund the additional costs of unemployment insurance for local school districts and county offices of education.

- K-14 Mandates Funding — Ongoing funding of $89.9 million is provided for K-14 mandates to provide level funding relative to fiscal year 2010-11, for reimbursement of state-mandated local costs. Current law suspends for three additional years those programs that were suspended during the 2010-11 fiscal year.

The significant non-General Fund workload adjustments are as follows:

- School Facilities Program Funding Adjustments — The workload budget includes a $316 million decrease in 2009-10 actual expenditures, a $2.07 billion increase in 2010-11 estimated expenditures and a $1.97 billion decrease in 2011-12 estimated expenditures for school facilities. These amounts are largely attributable to the anticipated allocation of remaining funds from the 1998, 2002, and 2004 bonds.

- Child Nutrition Program — An increase of $36.1 million in 2011-12 to the State Department of Education ("SDE") local assistance from federal funds to reflect growth of nutrition programs at schools and other participating agencies and an increase of $12.0 million in 2011-12 to the SDE local assistance from federal funds for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the school day.

The significant other General Fund policy issues relating to K-12 are as follows:

- Extension of Flexibility for K-12 School Districts — The Proposed 2011-12 Budget proposes legislation to extend various flexibility options for school districts for two additional years. Specifically, it extends authority in the following areas: Categorical flexibility — For fiscal years 2008-09 through 2012-13, local educational agencies were provided with broad flexibility to spend funds for approximately 40 K-12 categorical programs for any educational purpose. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding either in fiscal year 2007-08 or 2008-09, with the earlier year being used for certain participation-driven programs.

- Routine Maintenance Contributions — Local educational agencies were authorized to reduce the amount that districts must deposit into a restricted routine maintenance account for the 2008-09 through 2012-13 fiscal years, from 3 percent of General Fund expenditures to 1 percent.

- Deferred Maintenance Program Matching Requirement — The requirement that districts set aside one-half of 1 percent of their revenue limit funding for deferred maintenance was suspended for the 2008-09 to 2012-13 fiscal years.

A complete copy of the Proposed 2011-12 Budget is posted by the California Department of Finance website at www.ebudget.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

LAO Overview of Proposed 2011-12 Budget. The LAO released its "2011-12 Budget: Overview of the Governor's Budget" on January 12, 2011 (the "2011-12 Budget Overview") in which the LAO agreed that the $25.4 billion State budget shortfall estimated in the Proposed 2011-12 Budget was a reasonable estimate. In the 2011-12 Budget Overview, the LAO concurs with the Governor that major reasons for the current State budget shortfall include the inability of the State to achieve certain previous budget solutions, the expiration of various one-time and temporary budget solutions approved in recent years, and the failure of the State to obtain significant additional federal funding for key programs. Generally, the 2011-12 Budget Overview recognizes that the Proposed 2011-12 Budget includes proposals impacting nearly every area of the fiscal year 2011-12 State budget and that the Proposed 2011-12 Budget is a good starting point for legislative deliberations, recognizing that the focus on multiyear and ongoing solutions are necessary to make substantial improvements in the State's budgetary situation. The 2011-12 Budget Overview supports the extension of the four temporary tax increases adopted in February 2009 to voters in a June 2011 special election and to the restructuring of the state-local relationship in the delivery of services by shifting funding and responsibility to local governments for those services. The 2011-12 Budget Overview responds favorably to the Proposed 2011-12 Budget proposals to "realign" state and local program responsibilities and to the proposed changes in local economic development efforts.

Nonetheless, the LAO believes there are significant risks in the Proposed 2011-12 Budget, especially in the context of the realignment and redevelopment proposals which involve many legal, financial, and policy issues. The 2011-12 Budget Overview concludes that the State Legislature will have to make difficult decisions on both its spending and tax commitments, but that the Proposed 2011-12 Budget also presents an opportunity to reorder state and local government functions to improve the delivery of public services.

The 2011-12 Budget Overview recognizes that, while the Proposed 2011-12 Budget includes revenue proposals resulting in a $2 billion increase in the Proposition 98 minimum funding guarantee for schools above its current-law level, the Proposed 2011-12 Budget would result in a small programmatic funding decline for K-12 schools and significant reductions for child care programs. The 2011-12 Budget Overview also suggests that $128 million of the anticipated Proposition 98 savings included in the Proposed 2011-12 Budget cannot be realized and that the assumed $74 million in savings due to the sunset of the Special Disabilities Adjustment program could violate federal maintenance-of-effort requirements. In addition, the 2011-12 Budget Overview recommends that the State Legislature could consider a different combination of policy changes to realize child care savings.

With respect to community college funding, the 2011-12 Budget Overview supports the Proposed 2011-12 Budget proposal to increase community college fees.

A complete copy of the LAO's 2011-12 Budget Overview is posted by the Office of the Legislative Analyst at www.lao.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

SB 70 and SB 82. In March 2011, the Governor signed into law Senate Bill 70 ("SB 70") and Senate Bill 82 ("SB 82") to revise the State's cash management plan for Fiscal Years 2010-11 and 2011- 12. Pursuant to SB 70, there will be a one-time modification to the State's inter-fiscal year deferral payment schedule. Accordingly, warrants in the amount of $24.7 million will be deferred to July 2011 from February 2011, warrants in the amount of $1.405 billion will be deferred to August 2011 from February 2011, and warrants in the amount of $569.8 million will be deferred to August 2011 from February 2011. In addition, SB 70 defers warrants in the amount of $420 million to September 2011 from April 2011 and warrants in the amount of $800 million to September 2011 from May 2011. SB 70 also approves ongoing deferrals and directs that warrants in the amount of $1.3 billion be deferred to August 2011 from March 2011 and warrants in the amount of $764 million be deferred to August 2011 from April 2011.

Pursuant to SB 82, the State adopted several intra-year deferrals for Fiscal Year 2011-12. Accordingly, warrants in the amount $700 million will be deferred to September 2011 from July 2011, warrants in the amount of $700 million will be deferred to January 2012 from July 2011, warrants in the amount of $1.4 billion will be deferred to January 2012 from August 2011 and warrants in the amount of $2.4 billion will be deferred to January 2012 from October 2011. In addition, warrants in the amount of $1.4 billion will be deferred to April 2012 from March 2012. SB 82 contains a provision whereby a school district may, subject to the approval of the State's Director of Finance, receive scheduled payments from the State Controller if payments are deferred, if the county superintendent of schools certifies to the State Superintendent of Public Instruction and Director of Finance, that the deferral of warrants will result in a hardship for the school district.

For further information regarding payment deferrals see "SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES—Deferred Revenues," and regarding the impact thereof in the 2010 Budget Act, see the subcaptions "—Final 2010-11 Budget," "—Legislative Analyst's Office Overview of 2010 Budget Act" and "—LAO's November 2010 Report" above.

Information about the financial condition of the State, including the State budget and State spending, is available at various State-maintained websites. Information concerning the current year State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Analyses of the current year budget and future budget proposals are posted from time to time by the independent Office of the Legislative Analyst at www.lao.ca.gov. The most recent official statement prepared by the State in connection with general obligation debt or lease revenue obligations can be accessed from the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board (at http://emma.msrb.org). *The most recent such official statements were prepared prior to the end of 2010 and are, as a whole, out of date and should not be relied on for current information concerning the State's finances.* On March 24, 2011, the State filed an Annual Report with respect to its outstanding bond issues, which contains the audited Basic Financial Statements of the State for the year ended June 30, 2010, and certain other financial information, which may be found on the EMMA website and referred to for the most current information regarding the State's financial condition. However, it should be noted that this Annual Report speaks only as of its date of filing. All of the websites are provided for general informational purposes only and the material on such sites is in no way incorporated into this Official Statement. Readers are cautioned that such information may no longer be fully current and that the reported financial condition of the State may have changed since the date such information was published or posted on such websites.

Since the March 24, 2011, filing of the State's Annual Report, mentioned above, the Governor announced that, at this time, negotiations with the minority members of the Legislature have not yielded a compromise which would permit a 2/3 majority vote on the Governor's proposal to place a measure on the ballot in June to approve extension of certain temporary taxes. The Legislature has passed a total of $14.0 billion of budget solutions, leaving a remaining budget gap of $12.6 billion to be closed with future legislative actions. The Governor has signed 13 pieces of legislation enacting $11.2 billion of these solutions. This leaves about $15.4 billion of remaining budget gap to be signed into law by the Governor. The Governor will present a formal update of revenue projections and budget proposals not later than mid-May (the "May Revision") to address the remaining budget gap. The Constitution requires passage by the Legislature of a balanced budget by June 15, although this deadline has been missed in each of the past ten years. A protracted delay in adopting a budget for the 2011-12 fiscal year could place increased cash flow pressures on the State, potentially requiring cash management techniques such as delayed payments, or in the last resort, issuance of IOUs to assure that cash resources are able to pay highest priorities, such as payments to schools and debt service.

ABX8 5, ABX8 14 and AB 1610. On February 1, 2010, Governor Schwarzenegger signed into law ABX8 5, effective immediately, which included several measures meant to allow the State to effectively manage its cash resources in fiscal year 2009-10 and fiscal year 2010-11. For fiscal year 2009-10, ABX8 5 authorized the deferral of General Fund payments to be made to trial court operations, the California University system, the University of California system, and community colleges in March 2010 to no sooner than April 15, 2010, but no later than May 1, 2010. Prior to such deferrals, the State Controller, State Treasurer, and State Director of Finance are required to review the actual cash situation to determine if the deferrals are in-fact necessary. Further, if such deferrals are implemented, the State Controller, State Treasurer and State Director of Finance, after April 1, are required to review daily the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. To address the cash management issues in fiscal year 2010-11, ABX8 5 authorized specific deferrals to K-12 apportionments, Supplemental Security Income/State Supplementary Payments, local government social services and transportation payments and trial court operations. These deferrals were allowed only in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 60 days. Prior to the implementation of such deferrals, the State Controller, State Treasurer and State Director of Finance must review the actual cash receipts and disbursements to determine if they are in-fact necessary. Further, if such deferrals are implemented, the State Controller, State Treasurer and State Director of Finance, after July 1, 2010, are required to conduct a daily review of the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. In addition, such deferrals may be moved forward or backward one month from the dates specified if all three of the State Controller, State Treasurer and State Director of Finance determine that a move is necessary. ABX8 5 limited the K-12 deferrals to $2.5 billion at any given time during the fiscal year 2010-11 and sets a maximum of three K-12 deferrals during that fiscal year. ABX8 5 provided a hardship exemption for county offices of education, local education agencies and charter schools. ABX8 5 further authorized the deferral of $200 million from July 2010 to October 2010 and $100 million from March 2011 to May 2011 for community colleges. ABX8 5 also provided for a hardship exemption for community colleges.

On March 22, 2010, Governor Schwarzenegger signed into law, effective immediately, ABX8 14 which amended the cash management provisions for fiscal year 2009-10 and fiscal year 2010-11 enacted into law pursuant to ABX8 5. With regard to fiscal year 2009-10 cash management issues, ABX8 14 provides a hardship exemption process for the current year deferrals for community colleges and makes them the first entity to have deferrals paid as soon as funds are available. As to fiscal year 2010-11 cash issues, ABX8 14 clarifies the hardship exemption process for school districts, county offices of education and charter schools and provides certain other changes pertaining to those provisions. In addition, ABX8 14 required the State Controller, State Treasurer, and State Director of Finance to jointly provide a written declaration of the intended payment deferrals for fiscal year 2010-11 no later than March 31, 2010 as well as requiring approval by the Director of Finance for hardship exemptions; and states the intent of the legislature that July 2010 deferrals shall first be made from the advance principal apportionment payment. The legislation also delayed the date by which hardship exemption requests must be submitted (including with respect to fiscal year 2010-11 community college deferrals) and provided a second hardship waiver opportunity for the March 2011 deferral for those districts that did not receive an initial hardship waiver in June 2010.

The Proposed 2011-12 Budget includes $2.2 billion in new inter-year deferrals from fiscal year 2011-12 to 2012-13, $2.1 billion of which will derive from K-12 revenue limit payments and $129 million from community college apportionment payments. Although the administration has not yet determined from which months K-12 revenue limit payments would be deferred, it has indicated that deferrals likely would not be repaid until September or October of 2012. This intra-year deferral plan included in the Proposed 2011-12 Budget would delay $2.5 billion in K-12 payments and $200 million in community college apportionments beginning in July 2011, reflecting the same magnitude as the 2010-11 intra-year deferrals. The LAO indicates in its 2011-12 Budget Overview, that the proposed deferrals included in the Proposed 2011-12 Budget could be problematic if they are not paid until the fall of 2012 (all existing deferrals are paid by August) and that the intra-year deferrals may defer already-deferred payments until even later in the next fiscal year. Consequently, the inter-year and intra-year deferrals could result in school districts and community colleges facing significant cash flow difficulties in the summer and fall of 2012. See the sub-caption "Proposed 2011-12 Budget" above.

In addition, the State adopted AB 1610 which directed warrants for the principal apportionments for the month of February 2011 in the amount of $2 billion be drawn in July 2011, warrants for the principal apportionments for the month of April 2011 in the amount of $679 million and for the month of May 2011 in the amount of $1 billion be drawn in August 2011, warrants for the principal apportionments for the month of April 2011 in the amount of $420 million and for the month of May 2011 in the amount of $800 million be drawn in July

2011. AB 1610 also approved a waiver provisions relation to an amount up to $100 million for June of each year to July of such year subject to a demonstration of financial hardship by the requesting school district.

For further information regarding payment deferrals see "SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES—Deferred Revenues," and regarding the impact thereof in the 2010 Budget Act, see the subcaptions "—Final 2010-11 Budget," "—Legislative Analyst's Office Overview of 2010 Budget Act" and "—LAO's November 2010 Report" above.

May, 2011 Budget Revision. On May 16, 2011, Governor Brown issued his proposed May Revision of the State Budget. The May Revision reflects an assumed $6.6 billion in new state revenues over the 2010-11 and 2011-12 budget years ($3.3 billion each year). However, the State still faces a $10 billion structural deficit and the Governor calls for the Legislature to adopt $11 billion in new solutions to rebuild a modest reserve. The Governor plans to use almost all of the $6.6 billion in new revenues to reduce the need for some targeted tax extensions and to start paying down the State's $35 billion in debt.

The May Revision proposes that the Legislature act by the end of June 2011 and the voters ratify in November 2011 the extension of current sales tax and vehicle license fee rates and the dependent credit exemption level for five years. If these tax extensions are approved, the budget provides an additional $3 billion to schools in 2011-12. This $3 billion is over and above the 2011-12 $49.4 billion Proposition 98 guarantee and funding level approved by the Legislature in March 2011. It is approximately $1 billion above the $51.3 billion funding level included in the Governor's January budget. However, the Governor proposes that $2.85 billion of the $3 billion go toward eliminating deferrals, not toward increased revenue limit funding. Additional revenues generated by the tax extensions would fund a major realignment of public safety programs.

The Governor proposes that the remaining savings from revenue increases and future revenue growth above current program funding be dedicated to paying off the State's $35 billion in debt. Under the Governor's proposals, at least $29 billion in deferrals and debt would be paid off by 2014-15.

The Governor's May Revision removed the proposed income tax extension and his proposal to eliminate the enterprise tax credit. The Governor is continuing to propose the elimination of redevelopment agencies.

LAO Report on May Revise. The LAO's May 19, 2011 report on the Governor's May Revision concludes that the Governor's budget estimates in the May Revision are based on reasonable assumptions. However, the LAO notes, school districts, counties and the State face uncertainty as to funding levels in the fiscal year because the Governor's revenue assumptions rely on the extension of temporary increases in personal income tax, sales and use tax and vehicle license fees to be approved by the voters. The LAO deems the Governor's proposals worthy of legislative consideration, noting that in past budgets the State was unable to make significant inroads into its underlying operating shortfall due to a reliance on one-time and short-term solutions; whereas, this year, an estimated $6.6 billion improvement in state tax collections, and $13 billion in budgetary solutions already adopted by the Legislature, puts the State in the position to dramatically reduce its budget problem in coming years.

Future State Budgets. Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30.

The State Budget for the fiscal year 2010-11 was not adopted in a timely fashion. The events leading to the inability of the State Legislature to pass a budget in a timely fashion are not unique, and the District cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of the District's budget, it will be necessary for the District's staff to review the consequences of the changes, if any, at the State level from the proposals in the Governor's May Revision for that year, and determine whether the District's budget will have to be revised.

In addition, the District cannot predict the effect that the general economic conditions within the State and the State's budgetary problems may have in the future on the District budget or operations or on its ability to make payments of principal of and interest on the Notes.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Notes, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest on the Notes to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Notes to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Notes.

Subject to the District's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, interest on the Notes is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Notes is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the District with respect to certain material facts within the District's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Notes.

Ownership of the Notes may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax exempt obligations. Prospective purchasers of the Notes should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for the Notes is the price at which a substantial amount of the Notes is first sold to the public. The Issue Price of the Notes may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

Owners of Notes who dispose of Notes prior to the stated maturity (whether by sale, redemption or otherwise), purchase Notes in the initial public offering, but at a price different from the Issue Price or purchase Notes subsequent to the initial public offering should consult their own tax advisors.

If a Note is purchased at any time for a price that is less than the Note's stated redemption price at maturity, the purchaser will be treated as having purchased a Note with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Note is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Note. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Notes.

An investor may purchase a Note at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Note in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax exempt bond. The amortized bond premium is treated as a reduction in the tax exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Note. Investors who purchase a Note at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Note's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Note.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Notes. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Notes. If an audit is commenced, under current procedures the Service may treat the District as a taxpayer and the Noteholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Notes until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Notes, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Note owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Note owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the Notes is exempt from California Person income taxes.

Ownership of the Notes may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Notes is set forth in APPENDIX C—PROPOSED FORM OF OPINION OF BOND COUNSEL.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Notes, and a certificate of the District from the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Notes. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to collect pledged revenues or contesting the District's ability to issue and retire the Notes.

There may be one or more lawsuits and claims pending against the District. The aggregate amount of the liabilities of the District which may result from existing suits and claims is not expected to not materially affect the District's ability to repay the Notes.

APPROVAL OF LEGALITY

Legal matters incident to the issuance and delivery of the Notes are subject to the approving opinion of Bond Counsel. See APPENDIX D—FORM OF OPINION OF BOND COUNSEL. Certain disclosure matters will be passed upon for the District by Disclosure Counsel. The compensation of Bond Counsel and Disclosure Counsel, in each case, is contingent upon the sale and delivery of the Notes.

RATING

Standard & Poor's Ratings Services, a division of McGraw Hill, Inc. ("S&P") has assigned a credit rating of "SP-1+" to the Notes. Certain information was supplied by the District to S&P to be considered in evaluating the Notes. Such rating reflects only the view of

S&P and an explanation of the significance of such rating may be obtained from the following: S&P, 55 Water Street, New York, New York, 10041, tel. (212) 438-2400. There is no assurance that the rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Notes.

FINANCIAL ADVISOR

The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees of the Financial Advisor are contingent upon the sale and delivery of the Notes. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The Notes are being purchased by _______________ (the "Underwriter"). The Underwriter will agree to purchase the Notes at a price of $_________ (being the principal amount of the Notes of $__________, plus an original issue premium of $_________, less an Underwriter's discount of $____________). The Purchase Agreement relating to the Notes provides that the Underwriter will purchase all of the Notes if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Purchase Agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial public offering at the price stated on the cover page hereof, the Underwriter may offer and sell the Notes to certain dealers and others at prices lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the registered owners of the Notes to provide notice of the occurrence of certain enumerated events which notice 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 notices is summarized below under the caption APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). In the last five years, the District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of events.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Notes and the Resolutions providing for issuance of the Notes, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from the District's records. Appropriate District officials, acting in their official capacities, have reviewed this

Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

The execution and delivery of this Official Statement by the District has been duly authorized by the District Board.

FREMONT UNION HIGH SCHOOL DISTRICT

By ____________________________________
Superintendent

APPENDIX A

FINANCIAL STATEMENTS FOR THE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2010

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FREMONT UNION
HIGH SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
JUNE 30, 2010

FREMONT UNION HIGH SCHOOL DISTRICT

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JUNE 30, 2010

FINANCIAL SECTION

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
Fremont Union High School District
Sunnyvale, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont Union High School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont Union High School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison and other postemployment is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 22, 2010

This section of Fremont Union High School District's (FUHSD) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section. This is the fifth year that the Fremont Union High School District is presenting financial statements in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34. Comparative analyses are presented in the tables that follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Fremont Union High School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting and include the governmental activities. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

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

The Primary unit of the government is the Fremont Union High School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

Fiscal year 2009-10 was a year of tremendous fiscal uncertainty. The State Budget was revised several times, and in February the District was forced to reduce many of the categorical programs by 4.46%.

The District continues to rely upon the $5 million received annually from the parcel tax that was approved by the voters in November 2004. This was the fifth year of that six year measure. In order to provide some stability to the budget, the Board decided to put a measure on the ballot to renew the parcel tax well before its expiration, this time adding a small inflation factor and eliminating the end date.

Our rigorous residency verification program continued in 2009-10, and the District remains committed to this effort.

Due to the state budget crisis, all bargaining groups voted to have the District postpone the running of the "Revenue Sharing Process" and allow the District to hold on to the approximately 2% one-time money that would have been distributed after the close of the books.

REPORTING THE DISTRICT AS A WHOLE

<u>The Statement of Net Assets and the Statement of Activities</u>

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, and are one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is shown in the District's operating results. Since the Board's responsibility is to provide services to students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities,* we include the District activities as follows:

Governmental activities - All of the District's services are reported in this category. This includes the education of kindergarten through twelfth grade students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, Federal, state, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. and California Departments of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences in results between the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Fund Net Assets*. We use internal service funds (a type of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary*,* for funds held on behalf of others, like the funds for associated student body activities. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Assets*.

These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $96.69 million for the fiscal year ended June 30, 2010. Of this amount, $10.74 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. The analysis below focuses on net assets (Table 1) and the change in net assets (Table 2) of the District's governmental activities.

TABLE 1

(Amounts in millions)	2009	2010	TOTAL CHANGES
Current and other assets	$ 144.29	$ 121.94	$ (22.35)
Capital assets	185.55	220.09	34.54
Total Assets	329.84	342.03	12.19
Current liabilities	32.80	36.86	4.06
Long-term liabilities	216.78	208.48	(8.30)
Total Liabilities	249.58	245.34	(4.24)
Net assets			
Invested in capital assets, net of related debts	59.63	68.09	8.46
Restricted	18.67	17.86	(0.81)
Unrestricted	1.96	10.74	8.78
Total Net Assets	$ 80.26	$ 96.69	$ 16.43

The $10.74 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if the District had to pay off all of its bills today including all of its non-capital liabilities (compensated absences as an example), there would be $10.74 million remaining. Though listed as unrestricted for purposes of this report, the $10.74 million in net assets are committed to various programs of the school district.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see the total revenues for the year.

TABLE 2

(Amounts in millions)

REVENUES	**2009**	**2010**	**CHANGE**
Program revenues:			
Charges for services	$ 1.10	$ 0.04	$ (1.06)
Operating grants and contributions	15.84	10.12	(5.72)
Capital grants and contributions	0.10	0.01	(0.09)
General revenues:			
Federal and state sources	1.06	6.99	5.93
Property taxes	98.13	99.06	0.93
Other general revenue	14.45	12.93	(1.52)
TOTAL REVENUES	130.68	129.15	(1.53)
EXPENSES			
Instruction	64.45	57.57	(6.88)
Instruction-related services	18.77	17.56	(1.21)
Pupil services	10.46	10.52	0.06
General administration	12.64	5.91	(6.73)
Plant services	11.68	11.42	(0.26)
Ancillary services	0.10	0.15	0.05
Interest on long-term debt	9.05	9.58	0.53
Other outgo	0.08	0.01	(0.07)
TOTAL EXPENSES	127.23	112.72	(14.51)
NET CHANGE IN ASSETS	$ 3.45	$ 16.43	$ 12.98

Governmental Activities

As reported in the Statement of Activities on page 14 the cost of all governmental activities this year was $112.72 million. However, the amount that the taxpayers ultimately financed for these activities through local taxes was $99.06 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions ($9.91 million). The District paid for the remaining "public benefit" portion of our governmental activities with $20.20 million in state revenue limit sources, State funds and with other revenues, like interest and general entitlements.

Table 3 below presents the net cost of each of the District's largest functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3

(Amounts in millions)	2009	2010	CHANGE
Instruction	$ 54.99	$ 51.38	$ (3.61)
Instruction-related services:			
Supervision of instruction	2.56	3.18	0.62
Instructional library, media and technology	1.64	1.61	(0.03)
School administration	10.71	11.18	0.47
Pupil Services:			
Home-to-school transportation	0.96	1.22	0.26
Food services	2.16	1.99	(0.17)
All other pupil services	5.22	5.72	0.50
General administration:			
Data processing	0.12	0.21	0.09
All other general administration	11.56	5.17	(6.39)
Plant services	11.05	11.42	0.37
Ancillary services	0.09	0.15	0.06
Interest on long-term debt	9.05	9.58	0.53
Other outgo	0.08	0.01	(0.07)
TOTAL NET COST	$ 110.19	$ 102.82	$ (7.37)

Other General Administration activities include fiscal services, personnel services, and central support services. This category includes attendance recording and reporting activities performed at the District level. This category also includes all other costs of property or general liability insurance not charged to a specific function. In addition, the costs of assistant superintendents for instruction or equivalent positions having first-line responsibility for instructional administration and for participation in district/county policy may be charged as follows:

- 50 percent to Instructional Supervision and Administration (Function 2100)
- 50 percent to Other General Administration (Function 7200)

THE DISTRICT'S FUNDS

As the District completed this year, governmental funds had a reported combined fund balance of $95.57 million, which is a decrease of $23.71 million from last year.

The primary reasons for these changes are:

a) The General Fund is the principal operating fund. The fund balance in the General Fund increased from $11.45 million to $19.97 million. This increase was primarily due to increasing one-time ARRA funds.
b) The Building fund showed a decrease from $91.81 million to $59.44 million. This was primarily due to expenditure of prior year bond proceeds for modernization.

General Fund Budgetary Highlights

The Education Code requires that all school districts adopt a budget by July 1, and then twice a year submit to their County Offices of Education interim financial reports. These first and second interim reports reflect the status of district finances as of October 31 and January 31. Year-end actuals are submitted by September 15.

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 15, 2010. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the annual report on page 52.

Significant revenue and expenditure revisions to the 2009-10 budgets were made. This is primarily due to increasing property tax revenue estimates and updated state categorical program information.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had $220.09 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and depreciation) of $34.54 million from last year.

TABLE 4

(Amounts in millions)	Governmental Activities 2009	2010	CHANGE
Land	$ 1.90	$ 1.90	$ -
Construction in progress	4.63	39.72	35.09
Buildings and improvements	204.13	204.20	0.07
Furniture and equipment	2.57	2.61	0.04
Total Assets	213.23	248.43	35.20
Less Accumulated Depreciation	(27.68)	(28.34)	(0.66)
Totals	$ 185.55	$ 220.09	$ 34.54

This year's additions included school modernization of $35.09 million, and additions to equipment of $0.04 million. Several capital projects are planned for the 2010-2011 year. More information about our capital assets is presented in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $202.41 million in bonds outstanding versus $208.08 million last year, a decrease of 3 percent. Long-term obligations consisted of:

TABLE 5

(Amounts in millions)	Government Activities 2009	2010	CHANGE
General obligation bonds and premiums	$ 217.74	$ 211.43	$ (6.31)
Compensated absences	0.86	0.85	(0.01)
Other postemployment benefits obligations	4.48	4.86	0.38
Totals	$ 223.08	$ 217.14	$ (5.94)

The District's general obligation bond rating is Aa2 (based on Moody's, Insured Bonds). The State limits the amount of general obligation debt that the District can issue. The District's outstanding general obligation bond debt of $202.41 million is below this limit.

Other obligations include compensated absences payable. More detailed information regarding our long-term liabilities is presented in Note 9 of the financial statements.

The District has an estimated liability of $4.86 million for OPEB (other post-employment benefits. During fiscal year 2006-2007 the District established an irrevocable trust with American United Life that is administered by MidAmerica to fund this liability. The trust had a designated fund balance of $5.64 million at June 30, 2010. The formation of this irrevocable trust protects the funds set aside for retiree benefits and was an important element to the District being an early adopter of GASB 45, implementing the requirements three years ahead of schedule.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's 2010-2011 Budget

District Administration is not projecting that its financial position will improve any time soon. Although the language contained "flexibility" for some categorical programs, the District remains committed to maintaining these programs despite significant reductions in state funding. The district is also facing a $4.3 million ongoing Basic Aid "give back" to the state. This is in addition to the $2.5 million one-time "give back" for 2009-10. Property tax growth will continue to be slow.

Enrollment is projected to stay relatively flat (approximately 10,300 students), but we are uncertain about the economy's impact on long term projections. Current projections show a 10 year period of increasing enrollment. In the area of employee compensation, there is no salary increase anticipated for 2010-11.

Due to the passage of Measure B, facility improvements will continue. Installation of solar has begun, and the track and field modernization project is under way.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, 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 about this report or need any additional financial information, then contact the office of Christine Mallery, Chief Business Officer/Associate Superintendent, at the Fremont Union High School District, 589 W. Fremont Avenue, Sunnyvale, California, (408) 522-2245.

FREMONT UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2010

		Governmental Activities
ASSETS		
Deposits and investments	$	113,307,171
Receivables		6,823,563
Prepaid expenses		39,033
Deferred charges		1,732,155
Stores inventories		41,398
Capital assets not depreciated		41,627,730
Capital assets, net of accumulated depreciation		178,459,210
Total Assets		342,030,260
LIABILITIES		
Accounts payable		12,607,754
Interest payable from long term debt		3,730,992
Deferred revenue		257,502
Claims liabilities		104,893
Current loans		11,500,000
Current portion of long-term obligations		8,659,488
Noncurrent portion of long-term obligations		208,476,422
Total Liabilities		245,337,051
NET ASSETS		
Invested in capital assets, net of related debt		68,096,507
Restricted for:		
Legally restricted		5,335,824
Debt service		7,702,613
Capital projects		1,942,716
Special revenue		2,739,863
Self-insurance		133,039
Unrestricted		10,742,647
Total Net Assets	$	96,693,209

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

FREMONT UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

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

FREMONT UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 32,897,121	$ 64,398,260	$ 11,433,605
Receivables	5,648,623	218,669	-
Due from other funds	135,220	161	-
Prepaid expenditures	37,485	-	-
Stores inventories	-	-	-
Total Assets	$ 38,718,449	$ 64,617,090	$ 11,433,605
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 7,131,288	$ 5,035,516	$ -
Due to other funds	79,439	-	-
Other current liabilities	11,500,000	-	-
Deferred revenue	42,222	139,228	-
Total Liabilities	18,752,949	5,174,744	-
Fund Balances:			
Reserved for:			
Legally restricted balances	4,056,450	-	-
Other reservations	52,585	-	-
Unreserved:			
Designated	15,480,362	-	-
Undesignated, reported in:			
General fund	376,103	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	11,433,605
Capital projects funds	-	59,442,346	-
Total Fund Balance	19,965,500	59,442,346	11,433,605
Total Liabilities and Fund Balances	$ 38,718,449	$ 64,617,090	$ 11,433,605

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

Non Major Governmental Funds	Total Governmental Funds
$ 4,413,253	$ 113,142,239
916,395	6,783,687
27,108	162,489
1,548	39,033
41,398	41,398
$ 5,399,702	$ 120,168,846
$ 440,950	$ 12,607,754
156,050	235,489
-	11,500,000
76,052	257,502
673,052	24,600,745
-	4,056,450
44,071	96,656
-	15,480,362
-	376,103
2,739,863	2,739,863
-	11,433,605
1,942,716	61,385,062
4,726,650	95,568,101
$ 5,399,702	$ 120,168,846

FREMONT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balance - Governmental Funds		**$ 95,568,101**
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 248,428,965	
Accumulated depreciation is	(28,342,025)	
Net Capital Assets		220,086,940
Deferred charges related to the cost of issuance of debt is recorded as an asset in the Statement of Net Assets. In the governmental funds, the expenditure was recorded in full when paid.		1,732,155
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(3,730,992)
In the governmental funds, the receipt of the special education mandated settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.		39,876
An internal service fund is used by the District's management to charge the costs of the workers' compensation, vision, and dental self insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities on the government-wide financial statements.		133,039
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds on the governmental funds statements, but are recorded on the government-wide statements.		
Long-term liabilities at year end consist of:		
Bonds payable	202,415,000	
Bonds premium	9,017,779	
Compensated absences (vacations)	846,690	
OPEB obligation	4,856,441	
Total Long-Term Liabilities		(217,135,910)
Total Net Assets - Governmental Activities		**$ 96,693,209**

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	$ 79,296,411	$ -	$ -
Federal sources	5,122,357	-	-
Other state sources	8,282,529	-	83,960
Other local sources	11,605,809	4,093,087	14,294,998
Total Revenues	104,307,106	4,093,087	14,378,958
EXPENDITURES			
Current			
Instruction	55,644,381	-	-
Instruction-related activities:			
Supervision of instruction	4,025,250	-	-
Instructional library, media and technology	1,549,550	-	-
School site administration	9,834,026	-	-
Pupil services:			
Home-to-school transportation	1,555,077	-	-
Food services	208	-	-
All other pupil services	6,415,151	-	-
General administration:			
Data processing	205,593	-	-
All other general administration	5,414,278	-	-
Plant services	9,377,520	478,239	-
Facility acquisition and construction	38,836	35,983,636	-
Ancillary services	152,621	-	-
Other outgo	6,680	-	-
Debt service			
Principal	-	-	5,665,000
Interest and other	261,362	-	9,688,390
Total Expenditures	94,480,533	36,461,875	15,353,390
Excess (Deficiency) of Revenues Over Expenditures	9,826,573	(32,368,788)	(974,432)
Other Financing Sources (Uses):			
Transfers in	101,062	-	-
Transfers out	(1,416,683)	-	-
Net Financing Sources (Uses)	(1,315,621)	-	-
NET CHANGE IN FUND BALANCES	8,510,952	(32,368,788)	(974,432)
Fund Balance - Beginning	11,454,548	91,811,134	12,408,037
Fund Balance - Ending	$ 19,965,500	$ 59,442,346	$ 11,433,605

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

Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 79,296,411
789,723	5,912,080
2,484,951	10,851,440
3,149,043	33,142,937
6,423,717	129,202,868
1,329,792	56,974,173
102,900	4,128,150
107,910	1,657,460
1,727,632	11,561,658
-	1,555,077
2,482,750	2,482,958
-	6,415,151
-	205,593
194,384	5,608,662
325,820	10,181,579
341,806	36,364,278
-	152,621
-	6,680
-	5,665,000
-	9,949,752
6,612,994	152,908,792
(189,277)	(23,705,924)
1,437,513	1,538,575
(121,892)	(1,538,575)
1,315,621	-
1,126,344	(23,705,924)
3,600,306	119,274,025
$ 4,726,650	$ 95,568,101

FREMONT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balances - Governmental Funds		**$ (23,705,924)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
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 of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	$ 35,191,258	
Depreciation expense	(654,807)	
Net Expense Adjustment		34,536,451
Revenue related to the Special Education mandated settlement is reported in the governmental funds, but is a reduction in receivable on the statement of net assets.		(39,010)
In the statement of activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was greater than that earned.		14,344
Payment of cost of issuance on new bonds is not recognized in the governmental funds, but it is recorded as a prepaid expense and amortized over the life of the bond in the statement of activities.		(106,863)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		5,665,000
Amortization of bond premium is an expense in the statement of activities but bond premium was recorded as revenue in the year of bond issuance in the governmental funds.		638,117
Contributions to the retiree benefit trust fund are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual required contribution.		(372,564)
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(164,684)
An internal service fund is used by the District's management to charge the costs of worker's compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		(28,790)
Change in Net Assets of Governmental Activities		**$ 16,436,077**

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

FREMONT UNION HIGH SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 164,932
Due from other funds	73,000
Total Current Assets	237,932
LIABILITIES	
Current Liabilities	
Claim liabilities	104,893
Total Current Liabilities	104,893
NET ASSETS	
Unrestricted	133,039
Total Net Assets	$ 133,039

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

FREMONT UNION HIGH SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	$ 1,856,013
Total Operating Revenues	1,856,013
OPERATING EXPENSES	
Other operating cost	1,881,758
Total Operating Expenses	1,881,758
Operating Loss	(25,745)
NONOPERATING REVENUES	
Interest income	(3,045)
Change in Net Assets	(28,790)
Total Net Assets - Beginning	161,829
Total Net Assets - Ending	$ 133,039

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

FREMONT UNION HIGH SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 1,792,453
Cash payments for other insurance claims	(1,872,667)
Net Cash used for Operating Activities	(80,214)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	(3,045)
Net Decrease in Cash and Cash Equivalents	(83,259)
Cash and Cash Equivalents - Beginning	248,191
Cash and Cash Equivalents - Ending	$ 164,932
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (25,745)
Changes in assets and liabilities:	
Receivables	9,440
Due from other fund	(73,000)
Prepaid	711
Accrued liabilities	8,380
NET CASH USED FOR OPERATING ACTIVITIES	$ (80,214)

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

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Retiree Benefits Trust	Agency Funds
ASSETS		
Deposits and investments	$ 5,639,030	$ 1,980,750
Receivables	12,719	-
Total Assets	5,651,749	$ 1,980,750
LIABILITIES		
Accounts payable	$ 79,798	$ -
Due to student groups	-	1,980,750
Deferred revenue	3,104	-
Total Liabilities	82,902	$ 1,980,750
NET ASSETS		
Unreserved	5,568,847	
Total Net Assets	$ 5,568,847	

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Retiree Benefits Trust
ADDITIONS	
District contributions	$ 1,353,667
Interest	162,279
Total Additions	1,515,946
DEDUCTIONS	
Health and welfare insurance premiums	1,383,472
Total Deductions	1,383,472
Change in Net Assets	132,474
Net Assets - Beginning	5,436,373
Net Assets - Ending	$ 5,568,847

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Fremont Union High School District was organized in 1925 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades 9-12 as mandated by the State and Federal agencies. The District operates five high schools, one alternative high school, one adult, and one independent study school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Fremont Union High School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except, for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (Education Code sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (Education Code Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionment which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (Education Code Sections 17620-17626). Expenditures are restricted to the purposes specified in Government Code sections 65970-65981 or to the items specified in agreements with the developer (Government Code Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Fund Internal service funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates a worker’s compensation, dental, and vision programs that are accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust funds include the Retiree Benefits fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the District and for each governmental function, and exclude fiduciary activity. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (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 fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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. Generally, available is defined as collectible within 45 or 60 days. 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 for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2010, 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. Fair values of investments in county are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds. Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and building improvement, 50 years; equipment, 5 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated within the governmental funds.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Current Loans

Current loans consist of amounts outstanding at June 30, 2010, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the notes.

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the statement of activities, except for the net residual amounts transferred between governmental and business-type activities.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental funds	$	113,142,239
Propietary fund		164,932
Fiduciary funds		7,619,780
Total Deposits and Investments	$	120,926,951

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	$	2,060,979
Investment		113,228,053
Investment in Annuities		5,637,919
Total Deposits and Investments	$	120,926,951

Policies and Practices

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.

Investment in County Treasury - 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 fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

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 Corporate 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 rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The District's retiree benefit plan also has an annuity account with a third party for the reserve of the future retiree benefit payments.

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Maturity Date
Annuities for Retiree Benefit Trust Fund	$ 5,637,919	Not applicable
County Pool	113,228,053	326 days
Total	$ 118,865,972	

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. The annuity with ING ReliaStar Group is a fixed investment product with ING that is principal protected and guarantees a 3% minimum rate of return. ReliaStar Life Insurance Company has a rating from A.M. Best of A+ and from Standard and Poor's of AA.

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 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. 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 agency. 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. As of June 30, 2010, approximately $1,400,000 of the District's bank balances of $2,050,722 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government					
Categorical aid	$ 2,977,440	$ -	$ 74,322	$ 3,051,762	$ -
State Government					
Apportionment	34,620	-	678,409	713,029	-
Categorical aid	646,990	-	95,365	742,355	-
Lottery	702,744	-	-	702,744	-
Local Government					
Interest	83,269	147,383	8,503	239,155	-
Other Local Sources	1,203,560	71,286	59,796	1,334,642	12,719
Total	$ 5,648,623	$ 218,669	$ 916,395	$ 6,783,687	$ 12,719

Long Term Receivable

Included as a long term receivable on the statement of net assets is $39,876 related to the special education mandated settlement which will be received in the next year.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions/ Adjustments	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 1,909,025	$ -	$ -	$ 1,909,025
Construction in progress	4,627,659	35,091,046	-	39,718,705
Total Capital Assets Not Being Depreciated	6,536,684	35,091,046	-	41,627,730
Capital Assets Being Depreciated:				
Buildings and improvements	204,127,616	65,998	-	204,193,614
Furniture and equipment	2,573,407	34,214	-	2,607,621
Total Capital Assets Being Depreciated	206,701,023	100,212	-	206,801,235
Total Capital Assets	213,237,707	35,191,258	-	248,428,965
Less Accumulated Depreciation:				
Buildings and improvements	26,035,583	4,344,264	(3,787,089)	$ 26,592,758
Furniture and equipment	1,651,635	97,632	-	1,749,267
Total Accumulated Depreciation	27,687,218	4,441,896	(3,787,089)	28,342,025
Governmental Activities Capital Assets, Net	$ 185,550,489	$ 30,749,362	$ 3,787,089	$ 220,086,940

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities		
Instruction	$	364,206
Supervision of instruction		27,305
Instructional library, media, and technology		10,935
School site administration		76,481
Home-to-school transportation		10,280
Food services		16,436
All other pupil services		42,431
Anciliary service		982
All other general administration		37,062
Data processing		1,375
Plant services		67,314
Total Depreciation Expenses Governmental Activities	$	654,807

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivables and payable balances at June 30, 2010, between major and non-major governmental funds, non-major enterprise funds, and internal service funds are as follows:

	Due From				
Due To	General Fund	Building Fund	Non-Major Governmental Funds	Proprietary Fund	Total
General Fund	$ -	$ 161	$ 6,278	$ 73,000	$ 79,439
Non-Major Governmental funds	135,220	-	20,830	-	156,050
Total	$ 135,220	$ 161	$ 27,108	$ 73,000	$ 235,489

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

	Transfer In		
Transfer Out	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 1,416,683	$ 1,416,683
Non-Major Governmental Funds	101,062	20,830	121,892
Total	$ 101,062	$ 1,437,513	$ 1,538,575

The General Fund transferred to the Adult Education Fund for transfer of lottery money, supplemental hours state aid apportionment, and SFSF ARRA share.	$ 660,604
The General Fund transferred to the Cafeteria Fund for support.	857,141
The Capital Facilities Fund transferred to the County School Facilities for final cost reimbursement.	20,830
Total	$ 1,538,575

During 2002-03 the Capital Facilities fund received $5,480,000 from the County School Facilities fund for the purpose of funding expenditures for capital outlay related to facilities expansion. The Capital Facilities fund will repay the County School Facilities fund from future receipts of impact fees. During 2009-10, the Capital Facilities fund transferred $20,830 for this repayment. The balance was fully repaid at June 30, 2010.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Vendor payables	$ 739,093	$ 4,532,702	$ 383,674	$ 5,655,469	$ 79,798
State apportionment	611,304	-	-	611,304	-
Salaries and benefits	5,780,891	502,814	57,276	6,340,981	-
Total	$ 7,131,288	$ 5,035,516	$ 440,950	$ 12,607,754	$ 79,798

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Other local	$ 42,222	$ 139,228	$ 76,052	$ 257,502	$ 3,104

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2009, the District had outstanding 2007-2008 Tax and Revenue Anticipation Notes of $12,000,000, which were paid on July 23, 2009. The District issued $11,500,000 of Tax and Revenue Anticipation Notes on October 7, 2009. The notes were issued to supplement cash flows.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2009	Additions	Payments	Outstanding June 30, 2010
7/10/2008	2.75%	7/23/2009	$ 12,000,000	$ -	$ 12,000,000	$ -
10/7/2009	2.00%	10/6/2010	-	11,500,000	-	11,500,000
			$ 12,000,000	$ 11,500,000	$ 12,000,000	$ 11,500,000

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	$ 208,080,000	$ -	$ 5,665,000	$ 202,415,000	$ 6,435,000
Bond premium	9,655,896	-	638,117	9,017,779	638,117
Compensated absences	861,034	-	14,344	846,690	-
OPEB obligation	4,483,877	1,726,231	1,353,667	4,856,441	1,586,371
	$ 223,080,807	$ 1,726,231	$ 7,671,128	$ 217,135,910	$ 8,659,488

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The Compensated absences and the OPEB obligation will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Issued	Redeemed	Bonds Outstanding June 30, 2010
1/20/05	9/1/23	3.00-5.00%	$ 143,400,000	$ 128,080,000	$ -	$ 4,365,000	$ 123,715,000
8/14/08	8/1/33	4.00-5.00%	80,000,000	80,000,000	-	1,300,000	78,700,000
				$ 208,080,000	$ -	$ 5,665,000	$ 202,415,000

Debt Service Requirements to Maturity

The bonds mature through 2034 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	$ 6,435,000	$ 9,468,825	$ 15,903,825
2012	5,370,000	9,236,900	14,606,900
2013	6,350,000	9,000,875	15,350,875
2014	6,765,000	8,711,950	15,476,950
2015	7,860,000	8,369,450	16,229,450
2016-2020	59,760,000	34,535,500	94,295,500
2021-2025	67,675,000	16,396,625	84,071,625
2025-2029	21,150,000	7,765,625	28,915,625
2030-2034	21,050,000	2,038,625	23,088,625
Total	$ 202,415,000	$ 105,524,375	$ 307,939,375

Defeased Debt

On January 20, 2005, the District issued general obligation bonds of $143,400,000 (par value) with an interest rate ranging from 2.0% to 3.4% to advance refund previously issued bonds with an interest rate ranging from 4.1% to 7.0% and a par value of $132,080,000. The refunding bond was issued at a premium and, after paying issuance costs of $1,612,225, the net proceeds were $152,476,583. Of the proceeds, $142,764,875 was deposited in an irrevocable trust with an escrow agent to provide debt service payments until the defeased debt matured. The outstanding amount of the defeased debt was $117,065,000 as of June 30, 2010, which will be paid from the escrow account when the amounts are matured.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to $846,690.

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution (ARC) was $1,591,731 and the interest on net OPEB obligation was $134,500 for the year ended June 30, 2010. The District made a contribution of $1,360,432, which was more than the actuarial "pay as you go" costs. The actuarial estimated "pay-as-you-go" amount of $1,353,667 was deducted from the ARC and interest component, which resulted in a net increase to the OPEB obligation of $372,564. See Note 14 for additional information regarding the OPEB Obligation and the postemployment benefit plan. The OPEB obligation for the District at June 30, 2010, amounted to $4,856,441.

NOTE 10 - FUND BALANCES

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	$ 15,100	$ -	$ -	$ 1,125	$ 16,225
Stores inventory	-	-	-	41,398	41,398
Prepaid expenditures	37,485	-	-	1,548	39,033
Restricted programs	4,056,450	-	-	-	4,056,450
Total Reserved	4,109,035	-	-	44,071	4,153,106
Unreserved					
Designated					
Economic uncertainties	4,701,157	-	-	-	4,701,157
Other designation	10,779,205	-	-	-	10,779,205
Total Designated	15,480,362	-	-	-	15,480,362
Undesignated	376,103	59,442,346	11,433,605	4,682,579	75,934,633
Total Unreserved	15,856,465	59,442,346	11,433,605	4,682,579	91,414,995
Total	$ 19,965,500	$ 59,442,346	$ 11,433,605	$ 4,726,650	$ 95,568,101

NOTE 11- LEASE REVENUES

The District has leased properties built in the 1950s where the total construction costs have been fully depreciated for a number of years. Lease agreements have been entered into with various lessors for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Payment
2011	$ 3,186,384
2012	3,186,384
2013	3,186,384
2014	3,186,384
2015	3,186,384
2016-2020	8,658,384
2021-2025	6,840,000
2026-2030	6,840,000
2031-2035	5,472,000
Total	$ 43,742,304

NOTE 12 - RISK MANAGEMENT

Property and Liability

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. During fiscal year ending June 30, 2010, the District participated in the Northern California Regional Liability Excess Fund (ReLiEF) for property and liability coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010, the District participated in the Santa Clara County Schools Insurance Group for the workers' compensation coverage.

Claims Liabilities

The District records an estimated liability for Workers' Compensation claims filed prior to March 1, 1996. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and estimates for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2008 to June 30, 2010:

	Workers' Compensation	Dental	Vision	Property and Liability	Total
Liability Balance, July 1, 2008	$ 56,000	$ 55,224	$ 5,058	$ 23,653	$ 139,935
Claims and changes in estimates	25,906	1,398,654	241,195	493,856	2,159,611
Claims payments	(31,906)	(1,411,934)	(241,684)	(517,509)	(2,203,033)
Liability Balance, June 30, 2009	50,000	41,944	4,569	-	96,513
Claims and changes in estimates	26,094	1,184,963	210,153	482,962	1,904,172
Claims payments	(13,094)	(1,191,168)	(208,568)	(482,962)	(1,895,792)
Liability Balance, June 30, 2010	$ 63,000	$ 35,739	$ 6,154	$ -	$ 104,893
Assets available to pay claims at June 30, 2010	$ 45,935	$ 93,684	$ (14,655)	$ 112,968	$ 237,932

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were $3,709,847, $3,754,754, and $3,825,251, respectively, and equal 100 percent of the required contributions for each year.

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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent 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 2009-2010 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were $1,851,600, $1,689,441, and $1,590,951, respectively, and equal 100 percent of the required contributions for each year. The payments noted above include employee contribution amounts paid by the district on behalf of their employees.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the APPLE Retirement Program as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $1,918,775, $2,055,782, and $2,094,177 for fiscal year ending June 30, 2010, 2009 and 2008 (4.267 percent of 09-10 annual payroll and 4.517 percent of 08-09 and 07-08 annual payrolls). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

NOTE 14 – POSTEMPLOYMENT HEALTH CARE PLAN AND OPEB OBLIGATION

Plan Description

The Retiree Health and Welfare Benefit (the "Plan") is a single-employer defined benefit healthcare plan administered by the Fremont Union High School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the plan consists of 113 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and 887 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the Fremont Educators Association (FEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on a closed 30 year amortization period and the level dollar method for the implementation year, and an open 30 year amortization period and level percentage of payroll method for subsequent years. For fiscal year 2009-10, the District contributed $1,353,667 to the plan, of which $1,383,472 was used for current premiums. Plan members receiving benefits contributed approximately 21% of the total premiums. District contributes $553, $500 and $480.80 monthly for FEA, CSEA and FMS, respectively. Any premiums over the District's contribution are paid by plan members.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 1,591,731
Interest on net OPEB obligation	134,500
Annual OPEB cost (expense)	1,726,231
Contributions made	(1,353,667)
Increase in net OPEB obligation	372,564
Net OPEB obligation, beginning of year	4,483,877
Net OPEB obligation, end of year	$ 4,856,441

The trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage Contributed	Net OPEB Obligation
2008	$ 2,916,713	$ 1,588,131	54.45%	$ 3,004,865
2009	$ 2,990,261	$ 1,595,182	53.35%	$ 4,483,877
2010	$ 1,726,231	$ 1,360,432	78.81%	$ 4,856,441

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

A Schedule of funding progress as of the most recent actuarial valuation is as follows:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Acutarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2009	$ 5,558,257	$ 13,585,150	$ 8,026,893	41%	$ 64,942,111	12%

Actuarial Methods and Assumptions

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

In the February 1, 2010, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5.5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost trend rate, including Dental and Vision programs, assumed to be 4 percent. The UAAL is being amortized using a level percentage of payroll method. The remaining amortization period at July 1, 2010, was 30 years. At June 30, 2010, the Trust held net assets in the amount of $5,568,847.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2010.

Operating Leases

The District has entered into several operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2011	$ 303,432
2012	169,354
2013	130,196
2014	2,652
Total	$ 605,634

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Solar projects	$ 11,776,821	6/30/2012
Track and fields projects	21,585,384	6/30/2012
Kitchell/HMC projects	47,659	12/31/10
	$ 33,409,864	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Silicon Valley Joint Powers Transportation Agency (SVJPA) and the Institute of Computer Technology (ICT) joint powers authorities, the Santa Clara County Schools Insurance Group (SCCSIG), and the Northern California Regional Liability Excess Fund (North CalReLiEF). The relationship between the District, the pools and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District has appointed one board member to the Governing Board of SVJPA, SCCSIG, North CalReLiEF, and ICT.

During the year ended June 30, 2010, the District made payments as follows:

Related Entities	Service Payments	Service provided
SVJPA	$ 1,278,408	Transportation for special education students
SCCSIG	1,112,366	Excess workers' compensation insurance
North CalReLiEF	491,587	Property and liability insurance

NOTE 17 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 416 of the 2009-10 Fourth Extraordinary Session (SBX4 416) (Chapter 23, Statutes of 2009), 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 18 - SUBSEQUENT EVENT

Tax and Revenue Anticipation Notes

The District issued $11,000,000 of Tax and Revenue Anticipation Notes dated July 1, 2010. The notes mature on June 30, 2011, and yield 1.50 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that 50% percentage of principal and interest be deposited with the Fiscal Agent by April 2011, until 100 percent of principal and interest due is on account in May 2011.

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the statement of net assets dated through November 22, 2010, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

FREMONT UNION HIGH SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts (GAAP Basis)			Variances - Positive (Negative)
	Original	Final	Actual (GAAP Basis)	Final to Actual
REVENUES				
Revenue limit sources	$ 75,667,784	$ 76,466,266	$ 79,296,411	$ 2,830,145
Federal sources	2,734,357	4,971,065	5,122,357	151,292
Other State sources	4,860,560	4,124,305	8,282,529	4,158,224
Other local sources	10,879,485	10,274,238	11,605,809	1,331,571
Total Revenues [1]	94,142,186	95,835,874	104,307,106	8,471,232
EXPENDITURES				
Current				
Certificated salaries	45,695,041	44,721,265	44,890,983	(169,718)
Classified salaries	14,224,957	14,808,678	15,390,198	(581,520)
Employee benefits	17,522,429	17,844,203	19,724,093	(1,879,890)
Books and supplies	6,189,967	8,115,415	3,249,355	4,866,060
Services and operating expenditures	10,955,481	11,474,995	11,351,804	123,191
Other outgo	(258,128)	(220,595)	(186,703)	(33,892)
Capital outlay	71,000	71,000	60,803	10,197
Total Expenditures [1]	94,400,747	96,814,961	94,480,533	2,334,428
Excess (Deficiency) of Revenues Over Expenditures	(258,561)	(979,087)	9,826,573	10,805,660
Other Financing Sources (Uses)				
Transfers in	(156,733)	(396,106)	101,062	497,168
Transfers out	(1,301,273)	(1,389,416)	(1,416,683)	(27,267)
Net Financing Sources (Uses)	(1,458,006)	(1,785,522)	(1,315,621)	469,901
NET CHANGE IN FUND BALANCES	(1,716,567)	(2,764,609)	8,510,952	11,275,561
Fund Balance - Beginning	11,454,548	11,454,548	11,454,548	-
Fund Balance - Ending	$ 9,737,981	$ 8,689,939	$ 19,965,500	$ 11,275,561

[1] On behalf payments of $1,874,068 are included in the actual revenues and expenditures in the general fund, but have not been included in the budgeted amounts.

FREMONT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF OPEB FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Acutarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2007	$ 5,166,250	$ 19,284,800	$ 14,118,550	27%	$ 65,390,064	22%
July 1, 2008	5,436,373	20,478,974	15,042,601	27%	69,262,187	22%
July 1, 2009	5,558,257	13,585,150	8,026,893	41%	64,942,111	12%

SUPPLEMENTARY INFORMATION

FREMONT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education			
English as a Second Language (ESL)	84.002A	14508	$ 140,535
Adult Secondary Education	84.002	13978	15,750
English Literacy and Civics Education	84.002A	14794	118,494
No Child Left Behind			
Title I-Basic Grants Low Income and Neglected	84.010	13797	12,435
Title II-Teacher Quality	84.367	14341	200,252
Title II- Part D, Enhancing Education Through Technology	84.318	14344	4,424
Title III-Limited English Proficiency (LEP)	84.365	10084	110,800
Title IV-Part A, Safe and Drug-Free Schools	84.186	14347	27,027
Advance Placement Test Fee Reimbursement Program	84.330	14831	6,534
ARRA- State Fiscal Stabilization Fund	84.394	25008	2,039,418
Special Education-IDEA (PL 94-142)			
Basic Local Assistance Entitlement	84.027	13379	1,657,223
Special Ed: ARRA IDEA Part B, Sec 611, Basic Local Assistance	84.391	15003	1,425,179
Vocational Programs-Carl D Perkins Act			
Adult Section 132	84.048	14893	28,642
Vocational and Applied Technology Secondary	84.048	13924	131,888
Department of Rehabilitation: Workability II, Transitions Partnership	84.158	10006	328,067
Rehabilitation Services: Vocational Rehabilitation Grants to States Recovery Act	84.390	[1]	61,450
Total U.S. Department of Education			6,308,118
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13524	315,242
National School Breakfast	10.553	13525	39,971
Especially Needy Breakfast	10.553	13526	131,088
Commodity Supplemental Food Program[2]	10.565	[1]	50,121
Total U.S. Department of Agriculture			536,422
Total Expenditures of Federal Awards			$ 6,844,540

[1] Pass-Through Entity Identifying Number not available
[2] Not recorded in the financial statements

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2010

ORGANIZATION

The Fremont Union High School District was established in 1925 under the laws of the State of California and consists of an area comprising approximately 42 square miles. The District operates five high schools, one alternative high school, one adult school and one independent study school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Bill Wilson	President	2010
Barbara Nunes	Vice President	2010
Hung Wei	Clerk	2010
Nancy Newton	Member	2012
Homer Tong	Member	2012
Kriti Gary	Student Member	2010

ADMINISTRATION

NAME	TITLE
Polly Bove	Superintendent
Kate Jamentz	Deputy Superintendent
Christine Mallery	Chief Officer Business, Associate Superintendent
Glenn Evans	Chief Operating Officer, Associate Superintendent
Paul Cheng	Associate Superintendent, Administrative Services

See accompanying note to supplementary information.

FREMONT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2010

	Revised Second Period Report	Annual Report
SECONDARY		
Regular classes	9,537	9,516
Community day school	10	11
Home and hospital	7	9
Special education	374	370
Total Secondary	9,928	9,906

See accompanying note to supplementary information.

FREMONT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-83 Actual Minutes	Reduced 1982-1983 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2009-2010 Actual Minutes	Number of Days Traditional Calendar	Status
Grade 9	62,054	60,330	64,800	63,000	64,921	180	Complied
Grade 10	62,054	60,330	64,800	63,000	65,456	180	Complied
Grade 11	62,054	60,330	64,800	63,000	64,976	180	Complied
Grade 12	62,054	60,330	64,800	63,000	64,806	180	Complied

Fremont Union High School District is a basic aid school district. Therefore, the District does not receive longer instructional day and longer instructional year incentive funding.

See accompanying note to supplementary information.

FREMONT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Adult Fund	Retiree Benefits Trust
FUND BALANCE			
Balance, June 30, 2010, Unaudited Actuals	$ 19,635,078	$ 833,994	$ 5,558,257
Increase in accounts receivable	229,360	101,062	-
Increase in due from other funds	101,062	-	-
Increase in due to other funds	-	(101,062)	-
Decrease in accounts payable	-	-	10,590
Balance, June 30, 2010, Audited Financial Statement	$ 19,965,500	$ 833,994	$ 5,568,847

See accompanying note to supplementary information.

FREMONT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) 2011[1]	2010	2009	2008
GENERAL FUND				
Revenues	$ 96,146,282	$ 104,307,106	$ 102,959,170	$ 97,485,165
Other sources	2,650,706	101,062	-	-
Total Revenues and Other Sources	98,796,988	104,408,168	102,959,170	97,485,165
Expenditures	100,005,320	94,480,533	100,045,454	96,210,583
Other uses and transfers out	904,305	1,416,683	876,340	1,450,711
Total Expenditures and Other Uses	100,909,625	95,897,216	100,921,794	97,661,294
INCREASE (DECREASE) IN FUND BALANCE	$ (2,112,637)	$ 8,510,952	$ 2,037,376	$ (176,129)
ENDING FUND BALANCE	$ 17,852,863	$ 19,965,500	$ 11,454,548	$ 9,417,172
AVAILABLE RESERVES [2]	$ 13,462,535	$ 4,976,198	$ 4,946,801	$ 4,782,141
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3]	13.34%	5.30%	5.00%	5.00%
LONG-TERM DEBT	$ 208,476,422	$ 217,135,910	$ 223,080,807	$ 144,565,382
K-12 AVERAGE DAILY ATTENDANCE AT P-2 [4]	9,988	9,928	10,000	9,983

The General Fund balance has increased by $10,548,328 over the past two years. The fiscal year 2010-2011 budget projects a decrease of $2,112,637 (11 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past year but anticipates incurring an operating deficit during the 2010-2011 fiscal year. Total long-term obligations have increased by $72,570,528 over the past two years due to the issuance of $80,000,000 in general obligation bonds.

Average daily attendance has decreased by 55 over the past two years. Additional increase of 60 ADA is anticipated during fiscal year 2010-2011.

[1] Budget 2011 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all undesignated fund balances and designated for economic uncertainty within the General Fund.
[3] On-behalf payments of $1,874,068, $1,985,885, and $2,018,495 recorded in the general fund have been excluded from the calculation of available reserves for fiscal years ending June 30, 2010, 2009, and 2008.
[4] Exclude Adult ADA

See accompanying note to supplementary information.

FREMONT UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	$ 306,606	$ 42,122	$ 1,906,895
Receivables	827,128	80,764	4,029
Due from other funds	6,278	-	-
Prepaid expenses	-	1,548	-
Stores inventories	-	41,398	-
Total Assets	$ 1,140,012	$ 165,832	$ 1,910,924
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 150,298	$ 66,959	$ 4,305
Due to other funds	101,062	34,158	-
Deferred revenue	54,658	21,394	-
Total Liabilities	306,018	122,511	4,305
Fund Balances:			
Reserved for:			
Other reservations	750	43,321	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	833,244	-	1,906,619
Capital projects funds	-	-	-
Total Fund Balance	833,994	43,321	1,906,619
Total Liabilities and Fund Balances	$ 1,140,012	$ 165,832	$ 1,910,924

See accompanying note to supplementary information.

Capital Facilities Fund		County School Facilities Fund		Total Non-Major Governmental Funds	
$	403,550	$	1,754,080	$	4,413,253
	629		3,845		916,395
	-		20,830		27,108
	-		-		1,548
	-		-		41,398
$	404,179	$	1,778,755	$	5,399,702
$	33	$	219,355	$	440,950
	20,830		-		156,050
	-		-		76,052
	20,863		219,355		673,052
	-		-		44,071
	-		-		2,739,863
	383,316		1,559,400		1,942,716
	383,316		1,559,400		4,726,650
$	404,179	$	1,778,755	$	5,399,702

FREMONT UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	$ 303,422	$ 486,301	$ -
Other state sources	2,048,306	43,804	392,841
Other local sources	1,489,060	1,197,249	18,765
Total Revenues	3,840,788	1,727,354	411,606
EXPENDITURES			
Current			
Instruction	1,329,792	-	-
Instruction-related activities:			
Supervision of instruction	102,900	-	-
Instructional library, media, and technology	107,910	-	-
School site administration	1,727,632	-	-
Pupil services:			
Food services	-	2,482,750	-
General administration:			
All other general administration	135,960	58,424	-
Plant services	210,991	-	114,829
Facility acquisition and construction	-	-	-
Total Expenditures	3,615,185	2,541,174	114,829
Excess (Deficiency) of Revenues Over Expenditures	225,603	(813,820)	296,777
Other Financing Sources (Uses):			
Transfers in	559,542	857,141	-
Transfers out	(101,062)	-	-
Net Financing Sources (Uses)	458,480	857,141	-
NET CHANGE IN FUND BALANCES	684,083	43,321	296,777
Fund Balance - Beginning	149,911	-	1,609,842
Fund Balance - Ending	$ 833,994	$ 43,321	$ 1,906,619

See accompanying note to supplementary information.

	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
	$ -	$ -	$ 789,723
	-	-	2,484,951
	425,656	18,313	3,149,043
	425,656	18,313	6,423,717
	-	-	1,329,792
	-	-	102,900
	-	-	107,910
	-	-	1,727,632
	-	-	2,482,750
	-	-	194,384
	-	-	325,820
	21,510	320,296	341,806
	21,510	320,296	6,612,994
	404,146	(301,983)	(189,277)
	-	20,830	1,437,513
	(20,830)	-	(121,892)
	(20,830)	20,830	1,315,621
	383,316	(281,153)	1,126,344
	-	1,840,553	3,600,306
	$ 383,316	$ 1,559,400	$ 4,726,650

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity 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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number(s)	Amount
Total Federal From the Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		$ 5,912,080
ARRA State Fiscal Stabilization Fund	84.394	882,339
Commodities	10.565	50,121
Total Schedule of Expenditures of Federal Awards		$ 6,844,540

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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.

Schedule of Instructional Time

The District does not receive 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.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. Senate Bill 2 of the 2009-10 fourth extraordinary session (SBX 42) allows for an equivalent five-day reduction to the required number of instruction minutes for the fiscal years 2009-10 through 2012-13.

NOTE 1 - PURPOSE OF SCHEDULES

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

INDEPENDENT AUDITOR'S REPORTS

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*

Governing Board
Fremont Union High School District
Sunnyvale, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont Union High School District as of and for the year ended June 30, 2010, which collectively comprise Fremont Union High School District's basic financial statements and have issued our report thereon dated November 22, 2010. 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 Fremont Union High School 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 Fremont Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fremont Union High School District's internal control over financial reporting.

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

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

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Compliance and Other Matters

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

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 22, 2010

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

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

Governing Board
Fremont Union High School District
Sunnyvale, California

Compliance

We have audited the compliance of Fremont Union High 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 could have a direct and material effect on each of Fremont Union High School District's major Federal programs for the year ended June 30, 2010. Fremont Union High School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Fremont Union High School District's management. Our responsibility is to express an opinion on Fremont Union High 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 Fremont Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fremont Union High School District's compliance with those requirements.

In our opinion, Fremont Union High School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

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Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 22, 2010

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Fremont Union High School District
Sunnyvale, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont Union High School District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. 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; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Fremont Union High School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Fremont Union High School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes

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	Procedures in Audit Guide	Procedures Performed
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving 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
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Fremont Union High School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Fremont Union High School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Fremont Union High School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, the California Department of Finance, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 22, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FREMONT UNION HIGH SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	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) of OMB Circular A-133?	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.391 (ARRA)	Special Education, including ARRA
84.394 (ARRA)	State Fiscal Stabilization Fund, ARRA
84.158	Department of Rehabilitation: Workability II, Transitions Partnership

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for State programs:	Unqualified

FREMONT UNION HIGH SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

None reported.

FREMONT UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Award Findings

2009-1 Attendance – Code 10000

Criteria or Specific Requirements
Currently California Education Code requires that Districts maintain printed, signed attendance records from teachers even when online attendance systems are used.

Condition
During our testing of attendance at Fremont High School it was noted that the site uses an online attendance system but that printed, signed rosters were not submitted by all teachers.

Questioned Costs
Fremont Union High School District is basic aid, thus this item has no questioned cost component.

The following is information that may be required by government agencies when assessing the status of basic aid or revenue limit classification. The amount of P2 ADA reported for Fremont High School was 1768.47. Based on the applying the rate determined in the sample size noted in the context information below, approximately 42% of this amount may not be supported by signed, printed reports.

Context
We reviewed a sample of 12 teachers and noted that 5 teachers did not print and sign their periodic attendance records.

Effect
The District is not in compliance with the requirements for maintenance of certified attendance records.

Cause
Teachers did not print out electronic attendance records and certify/sign them.

Recommendation
We recommend the District remind the teachers that current requirements necessitate that each class roster is printed out at least once every two weeks and reviewed and signed by the teacher. We also suggest the District consider if it would like to apply for a truly electronic system that does not require this printing of semi-monthly rosters. The application process to eliminate the need to periodically print and certify rosters requires submitting information to CDE, including a copy of the current system approval, and an evaluation of the attendance system.

Current Status

Implemented.

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APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the FREMONT UNION HIGH SCHOOL DISTRICT (the "District") in connection with the issuance by the Board of Supervisors of Santa Clara County (the "Board") in the name of the District of $15,000,000* Fremont Union High School District (Santa Clara County, California) 2011 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the Board of Trustees of the District on May 3, 2011, and a resolution adopted by the Board on May 24, 2011 (collectively, the "Resolution"). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Notes (including persons holding Notes through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Notes for federal income tax purposes.

"*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. In the absence of such a designation, the District shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository system located at www.emma.msrb.org for documents filed with the MSRB pursuant to the Rule, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"*Listed Events*" shall mean any of the events listed in Section 3 of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean the original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Authority under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. 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 Notes and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 3. Reporting of Listed Events.

(a) *Reportable Events.* The District shall, or shall cause the Dissemination (if not the District) to, give notice of the occurrence of any of the following events with respect to the Notes:

(1) Principal and interest payment delinquencies.

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

[*] * Preliminary, subject to change.

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

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

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

(8) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days (as such term is defined in the applicable federal regulations) after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Notes under the Resolution.

Section 4. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

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

Section 6. Dissemination Agent.

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

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, Holders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 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 Notes, or the type of business conducted;

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

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Note holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Note holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Note holders or Beneficial Owners.

Section 8. 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 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 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 Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Note holder or Beneficial Owner 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. 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 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

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

Date: July __, 2011

FREMONT UNION HIGH SCHOOL DISTRICT

By ____
Name: _____________________________________
Title: ______________________________________

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees
Fremont Union High School District
589 West Fremont Avenue
Sunnyvale, CA 94087

OPINION: $15,000,000* Fremont Union High School District (Santa Clara County, California) 2011 Tax and Revenue Anticipation Notes

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Members of the Board of Trustees:

We have acted as bond counsel to the Fremont Union High School District (the "District") in connection with the issuance by the Board of Supervisors of Santa Clara County (the "Board") of $15,000,000* principal amount of Fremont Union High School District (Santa Clara County, California) 2011 Tax and Revenue Anticipation Notes, dated July __, 2010 (the "Notes"), pursuant to Article 7.6 (commencing with section 53850), Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, a resolution adopted by the Board of Trustees of the District on May 3, 2011 (the "District Resolution"), and a resolution adopted by the Board on May 24, 2011 (collectively, the "Resolution"). The District covenants and agrees as follows:

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Board Resolution and of the District in the District Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to perform its obligations under the District Resolution, to cause the Board to issue the Notes in its name and to perform its obligations under the Board Resolution and the Notes.

2. The District Resolution has been duly adopted by the District. The Board Resolution has been duly adopted by the Board and creates a valid first lien on the funds pledged under the Board Resolution for the security of the Notes.

3. The Notes have been duly authorized, issued and delivered by the Board and are valid and binding general obligations of the District enforceable in accordance with their terms.

4. Subject to the District's compliance with certain covenants, under present law, interest on the Notes is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Notes

---

* Preliminary, subject to change.

to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Notes.

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

Ownership of the Notes may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Notes.

The rights of the owners of the Notes and the enforceability of the Notes and the Resolutions may be subject to the bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the District and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX D

EXCERPTS FROM THE SANTA CLARA COUNTY INVESTMENT PORTFOLIO REPORT

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Santa Clara County Commingled Pool and Segregated Investments
Cost vs Market Value and Historical Yield Comparisons

December 31, 2010

	Fund	Cost	Market Value	Increase (Decrease)	Percent Increase (Decrease)
	Commingled Investments	3,942,839,369	3,952,002,564	$9,163,195	0.232%
	Retiree Health Fixed Income*	138,607,876	142,638,984	$4,031,108	2.908%
	Retiree Health Equity*	11,123,391	10,873,360	-$250,031	-2.248%
	Reserve Series 2005	923,016	923,016	$0	0.000%
	Elmwood	6,676,975	6,851,973	$174,998	2.621%
(1)	Medical Malpractice Ins Fund	13,315,246	13,606,361	$291,115	2.186%
	Schools & Special Districts***	6,413,937	6,413,855	-$83	-0.001%
	Foothill Comm Col Series B	12,116,785	12,365,742	$248,957	2.055%
	West Valley Mission CCD - Building Fund***	135,522,339	135,490,961	-$31,379	-0.023%
	Mountain View-Los Altos***	2,000,622	2,000,567	-$55	-0.003%

(1) Managed by Chandler Asset Management, Inc.

Summary of Yields** for Select Santa Clara County Investment Funds

Fund	2010			2009
	Oct 31	Nov 30	Dec 31	Dec 31
Commingled Investments	1.03%	0.96%	0.81%	1.06%
Retiree Health Fixed Income	3.90%	3.88%	3.88%	4.14%
Weighted Yield	**1.16%**	**1.08%**	**0.91%**	**1.18%**

*These accounts reflect two components of the Retiree Health Fund. The third component is included in the Commingled Pool.
**Yield to maturity (YTM) is the rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date and if the coupon interest paid over the life of the bond is reinvested at the same rate as the coupon rate. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price at time of purchase.

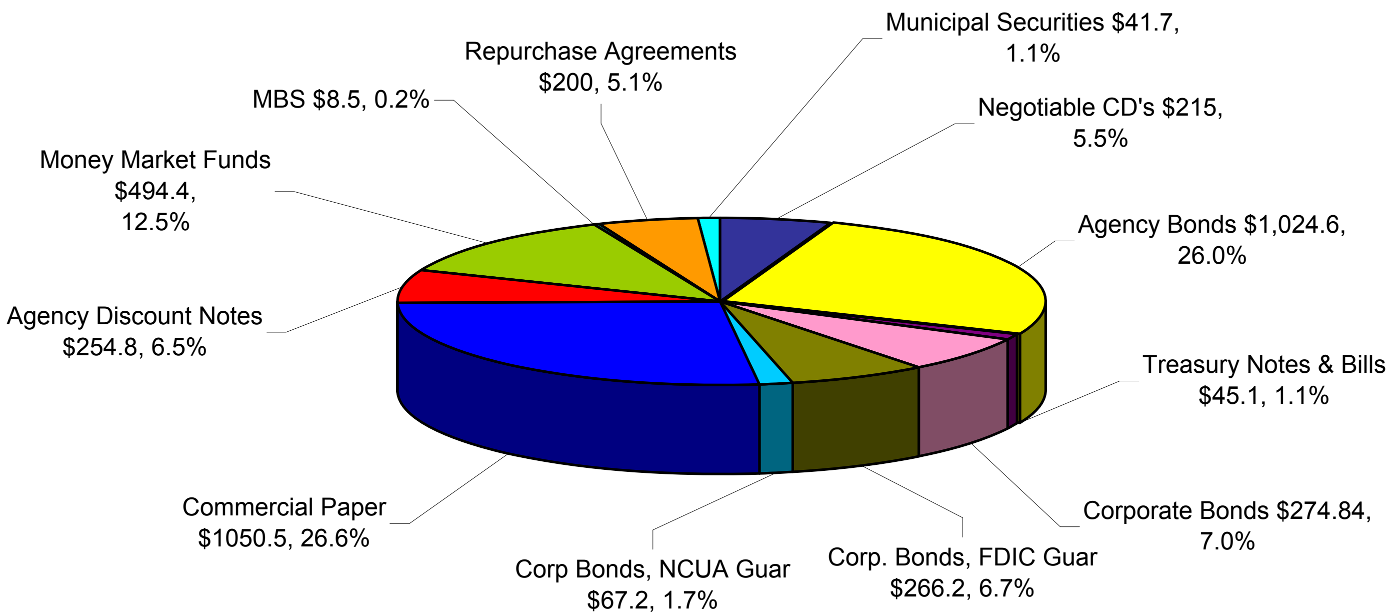
Yield is a snapshot measure of the yield of the portfolio on the day it was measured based on the current portfolio holdings on that day. This is not a measure of total return, and is not intended to be, since it does not factor in unrealized capital gains and losses and reinvestment rates are dependent upon interest rate changes

***Indivdual securities within municipal security accounts are from time purchased at a premium price. The purpose of the price premium is to adjust the bond's price higher as an offset to the bond's above market coupon. With the passage of time, the price of the security approaches par because that is what the holder will receive at maturity. At this time, because of the premium, and not necessarily due to a decline in value, the security's cost will exceed its market value.

SANTA CLARA COUNTY TREASURY-COMMINGLED POOL
INVESTMENT CONCENTRATION AND MATURITY DISTRIBUTION

December 31, 2010

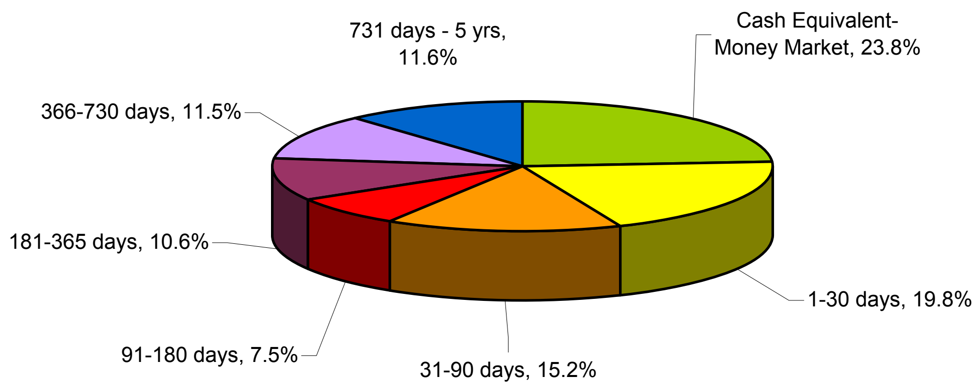
SECURITIES BY TYPE*



*Amounts are based on book value and in millions.

A total par amount of $67.2 million in corporate bonds are guaranteed by NCUA (National Credit Union Administration) and $266.2 million are guaranteed by FDIC.

SECURITIES BY MATURITY



SANTA CLARA COUNTY INVESTMENTS
Fund C - COMMINGLED POOL
Investments by Fund
December 31, 2010

SANTA CLARA COUNTY
70 WEST HEDDING
EAST WING 6TH FLOOR
SAN JOSE, CA 95110

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Negotiable CDs											
06740MAU7	28553	BARCLAYS CAPITAL	02/01/2010	50,000,000.00	50,000,000.00	49,999,300.00	0.500	0.493	0.500	02/01/2011	31
06366UMS4	30472	BANK OF MONTREAL CHICAGO	12/27/2010	50,000,000.00	50,000,000.00	49,996,150.00	0.250	0.250	0.253	02/24/2011	54
06416P4T3	28828	BANK OF NOVA SCOTIA	03/08/2010	25,000,000.00	25,000,000.00	25,055,175.00	0.553	0.583	0.591	03/05/2012	429
1730D2A44	30457	CITI BANK NA	12/23/2010	50,000,000.00	50,000,000.00	50,000,000.00	0.260	0.260	0.263	02/23/2011	53
90267AWP7	30066	UBS AG STAMFORD CT	10/26/2010	40,000,000.00	40,000,000.00	40,020,640.00	0.535	0.535	0.542	07/27/2011	207
			Subtotal and Average	**215,000,000.00**	**215,000,000.00**	**215,071,265.00**		**0.401**	**0.406**		**120**
MBS											
31398JNB5	30100	FHLMC	11/02/2010	8,489,633.03	8,380,942.69	8,440,073.59	1.850	0.968	0.982	08/15/2014	1,322
			Subtotal and Average	**8,489,633.03**	**8,380,942.69**	**8,440,073.59**		**0.969**	**0.982**		**1,322**
Repurchase Agreements											
SYS30475	30475	DEUTSCHE BANK FINANCE	12/27/2010	49,793,000.00	49,793,000.00	49,793,000.00	0.130	0.130	0.131	01/21/2011	20
SYS30475	30476	DEUTSCHE BANK FINANCE	12/27/2010	50,207,000.00	50,207,000.00	50,207,000.00	0.130	0.130	0.131	01/21/2011	20
SYS30521	30521	DEUTSCHE BANK FINANCE	12/31/2010	50,201,000.00	50,201,000.00	50,201,000.00	0.170	0.170	0.172	01/03/2011	2
SYS30521	30522	DEUTSCHE BANK FINANCE	12/31/2010	49,799,000.00	49,799,000.00	49,799,000.00	0.170	0.170	0.172	01/03/2011	2
			Subtotal and Average	**200,000,000.00**	**200,000,000.00**	**200,000,000.00**		**0.150**	**0.152**		**11**
Federal Agency Bonds											
31315PLT4	30297	FARMER MAC	12/06/2010	34,952,818.06	35,000,000.00	34,820,030.00	1.250	1.279	1.297	12/06/2013	1,070
31331VJ80	26513	FFCB NOTES	01/08/2009	25,482,217.03	25,000,000.00	25,682,825.00	5.375	1.731	1.755	07/18/2011	198
31331GV30	27950	FFCB NOTES	10/08/2009	25,004,400.83	25,000,000.00	25,025,975.00	0.358	0.350	0.355	10/01/2012	639
31331G6D6	28218	FFCB NOTES	12/15/2009	34,940,319.80	35,000,000.00	35,159,005.00	0.875	1.044	1.058	12/09/2011	342
31331JCY7	29032	FFCB NOTES	04/06/2010	24,997,305.08	25,000,000.00	25,003,175.00	0.350	0.473	0.479	02/01/2011	31
31331JPK3	29448	FFCB NOTES	05/25/2010	34,912,049.73	35,000,000.00	35,456,015.00	1.375	1.458	1.479	06/25/2013	906
3133XEMR7	16719	FHLB NOTES	05/04/2006	7,996,521.68	8,000,000.00	8,030,760.00	4.850	5.318	5.391	02/04/2011	34
3133XRY46	25729	FHLB NOTES	08/27/2008	25,003,690.48	25,000,000.00	25,576,700.00	3.750	3.674	3.725	09/09/2011	251
3133XSVR6	26529	FHLB NOTES	01/16/2009	29,999,006.90	30,000,000.00	30,021,150.00	1.625	1.662	1.685	01/21/2011	20
3133XVNT4	28067	FHLB NOTES	11/19/2009	40,077,107.33	40,000,000.00	40,790,440.00	1.750	1.625	1.647	12/14/2012	713
3133XVU82	28081	FHLB NOTES	11/23/2009	39,996,577.98	40,000,000.00	40,009,520.00	0.375	0.434	0.440	02/18/2011	48
3133XUMR1	28136	FHLB NOTES	12/04/2009	17,253,651.19	16,775,000.00	17,829,812.00	3.250	2.393	2.427	09/12/2014	1,350

Fund C - COMMINGLED POOL
Investments by Fund
December 31, 2010

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Federal Agency Bonds											
3133XVNT4	28166	FHLB NOTES	12/09/2009	35,143,321.29	35,000,000.00	35,691,635.00	1.750	1.513	1.534	12/14/2012	713
3133XXYX9	29065	FHLB NOTES	04/08/2010	24,945,967.04	25,000,000.00	25,582,650.00	1.875	1.939	1.965	06/21/2013	902
3133XXYX9	29066	FHLB NOTES	04/08/2010	4,989,193.41	5,000,000.00	5,116,530.00	1.875	2.828	2.867	06/21/2013	902
3133XJUT3	29090	FHLB NOTES	04/09/2010	15,885,331.96	15,200,000.00	16,014,188.00	5.000	1.138	1.154	03/09/2012	433
3133XVSY8	29207	FHLB NOTES	04/22/2010	25,006,764.22	25,000,000.00	25,055,125.00	0.700	0.634	0.643	06/24/2011	174
3133XUSX2	29294	FHLB NOTES	05/06/2010	25,014,186.52	25,000,000.00	25,032,025.00	0.750	1.144	1.160	03/25/2011	83
3133XYLD5	29446	FHLB NOTES	05/25/2010	25,004,650.00	25,000,000.00	25,090,450.00	0.785	0.753	0.764	11/25/2011	328
3133XYPH2	29447	FHLB NOTES	05/25/2010	25,000,000.00	25,000,000.00	25,036,200.00	0.550	0.542	0.550	05/25/2011	144
313371HG4	30071	FHLB NOTES	10/27/2010	20,000,986.67	20,000,000.00	19,988,860.00	0.300	0.289	0.293	10/27/2011	299
3128X8TZ5	26732	FHLMC NOTES	04/16/2009	25,000,000.00	25,000,000.00	25,137,825.00	2.500	2.465	2.499	04/08/2013	828
3137EABZ1	28839	FHLMC NOTES	03/09/2010	15,806,206.60	15,750,000.00	15,821,237.25	1.625	0.496	0.503	04/26/2011	115
3128X9C73	29892	FHLMC NOTES	09/10/2010	25,717,176.76	25,000,000.00	25,731,225.00	2.175	1.219	1.236	02/19/2014	1,145
3128X23A1	29957	FHLMC NOTES	09/30/2010	7,505,247.40	6,769,000.00	7,411,472.87	4.500	1.068	1.083	04/02/2014	1,187
3128X9C73	30053	FHLMC NOTES	10/22/2010	20,844,727.82	20,000,000.00	20,584,980.00	2.175	0.794	0.806	02/19/2014	1,145
3128X9ZK9	30126	FHLMC NOTES	11/08/2010	20,083,296.25	20,000,000.00	20,036,160.00	1.800	1.579	1.601	02/25/2013	786
3128X33E1	30273	FHLMC NOTES	12/02/2010	10,364,308.19	9,102,000.00	10,213,090.24	5.050	1.499	1.520	01/26/2015	1,486
3128X33E1	30285	FHLMC NOTES	12/03/2010	1,428,340.80	1,255,000.00	1,408,199.11	5.050	1.512	1.533	01/26/2015	1,486
3136F9CB7	23897	FNMA NOTES	03/11/2008	25,000,000.00	25,000,000.00	26,734,175.00	4.000	3.945	4.000	03/11/2013	800
31398APG1	26405	FNMA NOTES	11/26/2008	39,976,472.51	40,000,000.00	40,276,720.00	2.750	2.929	2.970	04/11/2011	100
31398AUU4	26517	FNMA NOTES	01/09/2009	24,998,551.85	25,000,000.00	25,402,600.00	2.000	1.978	2.005	01/09/2012	373
31398AVQ2	26576	FNMA NOTES	02/27/2009	24,997,169.57	25,000,000.00	25,086,050.00	1.750	1.776	1.801	03/23/2011	81
31398AXH0	26960	FNMA NOTES	05/13/2009	40,000,000.00	40,000,000.00	40,001,280.00	0.166	0.290	0.294	05/13/2011	132
31398AP71	29170	FNMA NOTES	04/19/2010	39,969,347.13	40,000,000.00	40,418,320.00	1.250	1.285	1.303	06/22/2012	538
31398AP22	29221	FNMA NOTES	04/26/2010	30,000,000.00	30,000,000.00	30,132,660.00	2.050	2.021	2.050	04/26/2013	846
31359MPF4	29891	FNMA NOTES	09/10/2010	26,538,175.86	25,000,000.00	26,588,125.00	4.375	2.579	2.615	09/15/2012	623
3136FPGF8	29930	FNMA NOTES	09/23/2010	25,000,000.00	25,000,000.00	24,687,250.00	1.750	1.726	1.750	03/23/2015	1,542
31398A4A7	29944	FNMA NOTES	09/27/2010	25,014,265.05	25,000,000.00	24,954,850.00	1.200	1.162	1.178	09/27/2013	1,000
31398A4H2	29997	FNMA NOTES	10/08/2010	20,000,000.00	20,000,000.00	19,862,340.00	1.125	1.109	1.125	10/08/2013	1,011
31398A4M1	30108	FNMA NOTES	11/03/2010	25,286,618.52	25,000,000.00	24,366,975.00	1.625	1.359	1.378	10/26/2015	1,759
31398A5B4	30120	FNMA NOTES	11/05/2010	9,500,000.00	9,500,000.00	9,469,353.00	0.550	0.542	0.549	11/01/2012	670
			Subtotal and Average	**1,024,635,971.51**	**1,017,351,000.00**	**1,030,337,957.47**		**1.495**	**1.516**		**589**

Fund C - COMMINGLED POOL
Investments by Fund
December 31, 2010

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
US Treasury Notes											
912828LG3	29603	U.S. TREASURY NOTES	06/17/2010	25,076,073.99	25,000,000.00	25,111,325.00	1.000	0.465	0.471	07/31/2011	211
912828MM9	29902	U.S. TREASURY NOTES	09/13/2010	20,067,534.93	20,000,000.00	20,078,900.00	0.750	0.373	0.378	11/30/2011	333
			Subtotal and Average	**45,143,608.92**	**45,000,000.00**	**45,190,225.00**		**0.424**	**0.430**		**265**
Corporate Bonds											
06406HBK4	25730	BANK OF NEW YORK	08/27/2008	3,992,500.71	4,000,000.00	4,385,188.00	5.125	5.134	5.206	08/27/2013	969
06406HAY5	25972	BANK OF NEW YORK	09/23/2008	9,997,548.62	10,000,000.00	10,010,130.00	4.950	5.602	5.680	01/14/2011	13
084670AY4	29842	BERKSHIRE HATHWY	08/27/2010	15,066,800.76	15,000,000.00	15,066,800.76	0.716	0.522	0.529	02/11/2013	772
19416QDQ0	30101	COLGATE-PALMOLIVE CO	11/03/2010	14,890,838.71	15,000,000.00	14,353,695.00	1.375	1.510	1.531	11/01/2015	1,765
166751AK3	26579	CHEVRON CORP.	03/03/2009	14,999,648.33	15,000,000.00	15,477,990.00	3.450	3.404	3.452	03/03/2012	427
36962GW59	16671	GENERAL ELECTRIC	04/28/2006	2,999,738.70	3,000,000.00	3,047,574.00	5.500	5.455	5.531	04/28/2011	117
36962G3J1	22196	GENERAL ELECTRIC	09/28/2007	25,000,000.00	25,000,000.00	25,057,600.00	0.653	1.920	1.946	09/28/2011	270
36962GW42	28075	GENERAL ELECTRIC	11/20/2009	29,936,297.52	30,000,000.00	30,009,360.00	0.378	1.071	1.086	04/28/2011	117
36962G2U7	29661	GENERAL ELECTRIC	06/25/2010	971,675.00	1,000,000.00	986,055.00	0.436	1.598	1.620	08/08/2013	950
36962G2U7	29662	GENERAL ELECTRIC	06/25/2010	9,624,440.87	9,905,000.00	9,766,874.78	0.436	1.598	1.620	08/08/2013	950
36962GV68	29950	GENERAL ELECTRIC	09/28/2010	14,905,236.67	15,000,000.00	14,985,180.00	0.406	0.950	0.963	03/02/2012	426
36962G4T8	30190	GENERAL ELECTRIC	11/09/2010	4,996,358.33	5,000,000.00	4,806,775.00	2.250	2.234	2.265	11/09/2015	1,773
59157BAB8	29943	METROPOLITAN LIFE	09/27/2010	18,000,000.00	18,000,000.00	17,988,480.00	0.703	0.700	0.710	03/27/2012	451
6944P0AF2	25086	PACIFIC LIFE GLOBAL	06/09/2008	14,924,881.95	15,000,000.00	14,964,795.00	0.533	2.373	2.406	06/22/2011	172
717081DC4	26608	PFIZER	03/24/2009	25,000,000.00	25,000,000.00	25,100,250.00	2.242	2.415	2.448	03/15/2011	73
87244EAA0	15613	TIAA GLOBAL	01/12/2006	2,999,989.55	3,000,000.00	3,002,019.00	4.875	4.821	4.887	01/12/2011	11
892332AQ0	16824	TOYOTA MOTOR CREDIT	05/18/2006	9,998,454.94	10,000,000.00	10,194,690.00	5.450	5.421	5.496	05/18/2011	137
90327QCR8	28106	USAA CAP CORP	11/27/2009	10,312,420.95	10,000,000.00	10,310,670.00	4.996	4.024	4.080	12/12/2011	345
91159HGZ7	30099	U S BANK	11/02/2010	9,986,104.55	10,000,000.00	9,903,650.00	1.125	3.432	3.480	10/30/2013	1,033
931142BV4	27327	WALMART	06/24/2009	15,045,619.29	15,000,000.00	15,063,645.00	4.125	1.571	1.593	02/15/2011	45
931142CW1	30060	WALMART	10/25/2010	14,951,694.17	15,000,000.00	14,864,625.00	0.750	0.854	0.866	10/25/2013	1,028
			Subtotal and Average	**268,600,249.62**	**268,905,000.00**	**269,346,046.54**		**2.182**	**2.212**		**476**
Corporate Bonds - Cont.											
90331HLG6	21065	U S BANK	06/08/2007	6,238,630.39	6,239,849.03	6,491,751.74	5.920	5.843	5.924	05/25/2012	510
			Subtotal and Average	**6,238,630.39**	**6,239,849.03**	**6,491,751.74**		**5.843**	**5.925**		**510**

Fund C - COMMINGLED POOL
Investments by Fund
December 31, 2010

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
FDIC Guaranteed Corporate Bonds											
36185JAA7	30077	ALLY FINANCIAL INC-FDIC GTD	10/28/2010	20,460,022.16	20,000,000.00	20,354,240.00	1.750	0.479	0.485	10/30/2012	668
06050BAG6	28105	B of A-FDIC GUARANTEED	11/27/2009	25,279,249.87	25,000,000.00	25,519,100.00	2.100	1.227	1.244	04/30/2012	485
17314JAC7	26631	CITI-FDIC GUARANTEED	03/30/2009	25,000,000.00	25,000,000.00	25,009,250.00	0.439	0.622	0.630	03/30/2011	88
17313YAL5	27990	CITI-FDIC GUARANTEED	10/27/2009	30,071,398.05	30,000,000.00	30,600,810.00	1.875	1.715	1.738	10/22/2012	660
17313UAE9	28936	CITI-FDIC GUARANTEED	03/25/2010	13,948,707.26	13,783,000.00	14,062,712.20	2.125	1.190	1.206	04/30/2012	485
17313YAL5	29698	CITI-FDIC GUARANTEED	04/14/2010	11,689,668.66	11,625,000.00	11,857,813.88	1.875	1.538	1.560	10/22/2012	660
36967HAL1	26644	GE-FDIC GUARANTEED	03/31/2009	20,012,300.00	20,000,000.00	20,058,580.00	1.800	1.457	1.477	03/11/2011	69
36967HAL1	28017	GE-FDIC GUARANTEED	11/05/2009	30,065,462.96	30,000,000.00	30,087,870.00	1.800	0.661	0.670	03/11/2011	69
905266AB8	26585	UNION BANK-FDIC GUARANTEED	03/16/2009	6,000,000.00	6,000,000.00	6,001,074.00	0.372	0.565	0.573	03/16/2011	74
846042AB5	28104	SOVEREIGN BANCORP-FDIC GUARANT	11/27/2009	10,169,456.63	10,000,000.00	10,273,450.00	2.500	1.294	1.312	06/15/2012	531
85748KAA1	29816	STATE STREET CORP-FDIC GTD	08/18/2010	10,202,009.64	10,000,000.00	10,208,870.00	2.150	0.612	0.621	04/30/2012	485
90390QAA9	26637	USAA CAPITAL CORP -FDIC GUARAN	03/30/2009	19,986,575.65	20,000,000.00	20,363,020.00	2.240	2.264	2.296	03/30/2012	454
949744AB2	26458	WELLS FARGO-FDIC GUARANTEED	12/10/2008	35,000,000.00	35,000,000.00	35,295,015.00	1.152	1.427	1.447	12/09/2011	342
929903CF7	29866	WELLS FARGO-FDIC GUARANTEED	09/03/2010	8,291,234.23	8,000,000.00	8,291,928.00	5.300	1.144	1.160	10/15/2011	287
			Subtotal and Average	**266,176,085.11**	**264,408,000.00**	**267,983,733.08**		**1.199**	**1.216**		**376**
NCUA Guaranteed Corporate Bonds											
90345AAA0	27972	US CENTRAL FED CRED-GTD	10/19/2009	49,989,800.00	50,000,000.00	50,356,950.00	1.250	1.258	1.275	10/19/2011	291
90345AAC6	30024	US CENTRAL FED CRED-GTD	10/15/2010	7,232,961.49	7,061,000.00	7,209,019.74	1.900	0.530	0.537	10/19/2012	657
95806AAB9	28008	WEST CORP FED CRED UNION-GTD	11/02/2009	9,992,349.54	10,000,000.00	10,180,840.00	1.750	1.768	1.792	11/02/2012	671
			Subtotal and Average	**67,215,111.03**	**67,061,000.00**	**67,746,809.74**		**1.256**	**1.273**		**386**
Municipal Bonds											
54466UDQ7	30261	LOS ANGELES COUNTY LEASING	12/01/2010	6,700,000.00	6,700,000.00	6,700,000.00	0.250	0.246	0.250	01/05/2011	4
79765A3T1	29042	SAN FRANCISCO AIRPORT	04/07/2010	10,000,000.00	10,000,000.00	9,997,700.00	1.150	1.128	1.144	05/01/2011	120
79817ABH6	30171	CITY OF SAN JOSE AIRPORT	11/17/2010	25,000,000.00	25,000,000.00	25,000,000.00	0.270	0.270	0.273	01/11/2011	10
			Subtotal and Average	**41,700,000.00**	**41,700,000.00**	**41,697,700.00**		**0.472**	**0.479**		**35**
Commercial Paper, Discount Notes											
06422TQU0	29990	BANK OF AMERICA	10/07/2010	18,119,403.90	18,135,000.00	18,103,807.80	0.360	0.360	0.365	03/28/2011	86
06737JPRO	30474	BARCLAYS U S FDG CORP	12/27/2010	49,979,375.00	50,000,000.00	49,977,500.00	0.270	0.270	0.273	02/25/2011	55
06737JN35	30488	BARCLAYS U S FDG CORP	12/28/2010	99,999,000.00	100,000,000.00	99,997,000.00	0.180	0.180	0.182	01/03/2011	2

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Investments by Fund
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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Commercial Paper, Discount Notes											
0556N1N4	30489	BNP PARIBAS	12/28/2010	99,998,166.67	100,000,000.00	99,995,720.00	0.220	0.220	0.223	01/04/2011	3
0556N1N33	30509	BNP PARIBAS	12/30/2010	99,998,833.33	100,000,000.00	99,997,660.00	0.210	0.210	0.212	01/03/2011	2
06416KN30	30520	BANK OF NOVA SCOTIA	12/31/2010	99,999,611.11	100,000,000.00	99,999,410.00	0.070	0.069	0.070	01/03/2011	2
17307SN73	30510	CITICORP	12/30/2010	49,998,250.00	50,000,000.00	49,997,665.00	0.210	0.210	0.212	01/07/2011	6
12619UQE4	30473	CRC FUNDING LLC	12/27/2010	28,982,600.00	29,000,000.00	28,981,390.70	0.300	0.300	0.304	03/14/2011	72
36959JN33	30519	GENERAL ELECTRIC	12/31/2010	199,998,333.33	200,000,000.00	199,997,500.00	0.150	0.150	0.152	01/03/2011	2
74977LN60	30477	RABOBANK	12/27/2010	30,174,161.81	30,175,000.00	30,173,412.80	0.200	0.200	0.202	01/06/2011	5
74977LN60	30487	RABOBANK	12/28/2010	36,526,985.33	36,528,000.00	36,526,078.63	0.200	0.200	0.202	01/06/2011	5
86257CH21	29976	STRAIGHT-A FUNDING LLC	10/05/2010	24,694,643.29	24,695,000.00	24,678,948.25	0.260	0.260	0.263	01/03/2011	2
86257LB27	29989	STRAIGHT-A FUNDING LLC	10/07/2010	11,999,666.67	12,000,000.00	11,992,500.00	0.250	0.250	0.253	01/05/2011	4
86257CJ29	30003	STRAIGHT-A FUNDING LLC	10/12/2010	12,999,729.17	13,000,000.00	12,992,415.80	0.250	0.250	0.253	01/04/2011	3
86257LB50	30028	STRAIGHT-A FUNDING LLC	10/15/2010	19,999,305.56	20,000,000.00	19,988,472.00	0.250	0.250	0.253	01/06/2011	5
86257CM90	30146	STRAIGHT-A FUNDING LLC	11/12/2010	24,994,270.83	25,000,000.00	24,985,590.00	0.250	0.250	0.253	02/03/2011	33
86257CT85	30490	STRAIGHT-A FUNDING LLC	12/28/2010	27,256,470.12	27,272,000.00	27,255,710.43	0.250	0.250	0.253	03/24/2011	82
89233HNB6	30009	TOYOTA MOTOR CREDIT	10/13/2010	29,997,916.67	30,000,000.00	29,981,250.00	0.250	0.250	0.253	01/11/2011	10
89233HTN4	30041	TOYOTA MOTOR CREDIT	10/20/2010	34,928,094.45	35,000,000.00	34,897,576.00	0.430	0.436	0.442	06/22/2011	172
89233HUM4	30458	TOYOTA MOTOR CREDIT	12/23/2010	49,893,916.67	50,000,000.00	49,889,165.00	0.380	0.385	0.390	07/21/2011	201
			Subtotal and Average	**1,050,538,733.91**	**1,050,805,000.00**	**1,050,408,772.41**		**0.213**	**0.216**		**26**
Federal Agency, Discount Notes											
313588AT2	28592	FHLB DISCOUNT NOTE	02/05/2010	19,996,600.00	20,000,000.00	19,999,580.00	0.360	0.365	0.370	01/18/2011	17
313384BD0	29469	FHLB DISCOUNT NOTE	05/27/2010	19,994,600.00	20,000,000.00	19,999,300.00	0.360	0.367	0.372	01/28/2011	27
313384GC7	29490	FHLB DISCOUNT NOTE	06/01/2010	19,957,822.22	20,000,000.00	19,989,600.00	0.520	0.529	0.536	05/27/2011	146
313588AT2	29565	FHLB DISCOUNT NOTE	06/11/2010	19,997,166.67	20,000,000.00	19,999,580.00	0.300	0.305	0.309	01/18/2011	17
313384DU0	30518	FHLB DISCOUNT NOTE	12/31/2010	24,990,000.00	25,000,000.00	24,993,275.00	0.160	0.160	0.162	04/01/2011	90
313396AL7	29116	FHLMC DISCOUNT NOTE	04/13/2010	34,996,500.00	35,000,000.00	34,999,615.00	0.360	0.366	0.371	01/11/2011	10
313396CE1	29707	FHLMC DISCOUNT NOTE	07/08/2010	9,995,955.56	10,000,000.00	9,998,890.00	0.280	0.285	0.289	02/22/2011	52
313588BW4	28797	FNMA DISCOUNT NOTE	03/03/2010	24,988,694.44	25,000,000.00	24,997,675.00	0.370	0.376	0.381	02/14/2011	44
313588DQ5	29089	FNMA DISCOUNT NOTE	04/09/2010	24,971,930.56	25,000,000.00	24,994,175.00	0.470	0.478	0.484	03/28/2011	86
313588EU5	29295	FNMA DISCOUNT NOTE	05/05/2010	29,951,550.00	30,000,000.00	29,989,740.00	0.510	0.519	0.526	04/25/2011	114
313588ME2	30023	FNMA DISCOUNT NOTE	10/15/2010	24,951,611.11	25,000,000.00	24,959,350.00	0.260	0.264	0.267	09/26/2011	268
			Subtotal and Average	**254,792,430.56**	**255,000,000.00**	**254,920,780.00**		**0.371**	**0.376**		**80**

Fund C - COMMINGLED POOL
Investments by Fund
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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Dreyfus Money Market Fund											
SYS23519	23519	DREYFUS CASH MANAGEMENT	02/01/2008	226,019,168.33	226,019,168.33	226,019,168.33	0.130	0.128	0.130		1
			Subtotal and Average	**226,019,168.33**	**226,019,168.33**	**226,019,168.33**		**0.128**	**0.130**		**1**
Other Money Market Funds											
SYS26388	26388	BLACKROCK MMK	11/24/2008	228,234,216.73	228,234,216.73	228,234,216.73	0.200	0.197	0.200		1
SYS8506	8506	LOCAL AGENCY INVEST FUND	07/01/2004	40,055,530.25	40,055,530.25	40,114,064.32	0.460	0.453	0.460		1
			Subtotal and Average	**268,289,746.98**	**268,289,746.98**	**268,348,281.05**		**0.236**	**0.239**		**1**
			Total Investments and Average	**3,942,839,369.39**	**3,934,159,707.03**	**3,952,002,563.95**		**0.794**	**0.805**		**244**