

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 6, 2013

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.



\$5,000,000*
LOS ALTOS SCHOOL DISTRICT
(Santa Clara County, California)
2013 Tax and Revenue Anticipation Notes

Dated: Date of Delivery

Due: June 30, 2014

The above-captioned Notes (the "Notes") issued by the Board of Supervisors of Santa Clara County, California (the "County") on behalf of the Los Altos 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 2013-14.

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 2013-14 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, 2014, and (b) in an amount equal to fifty percent (50%) of the principal amount of the Notes and all interest due on the Notes, to be received by the County on behalf of the District in May, 2014, intended as receipts for the General Fund of the District for fiscal year 2013-2014 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.

<u>Coupon</u>	<u>Yield</u>	<u>CUSIP†</u>
_____ %	_____ %	544290 ____

Bids for the purchase of the Notes will be received by the County, on behalf of the District, on Thursday, June 13, 2013, electronically, through the I-Deal LLC BiDCOMP/PARITY® system, or by fax, until 9:30 A.M., Pacific Daylight time. The Notes will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated June 6, 2013.

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, 2013.

Dated: June __, 2013

*Preliminary, subject to change.

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Notes that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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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**SANTA CLARA COUNTY
County Board of Supervisors**

Ken Yeager
President, Supervisor, District 4

Mike Wasserman
Supervisor, District 1

VACANT
Supervisor, District 2

Dave Cortese
Supervisor, District 3

Joe Simitian
Supervisor, District 5

**LOS ALTOS SCHOOL DISTRICT
Board of Trustees**

Doug Smith
President

Tamara Logan
Vice President

Steve Tagilo
Clerk

Pablo Luther
Member

Mark Goines
Member

District Administration

Jeff Baier
Superintendent

Randall Kenyon
Assistant Superintendent, Business Services

Alyssa Gallagher
Assistant Superintendent, Curriculum & Instruction

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

TABLE OF CONTENTS

INTRODUCTION	1	CONSTITUTIONAL AND STATUTORY	
General.....	1	PROVISIONS AFFECTING DISTRICT REVENUES	
The District.....	1	AND APPROPRIATIONS	27
Authority for Issuance of the Notes	2	Article XIII A of the California Constitution.....	27
Purpose of the Notes	2	Legislation Implementing Article XIII A	27
Continuing Disclosure.....	2	Article XIII B of the California Constitution	28
Professionals Involved in the Offering	2	Unitary Property	28
Other Information.....	2	California Lottery	28
THE NOTES.....	3	Proposition 46	28
Authority for Issuance.....	3	Proposition 39	29
Purpose of the Notes	3	Article XIII C and XIII D of the California	
Description of the Notes	3	Constitution	29
Limitations on Remedies	3	Future Initiatives	30
Investment of Note Proceeds	4	GENERAL SCHOOL DISTRICT INFORMATION	30
Book-Entry-Only System	4	State Funding of Education	30
Paying Agent	6	Basic Aid Districts	31
Registration and Transfer of Notes	7	State Cash Management Legislation	32
SECURITY FOR AND SOURCES OF PAYMENT OF		Future Initiatives	32
THE NOTES.....	7	State Budget Measures	32
Security for the Notes	7	Litigation Challenging State Funding of Education	39
Available Sources of Payment.....	8	Significant Accounting Policies and Audited	
Other District Funds	9	Financial Statements	40
COUNTY OF SANTA CLARA POOLED		<i>Ad Valorem</i> Property Taxes	40
INVESTMENT FUND	9	Proposition 26	41
CASH FLOW PROJECTIONS	10	Proposition 98	42
Note Coverage Ratio.....	12	Supplemental Information Concerning Litigation	
DISTRICT INFORMATION	12	Against the State of California	43
General Information	12	Propositions 1A and 22	43
Average Daily Attendance	13	State Funding of School Construction	44
District Employees.....	13	State Retirement Programs	45
Retirement System	13	County Office of Education	45
Other Post-Employment Benefits	14	School District Budget Process.....	46
District Investments.....	15	Temporary Inter-fund Borrowing	47
Risk Management	15	Accounting Practices	47
Economy of the District.....	15	County Investment Pool	47
DISTRICT FINANCIAL INFORMATION	20	TAX MATTERS	48
District Budget.....	20	LEGALITY FOR INVESTMENT IN CALIFORNIA.....	50
General Fund Budget	21	NO LITIGATION	50
Significant Accounting Policies and Audited		APPROVAL OF LEGALITY	50
Financial Statements	21	RATING.....	50
Debt Structure.....	23	FINANCIAL ADVISOR	51
LOCAL PROPERTY TAXATION	25	UNDERWRITING.....	51
<i>Ad Valorem</i> Property Taxation.....	25	CONTINUING DISCLOSURE	51
Taxation of State-Assessed Utility Property	26	ADDITIONAL INFORMATION	51
Alternative Method of Tax Apportionment.....	26		
APPENDIX A:	COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL		
	YEAR ENDED JUNE 30, 2012		
APPENDIX B:	FORM OF CONTINUING DISCLOSURE CERTIFICATE		
APPENDIX C:	PROPOSED FORM OF OPINION OF BOND COUNSEL		
APPENDIX D:	EXCERPTS FROM THE SANTA CLARA COUNTY INVESTMENT PORTFOLIO REPORT		

OFFICIAL STATEMENT

\$5,000,000*

LOS ALTOS SCHOOL DISTRICT (Santa Clara County, California) 2013 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 \$5,000,000.* 2013 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 Los Altos 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, 2014 (the "Fiscal Year 2013-14") 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 2014.

The District

The Los Altos School District (the "District") provides educational services to the residents of most of the City of Los Altos (the "City"), half of the town of Los Altos Hills, parts of the cities of Mountain View and Palo Alto, and some unincorporated county lands in Santa Clara County, California. Enrollment in the District for the 2011-12 school year was approximately 4,486. 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.

The District's average daily attendance for fiscal years 2010-11 and 2011-12 was 4,301 and 4,387, respectively, and its projected average daily attendance for fiscal year 2012-13 is 4,387. The District has a 2012-13 total assessed valuation of \$15,205,649,537. See "THE DISTRICT."

* Preliminary, subject to change.

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.

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 13, 2013 (the "District Resolution") and a resolution adopted by the County Board on June 4, 2013 (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 201 Covington Road, Los Altos, CA 94024-4030, telephone (650) 947-1164.

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 13, 2013. The County Board adopted its resolution authorizing the Notes (the "County Resolution" and, with the District Resolution, the "Resolutions") on June 4, 2013.

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, 2014, 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com 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 2013-14 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, 2014, and (b) in an amount equal to fifty percent (50%) of the principal amount of the Notes and all interest due on the Notes, to be received by the County on behalf of the District in May, 2014, intended as receipts for the General Fund of the District for fiscal year 2013-14 and generally available for the payment of current expenses and obligations of the District (the "Pledged Revenues").

LOS ALTOS SCHOOL DISTRICT
Amount of Pledge*

January, 2014	May, 2014	May 2014
\$2,500,000*	\$2,500,000*	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 2013-14, see "CASH FLOW PROJECTIONS," "DISTRICT FINANCIAL INFORMATION—Budget" and "DISTRICT FINANCIAL INFORMATION—Significant Accounting Policies and Audited Financial Statements."

[The District filed its 2012-13 First Interim Financial Report with the County Office of Education (the "SCCOE") with a "positive certification" and its 2012-13 Second Interim Financial Report with the SCCOE with a "positive certification" within the meaning of Section

* Preliminary, subject to change.

42133 of the California Education Code. See THE DISTRICT—Significant Accounting Policies and Financial Statements.]

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, 2012 Balance (1)	June 30, 2013 Estimated Balance (2)
<u>Special Revenue Funds</u>		
Deferred Maintenance	\$ 417,908	\$ 554,210
Special Reserve	431,856	434,856
Postemployment Benefits	1,226,050	1,689,301
Subtotal for Special Revenue Funds	<u>\$2,075,814</u>	<u>\$2,658,367</u>
<u>Capital Project Funds</u>		
Building	\$ 50,819	\$ 43,876
Capital Facilities	663,672	118,272
Subtotal for Capital Project Funds	<u>714,490</u>	<u>162,148</u>
Total Other District Funds (3)	<u>\$2,790,305</u>	<u>\$2,820,515</u>

(1) Audited

(2) 2012/13 Second Interim Report.

(3) The adult education and deferred maintenance fund have been included in the general fund for the 2012 audited financial statements to conform to GASB 54..

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 March 31, 2013, 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 2012-13 fiscal year and projected fiscal year 2013-14. The projected fiscal 2013-14 cash flow shows and takes into consideration the Notes. Without the proceeds of the Notes, a cumulative cash-flow deficit of \$2,711,886 is anticipated in November, 2013. 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.

Los Altos School District
2013 Tax and Revenue Anticipation Notes

GENERAL FUND

2012/13 ACTUAL CASH FLOW (Actuals through April 30, 2013, Projected May 1 to June 30, 2013)

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$ 7,946,775	\$ 12,094,215	\$ 10,996,098	\$ 7,568,321	\$ 4,933,498	\$ 4,259,928	\$ 6,981,992	\$ 10,959,981	\$ 7,168,314	\$ 6,291,581	\$ 6,245,907	\$ 7,535,006	\$ 7,946,775
Receipts													
Revenue Limit: State Aid	0	3,719	16,059	4,969	0	12,037	3,678	(12,650)	(7,084)	(3,721)	0	877,400	894,407
Revenue Limit: Property Tax	6,018	74,390	6,496	1,448,251	3,813,620	6,205,299	4,114,600	(170,256)	2,617,040	6,619,136	1,200,000	1,121,659	27,056,254
Federal Revenue	0	0	10,163	(7,867)	0	0	273,402	0	384,993	19,774	50,000	19,959	750,424
Other State Revenues	0	0	94,497	56,832	122,841	0	176,089	322,296	197,052	192,854	0	26,405	1,188,865
Other Local Revenues	487,685	89,948	494,312	196,286	491,798	296,530	6,199,632	350,484	88,551	314,944	4,500,000	2,646,966	16,157,138
Other Receipts	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Receipts	493,703	168,058	621,528	1,698,472	4,428,259	6,513,866	10,767,402	489,874	3,280,551	7,142,987	5,750,000	4,692,389	46,047,088
Disbursements													
Certificated Salaries	148,050	145,823	1,949,622	2,009,605	1,988,784	1,977,532	1,975,238	2,001,100	2,007,513	1,985,683	2,069,080	2,982,026	21,240,055
Classified Salaries	249,907	298,396	601,987	604,723	617,232	594,150	593,134	601,848	604,336	609,017	621,329	870,118	6,864,176
Employee Benefits	489,425	499,234	811,797	802,634	820,487	813,487	852,207	828,248	857,910	858,119	881,611	982,169	9,497,329
Other Disbursements	902,787	599,234	834,258	1,077,002	1,673,885	664,133	667,648	838,428	702,937	960,353	714,316	(98,078)	9,536,904
Total Disbursements	1,790,169	1,542,687	4,197,663	4,493,964	5,100,388	4,047,302	4,088,226	4,269,625	4,172,695	4,413,172	4,286,336	4,736,236	47,138,463
Prior Year Transactions													
Prior Year Receipts	797,883	430,669	65,998	157,360	0	213,514	0	0	483	0	7,808	0	1,673,715
Prior Year Disbursements	853,977	154,156	(82,361)	(3,308)	1,441	(41,985)	(48,814)	11,917	(14,928)	25,488	101,020	101,020	1,057,621
Total Prior Year Transactions	(56,094)	276,513	148,358	160,668	(1,441)	255,500	48,814	(11,917)	15,411	(25,488)	(93,211)	(101,020)	616,094
Note Related Cash Flows	5,500,000	0	0	0	0	0	(2,750,000)	0	0	(2,750,000)	(81,354)	81,354	0
Net Increase/Decrease	4,147,440	(1,098,116)	(3,427,777)	(2,634,823)	(673,570)	2,722,064	3,977,990	(3,791,668)	(876,733)	(45,673)	1,289,099	(63,512)	(475,281)
Ending Cash	12,094,215	10,996,098	7,568,321	4,933,498	4,259,928	6,981,992	10,959,981	7,168,314	6,291,581	6,245,907	7,535,006	7,471,494	7,471,494

2013/14 PROJECTED CASHFLOW

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Beginning Cash	\$ 7,471,494	\$ 11,314,059	\$ 10,014,872	\$ 6,068,714	\$ 3,312,353	\$ 2,288,114	\$ 5,361,770	\$ 9,338,972	\$ 5,492,983	\$ 4,645,396	\$ 5,039,389	\$ 6,317,214	\$ 7,471,494
Receipts													
Revenue Limit: State Aid	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Limit: Property Tax	6,215	76,821	6,708	1,495,566	3,438,211	6,908,027	4,249,024	(175,818)	2,702,539	6,835,383	1,239,204	1,158,304	27,940,183
Federal Revenue	0	0	10,323	(7,991)	0	0	277,711	0	391,061	20,086	50,788	20,274	762,252
Other State Revenues	0	0	83,926	50,474	109,099	0	156,390	286,241	175,007	171,279	0	23,451	1,055,866
Other Local Revenues	468,622	86,432	474,991	188,614	472,575	284,939	5,957,299	336,784	85,089	302,634	4,324,102	2,543,501	15,525,582
Total Receipts	474,837	163,253	575,948	1,726,663	4,019,884	7,192,966	10,640,424	447,206	3,353,696	7,329,381	5,614,095	3,745,529	45,283,883
Disbursements													
Certificated Salaries	150,345	148,083	2,306,000	2,056,000	2,056,000	2,056,000	2,056,000	2,056,000	2,056,000	2,056,000	2,056,000	2,056,000	21,108,427
Classified Salaries	246,968	294,886	654,394	604,394	604,394	604,394	604,394	604,394	604,394	604,394	604,394	604,394	6,635,794
Employee Benefits	514,696	525,011	853,714	844,078	862,853	855,491	896,210	871,014	902,208	902,428	927,132	1,032,883	9,987,718
Other Disbursements	820,264	544,458	757,998	978,553	1,520,876	603,425	606,618	761,787	638,682	872,567	649,021	(89,113)	8,665,137
Total Disbursements	1,732,272	1,512,439	4,572,106	4,483,025	5,044,122	4,119,310	4,163,222	4,293,196	4,201,283	4,435,389	4,236,547	3,604,164	46,397,075
Prior Year Transactions													
Prior Year Receipts	500,000	250,000	250,000	0	0	0	0	0	0	0	0	0	1,000,000
Prior Year Disbursements	400,000	200,000	200,000	0	0	0	0	0	0	0	0	0	800,000
Total Prior Year Transactions	100,000	50,000	50,000	0	0	0	0	0	0	0	0	0	200,000
Note Related Cash Flows	5,000,000	0	0	(2,756,362)	(1,024,238)	3,073,655	3,977,202	(3,845,989)	(847,587)	393,993	(95,722)	99,722	0
Net Increase/Decrease	3,842,565	(1,299,186)	(3,946,158)	(2,756,362)	(1,024,238)	3,073,655	3,977,202	(3,845,989)	(847,587)	393,993	1,277,826	241,087	(913,193)
Ending Cash	11,314,059	10,014,872	6,068,714	3,312,353	2,288,114	5,361,770	9,338,972	5,492,983	4,645,396	5,039,389	6,317,214	6,558,301	6,558,301

Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2014, provides coverage of 2.27* times the principal of and interest due on the Notes at maturity. See "THE NOTES—Security for and Sources of Payment."

LOS ALTOS SCHOOL DISTRICT Estimated Note Coverage Ratio*

Projected Beginning Cash Balance 7/1/13	\$ 7,471,494
Plus: Projected 2013-14 Cash Receipts (including Note Proceeds)	51,283,883
Less: Projected 2013-14 Disbursement (excluding Note Repayment)	(47,197,075)
Ending Cash Balance	<u>\$11,558,302</u>
Note Repayment	\$5,099,722*
NOTE COVERAGE RATIO	2.27x

DISTRICT INFORMATION

General Information

The District, founded in 1909, is an elementary school district serving students from kindergarten to grade eight. The district boundaries include most of the City of Los Altos, half of the Town of Los Altos Hills, parts of the cities of Mountain View and Palo Alto, and some unincorporated lands in Santa Clara County. The District serves a general population estimated at 40,645 in an area of approximately 20 square miles.

The District operates seven elementary schools (K-6) and two intermediate schools (7-8), with a current enrollment of 4,500 students.

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. Jeffrey Beier has served in this capacity since July, 2010.

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

Board of Trustees

Name	Office	Term Expires (November)
Mark Goines	President	2014
Doug Smith	Vice President	2014
Tamara Logan	Clerk	2014
Pablo Luther	Member	2016
Steve Taglio	Member	2016

* Preliminary, subject to change.

Average Daily Attendance

The following table reflects the District's historical A.D.A. for the last four years and projections for 2011-12 and 2012-13.

Average Daily Attendance

Academic Year	Average Daily Attendance at P-2	Enrollment
2007-08	4,158	4,265
2008-09	4,156	4,245
2009-10	4,197	4,287
2010-11	4,301	4,384
2011-12	4,387	4,477
2012-13 ⁽¹⁾	4,387	4,497

Source: Los Altos School District

(1) Projected

District Employees

The District employs approximately 244 full-time equivalent certificated employees and 128 full-time equivalent classified employees and 27 management personnel. There are two formal bargaining organizations that are active in the District.

Labor Relations

Labor Organization	Number of Employees In Organization	Contract Expiration Date
Los Altos Teachers Association	276	June 30, 2013
California Schools Employees Association	251	June 30, 2013

Source: Los Altos School District.

Retirement System

Qualified District 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").

California Public Employees' Retirement System (CalPERS)

Plan Description - The District contributes to PERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. 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. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - Active plan members are required to contribute 7% of their salaries (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute at an actuarially determined rate. The actuarial methods and

assumptions used for determining the rate are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 10.923% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to PERS for the fiscal year ended June 30, 2012, 2011 and 2010 were \$654,280, \$740,460 and \$528,212 respectively, and equal to 100% of the required contributions for each year.

State Teachers' Retirement System (CalSTRS)

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

Funding Policy - Active plan members are required to contribute 8% of their salaries and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012 was 8% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ended June 30, 2012, 2011 and 2010 were \$1,625,419, \$1,643,718 and \$1,652,347 respectively, and equal to 100% of the required contributions for each year.

See NOTE 11 — EMPLOYEE RETIREMENT PLANS in APPENDIX A— COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Other Post-Employment Benefits

Plan Description - The Los Altos School District Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the District. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the District, its management employees, and unions representing District employees. The District provides retiree medical benefits through the California Public Employees' Retirement System healthcare program (PEMHCA).

Funding Policy - There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal years 2011-12 and 2010-11, the District paid \$1,437,836 and \$861,796 for retiree healthcare plan benefits.

Annual OPEB Cost and Net OPEB Obligation - The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

The following table, based on the District's actuarial valuation as of July 1, 2011, 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:

Annual required contribution	\$ 1,481,730
Adjustment to annual required contribution	(82,452)
Interest on net OPEB obligation	56,743
Annual OPEB cost (expense)	1,456,021
Contributions made	(1,437,836)
Increase in net OPEB obligation	18,185
Net OPEB obligation, beginning of year	1,335,141
Net OPEB obligation, end of year	1,353,326

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
2010	\$1,271,000	70.75%	\$654,844
2011	\$1,542,093	55.88%	\$1,335,141
2012	\$1,456,021	98.75%	\$1,353,326

See NOTE 12—OTHER POSTEMPLOYMENT BENEFITS in APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012.

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.

Risk Management

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, 2012, 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.

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
2008	1,837,075
2009	1,857,621
2010	1,781,427
2011	1,797,375

Source: California State Department of Finance (as of January 1, 2012).

Building Permits and Valuation. The following presents the number of building permits issued and the building permit valuations for the years 2009, 2010 and 2011 within the County.

SANTA CLARA COUNTY
Building Permits and Construction Valuation

	2009	2010	2011
<u>Building Permits:</u>			
Single Family	667	826	978
Multi-Family	450	3,627	2,234
Total	<u>1,117</u>	<u>4,453</u>	<u>3,212</u>
<u>Building Permit Valuation</u>			
Residential:			
Single Family	\$ 245,033	\$ 307,367	\$ 366,126
Multi Family	74,466	457,924	315,853
Alterations-Additions	259,190	320,583	392,229
Total Residential	<u>\$ 578,690</u>	<u>\$1,085,874</u>	<u>\$1,044,208</u>
Non-Residential:			
New Commercial	\$ 215,434	\$ 267,010	\$ 228,074
New Industrial	0	33,862	68,701
Other	213,976	119,683	47,728
Alterations-Additions	758,366	735,059	1,122,235
Total Non-Residential	<u>\$1,187,776</u>	<u>\$1,155,614</u>	<u>\$1,466,738</u>

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
<i>2007</i>				
Santa Clara County	845,100	805,600	39,500	4.7%
California	17,921,000	16,960,700	960,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
<i>2008</i>				
Santa Clara County	869,700	818,000	51,800	6.0%
California	18,203,100	16,890,000	1,313,100	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
<i>2009</i>				
Santa Clara County	874,300	776,900	97,400	11.1%
California	18,208,300	16,144,500	2,063,900	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
<i>2010</i>				
Santa Clara County	880,800	784,100	96,700	11.0%
California	18,316,400	16,051,500	2,264,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
<i>2011</i>				
Santa Clara County	896,200	809,300	86,900	9.7%
California	18,384,900	16,226,600	2,158,300	11.7
United States	153,616,667	139,869,250	13,747,417	8.9

Source: California State Employment Development Department, March 2012 Benchmark; U.S. Department of Labor, 2011 Benchmark.

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

**SANTA CLARA COUNTY
Principal Employers**

Company Name	Estimated Number of Employees	Percentage of Total County Employment
Cisco Technology Inc.	17,419	2.08%
County of Santa Clara	15,219	1.82%
Apple Computer, Inc.	12,000	1.43%
Stanford University	10,223	1.22%
Kaiser Permanente	8,435	1.01%
Lockheed Martin Space Systems Co	7,383	0.88%
Intel Corporation	7,001	0.84%
Google Inc.	7,000	0.84%
Stanford University Medical Center	5,813	0.69%
City of San Jose	5,400	0.65%
Hewlett-Packard Co.	2,001	0.24%
L S I Logic Corporation	1,320	0.16%

Source: Santa Clara 2012 CAFR.

Industry. The following table shows the estimated number of labor force by industry group for 2007 through 2011 in the County.

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

	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽²⁾	2010 ⁽²⁾	2011 ⁽⁴⁾
Industry Employment					
Total Wage and Salary	900,300	905,200	847,500	843,100	869,000
Total Farm	3,900	3,700	3,500	3,500	3,400
Total Nonfarm	896,500	901,500	844,000	839,500	865,600
Goods Producing					
Natural Resources and Mining	300	300	200	200	200
Construction	45,500	42,800	33,400	31,500	30,600
Manufacturing	163,800	165,200	153,300	150,100	155,500
Subtotal Goods Producing	209,600	208,200	186,900	181,800	186,300
Service Providing					
Trade, Transportation and Utilities	137,300	135,300	124,200	122,500	125,000
Information	39,500	42,200	41,500	43,800	48,900
Financial Activities	36,800	34,200	31,200	30,500	31,400
Professional and Business Services	176,600	178,000	160,700	161,600	168,800
Education and Health Services	102,500	107,200	108,400	110,600	116,600
Leisure and Hospitality	75,300	76,600	73,500	73,200	75,200
Other	24,600	25,000	24,100	25,100	23,900
Government	94,300	94,900	93,400	90,600	89,500
Subtotal Service Providing	686,900	693,300	657,100	657,800	679,200

Source: State of California Information Division, Employment Development Department, Labor Market.

⁽¹⁾ Based on a 2009 benchmark.

⁽²⁾ Based on a 2010 benchmark.

⁽³⁾ Based on a 2011 benchmark.

⁽⁴⁾ Based on a 2011 benchmark.

Commercial Activity. Taxable transactions in the County from 2006 through 2011 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)

	2006	2007	2008	2009
Retail Stores				
Apparel	\$ 1,264,215	\$ 1,334,050	\$ 1,422,687	\$2,284,032
General Merchandise	2,979,387	3,112,536	2,946,466	427,418
Specialty Stores	3,674,311	*	*	1,195,466
Food	849,281	890,341	868,612	1,164,960
Eating and Drinking	2,645,787	2,813,519	2,876,837	975,086
Home Furnishings and Appliances	879,872	901,164	1,068,519	494,462
Building Materials	1,659,844	1,581,859	1,356,505	1,800,162
Automotive	5,534,342	3,468,163	2,709,927	1,690,211
Service Stations	**	2,320,507	2,526,073	625,799
Other	552,873	4,368,119	3,537,686	2,272,162
Total Retail Stores	20,039,932	20,790,258	19,313,313	621,409
Business and Personal Services	1,265,315	1,244,445	1,111,792	2,705,143
All Other Outlets	10,967,991	11,628,745	11,849,202	16,385,238
Total All Outlets	<u>\$32,273,238</u>	<u>\$33,663,448</u>	<u>\$32,274,306</u>	<u>11,042,471</u>

	2010	2011 ⁽¹⁾
Retail and Food Services		
Motor Vehicles and Parts Dealers	\$2,538,029	\$2,894,898
Furniture and Home Furnishings Stores	474,002	523,999
Electronics and Appliance Stores	1,355,839	1,459,039
Bldg Mtrl. and Garden Equip. and Supplies	1,245,941	1,316,953
Food and Beverage Stores	984,824	1,022,790
Health and Personal Care Stores	523,221	564,261
Gasoline Stations	2,104,764	2,559,500
Clothing and Clothing Accessories Stores	1,824,590	1,997,291
Sporting Goods, Hobby, Book and Music Stores	644,612	676,571
General Merchandise Stores	2,368,820	2,448,046
Miscellaneous Store Retailers	635,019	675,873
Food Services and Drinking Places	2,848,824	3,097,359
Total Retail and Food Services	17,695,858	19,419,542
All Other Outlets	12,827,464	14,011,675
Totals All Outlets	<u>\$30,523,322</u>	<u>\$33,431,217</u>

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.

General Fund Budget

The District's general fund actual results for the fiscal years ended June 30, 2010, 2011 and 2012, and the proposed general fund budget for the fiscal year ending June 30, 2013 are set forth below:

GENERAL FUND BUDGET Comparison of Actuals for Fiscal Years Ended June 30, 2010, 2011 and 2012 and Budget for Fiscal Year Ending June 30, 2013				
	Actuals 2009-10 ^(a)	Actuals 2010-11 ^(a)	Actuals 2011-12 ^(a)	Projected 2012-13 ^(b)
Revenues				
Revenue Limit Sources	\$ 26,275,514	\$ 25,458,478	\$ 26,170,118	\$ 27,994,960
State Aid				
Property Taxes				
Federal Revenue	1,932,612	1,783,741	1,005,829	1,050,424
Other State Revenue	2,567,382	2,115,088	1,638,884	1,588,865
Other Local Revenue	12,600,171	13,745,066	16,476,330	16,412,838
Total Revenues	43,375,679	43,102,373	45,291,161	47,047,088
Expenditures				
Certificated Salaries	20,146,577	19,854,449	19,793,946	20,540,055
Classified Salaries	6,191,239	6,622,268	6,351,681	6,664,176
Employee Benefits	8,411,161	9,269,958	9,379,352	9,497,329
Books and Supplies	1,818,732	1,626,460	1,745,635	1,875,032
Services, Other Operating Expenses	4,729,698	4,820,861	4,839,063	6,137,506
Capital Outlay	140,795	213,346	155,749	367,529
Other Outgo	332,803	336,143	332,802	332,803
Total Expenditures	41,771,005	42,743,485	42,598,228	45,414,430
Other Financing Sources/(Uses)				
Interfund Transfers In / Other Sources	185,484	1,215,930	—	—
Interfund Transfers Out / Other Uses	(275,848)	(1,364,462)	(296,030)	(1,624,033)
Total Other Financing Sources/(Uses)	(90,364)	(148,532)	(296,030)	(1,624,033)
Excess of Revenues Over (Under)	1,514,310	210,356	2,396,903	8,625
Expenditures				
Beginning Fund Balance	5,239,988	6,754,298	7,390,104	8,129,101
Prior Year Adjustments ^(d)	0	425,450	—	—
Ending Fund Balance	\$ 6,754,298	\$ 7,390,104	\$ 9,787,007	\$ 8,137,726

(a) Audited Financial Statements.

(b) 201-13 Second Interim.

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, 2010, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District at 201 Covington Road, Los Altos, CA 94024, Telephone: (650) 947-1150. 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, 2012, 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 2012-13 Second Interim Financial Report with the SCCOE using financial information available as of January 31, 2013, 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.

GENERAL FUND
Revenues, Expenditures and Fund Balance
Fiscal Years 2008-09 through 2010-11

	Audited 2009-10	Audited 2010-11	Audited 2011-12
<u>Revenues</u>			
Revenue Limit Sources	\$ 26,275,514	\$25,458,478	\$26,170,118
Federal Revenue	1,932,612	1,783,741	1,005,829
Other State Revenue	2,567,382	2,115,088	1,638,884
Other Local Revenue	12,600,171	13,745,066	16,476,330
Total Revenues	<u>43,375,679</u>	<u>43,102,373</u>	<u>45,291,161</u>
<u>Expenditures</u>			
Current:			
Instruction	28,001,455	28,816,637	28,756,222
Instruction-related services			
Supervision of instruction	1,262,974	1,157,483	1,100,846
Instructional library, media, and technology	311,464	326,008	535,255
School site administration	2,443,918	2,379,907	2,506,981
Pupil services			
Home-to-school transportation	273,193	256,647	266,025
Food services	98,674	110,721	5,880
All other pupil services	1,874,735	2,001,166	1,998,134
General administration			
Data processing	361,469	489,844	405,451
All other general administration	2,595,892	2,380,088	2,636,221
Plant services	4,011,256	4,311,634	4,002,694
Other educational programs		3,340	
Facility acquisition and construction	24,333	17,385	
Debt service			
Principal	137,690	144,336	151,302
Interest and Fees	373,952	348,289	233,217
Total Expenditures	<u>41,771,005</u>	<u>42,743,485</u>	<u>42,598,228</u>
<u>Other Financing Sources (Uses):</u>			
Transfers In	185,484	1,215,930	
Transfers Out	(275,848)	(1,364,462)	(296,030)
Total Other Financing Sources (Uses)	<u>(90,364)</u>	<u>(148,532)</u>	<u>(296,030)</u>
Net change in Fund Balance	1,514,310	210,356	2,396,903
Fund Balances, July 1	5,239,988	6,754,298	7,390,104
Prior Period Adjustment		425,450	
Fund Balances Beginning as Adjusted		7,179,748	
Fund Balances, June 30	<u>\$ 6,754,298</u>	<u>\$ 7,390,104</u>	<u>9,787,007</u>

Source: Los Altos 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 3, 2012, the District issued \$5,500,000 in tax and revenue anticipation notes which are due on June 28, 2013.

Long-Term Obligations.

General Obligation Bonds - The District has bonds outstanding under one voter approved bond authorization. On November 3, 1998, voters of the District approved Measure H, authorizing the District to issue up to \$94.7 million of general obligation bonds. The District issued these bonds in three series (one of which was comprised of both current interest bond and capital appreciation bond components) which are described in the table below. The District has issued substantially all bonds authorized under Measure H, and only a small amount of bonds remain authorized and unissued. In addition, the District has issued refunding bonds on one occasion (comprised of both current interest bond and capital appreciation bond components) which is also described in the table below.

General Obligation Bonded Debt

Issue Date	Series	Amount of Original Issue	Original Final Maturity	Amount Counting Toward Authorization	Amount Outstanding June 30, 2012 ^(b)
2/10/99	Election of 1998, Series A ^(a)	\$40,000,000.00	8/1/2023	\$40,000,000.00	\$ —
6/5/01	Election of 1998, Series B (CIBs) ^(a)	30,000,000.00	8/1/2019	30,000,000.00	—
6/5/01	Election of 1998, Series B (CABs) ^(a)	16,166,049.00	8/1/2025	16,166,049.00	—
10/7/03	Election of 1998, Series C (a)	8,000,000.00	8/1/2026	8,000,000.00	—
6/22/06	2006 GO Refunding Bonds (CIBs)	92,215,000.00	8/1/2023	0.00	76,955,000
6/22/06	2006 GO Refunding Bonds (CABs)	8,854,000.00	8/1/2015	0.00	6,648,480
		<u>\$195,768,049.00</u>		<u>\$94,699,049.00</u>	<u>\$83,603,480</u>

(a) The 2006 GO Refunding Bonds refunded all of the District's outstanding 1999 GO Bonds (Election of 1998, Series A) on a current basis, all of the District's outstanding 2001 GO Bonds (Election of 1998, Series B) on an advance basis, and all of the District's outstanding 2003 GO Bonds (Election of 1998, Series C) on an advance basis.

(b) Amount outstanding for capital appreciation represents original denominational amount.

On February 12, 2013, the District issued its \$25,455,000 2013 General Obligation Refunding Bonds to refund, on an advance basis, a portion of the District's Los Altos School District (Santa Clara County, California), 2006 General Obligation Refunding Bonds.

Site Lease Deposits - In June 2008, the District entered into a lease-leaseback agreement in which the Bullis-Purissima School site, located on 25890 Fremont Road, Los Altos Hills, California, (owned by the District) was leased to a third party for a \$2,165,000 advance and subsequently leased back to the District pursuant to a 20 year operating lease. The District retained ownership of the underlying land and, therefore accounted for the transaction under the deposit method of accounting as a lease purchase.

In October 2008, the District entered into a lease-leaseback agreement in which a site in Los Altos Hills, California, (owned by the District) was leased to a third party for a \$2,025,000 advance and subsequently leased back to the District pursuant to a 20 year operating lease. The District retained ownership of the underlying land and therefore accounted for the transaction under the deposit method of accounting as a lease purchase.

The principal and interest payments on the lease are payable twice a year and began in January of 2008 and end in November of 2029. The following is a schedule of the future minimum lease payments required under the lease:

Operating Leases

Year Ending June 30,	Principal	Interest	Total
2012	\$ 151,303	\$ 181,500	\$ 332,803
2013	158,606	174,197	332,803
2014	166,261	166,541	332,802
2015-2019	959,711	704,301	1,664,012
2020-2024	1,214,791	449,221	1,664,012
2025-2029	1,190,853	132,587	1,323,440
Total Lease Payable	\$3,841,525	\$1,808,347	\$5,649,872

Operating Leases: The District has entered into various operating leases for portables, building space and office equipment with lease terms in excess of one year. None of these agreements contain purchase options. All of the agreements contain termination clauses providing for lease cancellation after written notice is provided to the lessors. However, it is unlikely that the District will cancel any of the agreements before the expiration dates. It is expected that in the normal course of business most of these leases will be replaced by similar leases. None of the leases have been sublet. The rent expense for the fiscal year ended June 30, 2010 was \$847,742 and the annual minimum lease payment is expected to be approximately \$681,000 for each of the next five years.

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 each 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

In June of 1993, the Board of Supervisors of the County approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis (irrespective of actual collections) to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan was effective for the fiscal year commencing July 1, 1993, and pursuant to the Teeter Plan the County purchased all delinquent receivables (comprised of delinquent taxes, penalties, and interest) which had accrued as of June 30, 1993, from local taxing entities and selected special assessment districts and community facilities districts. Under the Teeter Plan, the County distributes tax collections on a cash basis to taxing entities during the fiscal year and at year-end distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities and those special assessment districts and community facilities districts which the County determines are eligible to participate in the Teeter Plan.

The County reserves the right to exclude from the Teeter Plan any special tax levying agency or assessment levying agency if such agency has provided for accelerated foreclosure proceedings in the event of non-payment of such special taxes or assessments except that, if such agency has a delinquency rate in the collection of such special tax or assessment as of June 30 of any fiscal year that is equal to or less than the County's delinquency rate on the collection of current year *ad valorem* taxes on the countywide secured assessment roll, such agency's special taxes or assessments may, at the County's option, be included in the Teeter Plan.

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. The Board of Supervisors of the County may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secure tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. If the Teeter Plan is discontinued subsequent to its implementation, secured property taxes would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency as collected (see “Ad Valorem Property Taxation” above).

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 each 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 XIII A of the California Constitution

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property, to 1% 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 XIII A 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 2% per year to account for inflation.

Article XIII A 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 Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 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 “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official

Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

Under Article XIII B of the California State Constitution state and local government entities have an annual “appropriations limit” and are not permitted to spend certain moneys which 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 XIII B does not affect the appropriations of moneys which 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 to be 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 XIII B, 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.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

California Lottery

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery (the “State Lottery”), the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. At this time, the amount of revenues that may be generated by the State Lottery in any given year cannot be predicted.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds

of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

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 XIII A, 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% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% 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 XIII A has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIII A of the Constitution levies, to pay bonds approved by 55% 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 Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high 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. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. 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.

Article XIII C and XIII D of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the “Right to Vote on Taxes Act” (“Proposition 218”) was approved by a majority of California voters. Proposition 218 added Articles XIII C and XIII D to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as “general taxes” (defined as those used for general governmental purposes) or “special taxes” (defined as taxes for a specific purpose even if the revenues flow through the local government’s general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the

number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District's voters, depending upon the Article of the Constitution under which it is passed.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond or a community facilities district bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 26 and 98 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting the District's revenues or their ability to expend revenues.

GENERAL SCHOOL DISTRICT INFORMATION

State Funding of Education

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, most school districts in the State receive a significant portion of their funding from State appropriations.

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code.

Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State aid, and receives only its special categorical aid which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as “basic aid districts.” Districts that receive some State aid are commonly referred to as “revenue limit districts.”

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, whichever is greater. 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 within categorical entitlements that would have been received in any event. The District is a Basic Aid District.

State Cash Management Legislation

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals have been codified and are expected to be on-going. Legislation enacted with respect to fiscal year 2011-12 provides for additional inter-fiscal year deferrals.

On March 24, 2011, the Governor signed into law Senate Bill 82 ("SB 82"), which extended into fiscal year 2011-12 provisions of existing law designed to effectively manage the State's cash resources. SB 82 authorizes the deferral of State apportionments during fiscal year 2011-12, as follows: (i) \$700 million from July 2011 to September 2011, (ii) \$700 million from July 2011 to January 2012, (iii) \$1.4 billion from August 2011 to January 2012, (iv) \$2.4 billion from October 2011 to January 2012, and (v) \$1.4 billion from March 2012 to April 2012. Collectively, these deferrals are referred to as the "Cash Management Deferrals." SB 82 required the State Department of Education was required to certify to school districts no later than April 15, 2011 which of the 2011-12 Cash Management Deferrals will be implemented, and in what amounts. On April 15, 2011, the Department of Education released a projected schedule of State apportionments showing that all of the 2011-12 Cash Management Deferrals would be implemented. SB 82 provides for an exemption to the Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed. In the event any of the Cash Management Deferrals are implemented, SB 82 requires that the State Controller, State Treasurer and State Treasurer-Tax Collector review, as necessary but no less than monthly, the actual State general fund cash receipts and disbursements in comparison to the Governor's most recent revenue and expenditure projections. If the Controller, Treasurer and Treasurer-Tax Collector determine that sufficient cash is available to pay the State apportionments being deferred while maintaining a prudent cash reserve, such State apportionments are required to be paid as soon as feasible.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 26, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting district revenues or a district's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

State Budget Measures

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guaranty the accuracy or completeness of this information and has not independently verified such information.

School district principal funding formulas and revenue sources are derived from the budget of the State of California. The following information concerning the State's budgets has been obtained from publicly available information which the Districts believe to be reliable; however, the Districts do not guaranty the accuracy or completeness of this information and has not independently verified such information.

2012-13 Budget. On June 27, 2012, the Governor signed into law the State budget for fiscal year 2012-13. Prior to the conclusion of the State's regular legislative session, the Legislature adopted a series of trailer bills which made various amendments to the budget bill approved by the Governor. Collectively, the budget bill and related trailer bills are referred to

as the “2012-13 Budget.” The Legislative Analyst’s Office (the “LAO”) has released a report entitled “California Spending Plan,” which summarizes provisions of the 2012-13 Budget (the “LAO Budget Summary”). The following information is drawn from the LAO Budget Summary.

The 2012-13 Budget seeks to close a budget gap of \$15.7 billion through a combination of measures totaling \$16.4 billion. Specifically, the 2012-13 Budget authorizes \$4.7 billion of expenditure reductions, \$8.8 billion of net revenue increases, and \$5.8 billion of other measures. The 2012-13 Budget assumed voter approval of a modified tax initiative proposed by the Governor in his May revision to the proposed State budget. The tax initiative, labeled as “Proposition 30,” was approved by the voters at the November 6, 2012 general election. The 2012-13 Budget estimates that Proposition 30 will generate approximately \$8.5 billion in additional revenues for fiscal years 2011-12 and 2012-13. Pursuant to the provisions of Proposition 30, these additional revenues will be placed into an Education Protection Account and included in the calculation of the Proposition 98 minimum funding guarantee. As a result, the minimum funding guarantee is projected to increase by \$2.9 billion, resulting in a net benefit to the State general fund of \$5.6 billion. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 30.”

With the implementation of all measures, the 2012-13 Budget assumes, for fiscal year 2011-12, total revenues of \$86.8 billion and expenditures of \$87.0 billion. The State is projected to end fiscal year 2011-12 with a total budget deficit of \$3.6 billion. For the current fiscal year, the 2012-13 Budget projects total revenues of \$95.9 billion and authorizes total expenditures of \$91.3 billion. This represents an increase of \$9 billion, or approximately 10%, from the prior year. The State is projected to end the 2012-13 fiscal year with a total budget surplus of \$948 million.

The 2012-13 Budget authorized an additional \$6 billion of trigger reductions which were to become effective in the event Proposition 30 did not pass. The trigger reductions would have included approximately \$5.4 billion of reductions to schools and community college funding.

For fiscal year 2011-12, the Proposition 98 minimum funding guarantee is revised at \$46.9 billion, including \$33.1 billion from the State general fund. This amount is approximately \$1.7 billion less than the level set by the State budget for fiscal year 2011-12. This reduction primarily reflects lower than estimated State general fund revenues and updated estimates of local property tax collections, offset by Proposition 30 revenues attributable to fiscal year 2011-12. To bring ongoing Proposition 98 funding in line with the reduced funding guarantee, the 2012-13 Budget redirects \$893 million of fiscal year 2011-12 appropriations towards other uses. Specifically, (i) \$672 million is counted towards meeting legal settlement obligations under the Quality Education Investment Act of 2006, and (ii) \$221 million replaces ongoing Proposition 98 funds with one-time funds unspent from prior years. The LAO notes that this accounting adjustment does not affect the amount of funding schools and community colleges receive.

For fiscal year 2012-13, the Proposition 98 minimum funding guarantee is set at \$53.5 billion, including \$36.8 billion from the State general fund. This funding level reflects an increase of \$6.6 billion, or approximately 14%, from the prior year. The funding increase is supported by a \$3.7 billion growth in baseline revenues and \$2.9 billion of Proposition 30 revenues. With respect to community colleges, Proposition 98 funding is set at 5.8 billion. This reflects an increase of \$568 million, or 11%, above the revised 2011-12 level. Programmatic funding increases by \$88 million, and includes \$50 million to fund 0.9% enrollment growth, \$24 million of additional funding for educational mandates (discussed below), and \$14 million for a workload adjustment associated with financial aid administration.

Other significant features relating to community college funding include the following:

- *Deferral Reduction.* The 2012-13 Budget provides \$129 million to restore base funding following a prior-year deferral, and \$160 million to retire other existing community college apportionment deferrals.
- *Educational Mandates.* The 2012-13 Budget provides a total of \$33 million to fund a discretionary block grant for community college educational mandates. Participating community colleges would receive a \$28 per-unit of FTE allocation. Local educational agencies that choose not to participate in this block grant program could continue to seek reimbursement for mandated activities through the existing claims process, subject to audits by the State Controller. The 2012-13 continues to suspend certain educational mandates that were suspended by the 2011-12 State budget legislation, and does not eliminate any further mandates.
- *Student Fees.* The 2012-13 Budget maintains in-State student fees at \$46 per unit, and increases fees for non-resident students from neighboring states that have a reciprocity agreement with California (currently, Arizona and Oregon) to \$92 per unit. Beginning in fiscal year 2013-14, these fees will be increased to three times the prevailing in-state fee. Nonresident students from other states will continue to pay higher fees that reflect the full cost of instruction.

The 2012-13 Budget assumes that schools and community colleges will receive \$3.2 billion in revenues in fiscal year 2012-13 resulting from the dissolution of redevelopment agencies, including \$451 million for community colleges. This figure is composed of (i) \$1.7 billion residual property tax revenues and (ii) \$1.5 billion in cash and other liquid assets of former redevelopment agencies. These increased revenues would offset Proposition 98 spending by an identical amount. The budget package also establishes a series of sanctions and incentives to encourage successor agency participation with redevelopment dissolution laws. The 2012-13 Budget specifies that, for fiscal years 2011-12 and 2012-13, the State general fund will backfill community college funding if amounts anticipated from the dissolution of redevelopment agencies do not materialize.

Additional information regarding the 2012-13 Budget may be obtained from the LAO at www.lao.ca.gov. However, such information is not incorporated herein by any reference.

Fiscal Outlook Report. In November 2012, the LAO released a summary of its revised projections for State general fund tax revenues and related spending (the “Fiscal Outlook Report”). The following information is drawn from the Fiscal Outlook Report.

The Fiscal Outlook Report provides the LAO’s projections of the State’s general fund revenues and expenditures for fiscal years 2012-13 through 2017-18 under current law, absent any actions to close the projected State budgetary deficit, as further discussed below. The LAO’s projections primarily reflect current-law spending requirements and tax provisions, while relying on the LAO’s independent assessment of the outlook for the State’s economy, demographics, revenues, and expenditures. The LAO notes that its revenue estimates take into account a number of voter initiatives approved at the November 2012 general election, including Proposition 30.

Absent corrective action, the LAO projects that the State will end the 2012-13 fiscal year with a \$943 million deficit. This would eliminate the \$948 million surplus projected by the 2012-13 Budget, and reflects an overall \$1.9 billion budgetary gap. This gap is a product of (i) \$625 million of lower revenue estimates for fiscal years 2011-12 and 2012-13, (ii) \$2.7 billion in higher

expenditures and (iii) an offsetting positive adjustment of \$1.4 billion to the fiscal year 2010-11 ending fund balance.

The LAO notes that its revised revenue estimates are driven primarily by lower than anticipated personal income tax and corporate tax collections (totaling \$153 million and \$558 million, respectively) for both fiscal years 2011-12 and 2012-13. Notwithstanding the overall reduction in projected revenues, the LAO notes that the passage of Proposition 39 at the November 2012 general election—which changes the way multistate corporations calculate taxable income—contributes to an increase in the Proposition 98 minimum funding guarantee. The LAO's revised minimum funding guarantee is estimated to be \$53.8 billion.

The LAO's projected increase results in part from lower expected savings to the State general fund from the distribution of redevelopment agency assets. The LAO projects a \$1.4 billion savings to from such assets, a figure approximately \$1.8 billion lower than the savings projected by the 2012-13 Budget. The LAO attributes this to several factors: (i) lower than expected distributions of liquid assets and residual property taxes to school and community colleges, (ii) recent information suggesting that redevelopment agencies had higher than anticipated debt, and (iii) distributions of property taxes to basic aid districts that do not offset State education costs. The LAO notes, however, that estimates relating to redevelopment agencies are subject to considerable uncertainty, and are likely to change prior to the deadline for adopting the State budget for the upcoming year.

Additional information regarding the Fiscal Outlook Report may be obtained from the LAO at www.lao.ca.gov. However, such information is not incorporated herein by any reference.

Proposed 2013-14 Budget. On January 10, 2013, the Governor released his proposed State budget for fiscal year 2013-14 (the "Proposed Budget"). The following information is drawn from the LAO's summary of the Proposed Budget.

The Proposed Budget reflects a projected improvement to State finances due to a continuing modest economic recovery, prior budgetary actions, and voter approval of certain revenue-raising measures at the November 6, 2012 general election. For fiscal year 2012-13, the Proposed Budget currently projects year-end revenues of \$95.4 billion and expenditures of \$93 billion. The State is currently expected to end the current fiscal year with a surplus of \$167 million. For fiscal year 2013-14, the Proposed Budget projects revenues of \$98.5 billion and expenditures of \$97.7 billion. The State is projected to end fiscal year 2013-14 with a \$1 billion surplus. The Governor's multi-year forecast projects that revenues will continue to exceed expenditures annually, accumulating to a projected \$2.5 billion general fund surplus by fiscal year 2016-17.

For fiscal year 2012-13, the Proposed Budget revises the Proposition 98 minimum funding guarantee at \$53.5 billion, approximately \$54 million less than the level set by the current State budget. To bring Proposition 98 spending in line with the reduced guarantee, the Proposed Budget reclassifies a fiscal year 2012-13 appropriation towards prefunding legal settlement obligations under the Quality Education Investment Act of 2006 (the "QEIA"). For fiscal year 2013-14, the minimum funding guarantee is set at \$56.2 billion, including \$40.9 billion from the State general fund. This represents a net increase of \$2.7 billion (or 9%) over the revised funding level for fiscal year 2012-13. The increase in spending is driven largely by year-to-year increases in baseline State revenues and the minimum funding guarantee's share of Proposition 30 revenues.

Funding for community colleges in fiscal year 2013-14 is set at \$6.4 billion, including \$4.2 billion from the State general fund. This represents an increase of approximately \$597 million (or 10%) from the prior year. Significant features include the following:

- *Deferral Reduction.* The 2012-13 Budget provides \$1.9 billion to reduce total school district and community college apportionment deferrals. The Proposed Budget includes a multi-year plan to eliminate all remaining apportionment deferrals by fiscal year 2016-17.
- *Base Funding.* The Proposed Budget provides a base apportionment increase of \$197 million to Proposition 98 funding for community colleges. The Proposed Budget would authorize the State Chancellor's Office to determine how the funds should be distributed, and for what purposes.
- *Energy Efficiency Projects.* The 2012-13 Budget allocates supplemental corporate tax revenues raised by Proposition 39 (approved at the November 2012 general election) to schools and community colleges. Proposition 39 requires most interstate businesses to determine their taxable income using a single sales factor method, and provides that all revenues raised from the measure be transferred to a Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects. The Proposed Budget would allocate all Proposition 39-related funding over the next five years exclusively to schools and community colleges, in an amount equal to \$450 million in fiscal year 2012-13 and \$550 million annually thereafter. For fiscal year 2013-14, this would include \$49.5 million for community colleges. Under the proposal, the California Department of Education and California Community College Chancellor's Office, in consultation with the California Energy Commission and California Public Utilities Commission, would develop guidelines for schools and community colleges in prioritizing the use of the funds.
- *Adult Education.* The Proposed Budget includes several changes to adult education funding, including narrowing State support to core instructional programs such as adult elementary and secondary education, vocational training, English as a second language, and citizenship. The Proposed Budget would also eliminate school district adult education categorical programs and consolidate the associated funding (approximately \$600 million) into the proposed new K-12 funding formula. Adult education, under the Governor's plan, would be funded entirely through the community college system. The Proposed Budget would provide \$300 million to create a new adult education categorical program within the statewide community college budget. Funds would be distributed to colleges based on the number of students served in the prior fiscal year. While community colleges would be responsible for administering adult education, they would be authorized to contract with school districts to provide instruction through the latter's adult schools.
- *Incentive Initiative.* The Proposed Budget would change the basis upon which community colleges are funded for credit (i.e. collegiate coursework) instruction. Currently, the amount of funding for credit instruction depends largely on the number of students enrolled at a census point that is set one-fifth of the way into the academic term. Over a five year period beginning in fiscal year 2013-14, the Proposed Budget would shift this census point to the end of the term. Reductions in a community college's enrollment funding resulting from this change would be transferred to the college's categorical programs that provide student support services. According to the Proposed Budget, the purpose of this change is to provide incentives to ensure proper student placement and course management.

- *Subsidized Student Units.* The Proposed Budget would cap the number of units subsidized by the State at 90 semester-units, beginning in fiscal year 2013-14. This cap is in excess of the amount of units needed to transfer to a four-year college. Students taking units in excess of the cap would be required to pay the full cost of instruction. According to the Proposed Budget, the purpose of this change would be to incentivize students to shorten their timeframe for earning a degree, reduce costs and increase access.
- *Technology Projects.* The Proposed Budget provides \$16.9 million of funding to expand the number of on-line community college courses and fund other technology related projects.
- *Retiring K-14 Obligations.* The Proposed Budget would use half of the projected year-to-year growth in Proposition 98 spending in fiscal years 2013-14 through 2015- 16 to reduce outstanding obligations to schools and community colleges, including the reduction of all apportionment deferrals, funding settle-up payments to reduce outstanding mandate claims, and retiring the State's obligations associated with the Emergency Repair Program and the QEIA.
- *Redevelopment Agency Funds.* The Proposed Budget assumes lower State general fund savings from the distribution of offsetting residual property tax revenues and redevelopment agency liquid assets. For the current year, the Proposed Budget projects that redevelopment-related distributions will be \$1.1 billion less than what was assumed by the State budget for fiscal year 2012-13. For fiscal year 2013-14, the Proposed Budget projects that such distributions will be \$494 million less than previously assumed. The LAO notes that, while the Governor's projections are reasonable, the process for dissolving redevelopment agencies has yet to be fully implemented, subjecting associated State general fund savings projections to considerable uncertainty.

Additional information regarding the Proposed Budget is available from the LAO's website: www.lao.ca.gov. However, such information is not incorporated herein by any reference

May Revision to Proposed 2013-14 State Budget. On May 14, 2013, the Governor released the "Governor's Budget May Revision 2013-14" (the "May Revise"), which outlines proposed revisions to the 2013-14 Proposed State Budget. The May Revise projects an increase of \$2.8 billion in revenues for fiscal year 2012-13 due to increased receipts during the first four months of 2013. Despite such increase in revenue projections for fiscal year 2012-13, the May Revise projects \$1.3 billion less in revenues for fiscal year 2013-14 (\$97.2 billion) than originally estimated under the 2013-14 Proposed State Budget (\$98.5 billion). In order to maintain a balanced budget and a \$1.1 billion reserve, the May Revise proposes \$1.3 billion in expenditure cuts for fiscal year 2013-14, now estimated to be \$96.4 billion. The downward revision in the short-term economic outlook is due mainly to the expiration of the federal two percent payroll tax reduction at the end of 2012 and federal sequestration cuts. The original 2013-14 Proposed State Budget assumed that federal tax increases and cuts would be avoided.

As with the 2013-14 Proposed State Budget, the May Revise projects a balanced budget and estimates that budgetary debt will be paid down and reduced to less than \$5 billion by the end of fiscal year 2016-17. Additionally, the May Revise reiterates several risks that could reduce the State to fiscal deficits (including the uncertainty of economic recovery, rising health care costs, federal action, limited international economic growth and court interference), and recognizes that the State must plan now to ensure the budget will remain balanced after the expiration of the Temporary Tax Measure.

With increased revenue projections for fiscal year 2012-13 and decreased revenue projections for fiscal year 2013-14, the May Revise estimates Proposition 98 funding to increase by \$2.9 billion in fiscal year 2012-13 (\$56.5 billion) and to decrease by \$0.9 billion in fiscal year 2013-14 (\$55.3 billion) when compared to the 2013-14 Proposed State Budget projections. The May Revise dedicates an additional \$1.6 billion to pay down deferrals for K-12 education in fiscal year 2012-13, but reduces the pay down of deferrals for K-12 education in fiscal year 2013-14 by \$0.9 billion.

Certain other changes from the 2013-14 Proposed State Budget with respect to K-12 education include (i) the provision of an additional \$1 billion in fiscal year 2012-13 to assist schools in implementing the Common Core standards, (ii) the provision of an additional \$240 million for first-year funding of the Local Control Funding Formula in fiscal year 2013-14 (for a total of \$1.9 billion), and (iii) certain adjustments to the Local Control Funding Formula, including the use of a three-year rolling average to calculate the supplemental and concentration grants and the implementation of various accountability measures. The May Revise proposes other adjustments for K-12 education, including the following:

- *Proposition 39 Implementation.* An increase of \$12.5 million for K-12 energy efficiency projects based on higher revenues from the Clean Energy Jobs Act, and addresses concerns relating to the capacity of local education agencies to initiate and complete energy efficiency projects consistent with the Clean Energy Jobs Act and the lack of a minimum grant award level.
- *Special Education Backfill.* An increase of \$60.7 million in Proposition 98 general funds for special education programs to backfill a federal sequestration cut of the same amount.
- *Local Property Tax Adjustments.* A decrease of \$509.8 million in Proposition 98 general funds in fiscal year 2013-14 for schools district, special education and county offices of education as a result of higher offsetting property tax revenues
- *Average Daily Attendance.* An increase of \$35.5 million in fiscal year 2012-13 and an increase of \$87.6 million in fiscal year 2013-14 for school districts, charter schools and county offices of education as a result of an increase in projected A.D.A. in both years.
- *Categorical Program Growth.* An increase of \$14.3 million in Proposition 98 general funds for selected categorical programs based on updated estimates of projected A.D.A. growth.
- *Cost-of-Living Adjustments.* A decrease of \$2.9 million in Proposition 98 general funds to selected categorical programs based on a revised cost-of-living factor of 1.565% for fiscal year 2013-14.

The complete May Revise is available from the California Department of Finance website at www.dof.ca.gov. The District takes no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2013-14 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposals. Accordingly, the District cannot predict the impact that the final fiscal year 2013-14 State Budget, or subsequent budgets, will have on its finances and

operations. The final fiscal year 2013- 14 State budget will be affected by national and State economic conditions and other factors which the District cannot predict.

Recent Litigation Regarding State Funding of Education. On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the County of San Francisco (the “CSBA Petition”). The petitioners allege that the fiscal year 2011- 12 State budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately \$2.1 billion. The CSBA Petition seeks an order from the Court compelling the State Director of Finance, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution. On May 31, 2012, the court denied the CSBA Petition, finding that Proposition 98 does not prohibit the State from assigning sales tax revenues to a special fund that previously were deposited into the State general fund. The court also found that, upon doing so, the State was not required to rebench the minimum funding guarantee. On July 27, 2012, the petitioners filed a notice of appeal of the court’s decision.

The Districts make no representations regarding the viability of the claims in the CSBA Petition, nor can the Districts predict whether any of the respective petitioners will be successful. Moreover, the Districts make no representations as to how any final decision by the court would affect the State’s ability to fund education in fiscal year 2012-13, or in future fiscal years.

Future Actions. The Districts cannot predict the impact such actions, or future actions, will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the Districts will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State’s ability to fund education. Continued State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District.

Litigation Challenging State Funding of Education

On May 20, 2010, more than 60 individual students and their respective families, nine California school districts, the California Congress of Parents Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.*, (the “Robles Complaint”) in the Alameda County Superior Court. The Robles Complaint alleges, among other things, that the State’s current system of funding public education is not designed to support core education programs and that the State has failed to meet its constitutional duties to maintain and support a system of common schools. The Robles Complaint further alleges that the State’s system for funding education is not rationally or demonstrably aligned with the goals and objectives of the State’s prescribed educational program, and the costs of ensuring that children of all needs have the opportunity to become proficient in accordance with State academic standards. The Robles Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program, as well as to direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution.

On January 14, 2011, the Superior Court dismissed major portions of the Robles Complaint, allowing the plaintiffs to proceed only on the question of whether the State’s public

education funding scheme provides equal opportunities to students throughout the State but rejecting that part that claimed that the State constitution mandates an overall qualitative standard for public education. On July 26, 2011, the Superior Court rejected the plaintiffs' amended complaint as not stating an equal protection claim but allowed them to amend their complaint, if filed by August 25. On August 22, 2011, the Superior Court granted the plaintiffs' request for an extension of time to file their amended complaint until September 26, 2011. No amended complaint was filed.

On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the City and County of San Francisco (the "CSBA Petition"). The petitioners allege that the 2011-12 Budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately \$2.1 billion. The CSBA Petition seeks an order from the Court compelling the State Treasurer-Tax Collector, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution.

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

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. Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1, effective with the lien date of January 1, 1997. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). 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 that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situated" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special

and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) 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 judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Proposition 98

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

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

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

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

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

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

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in

a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

Supplemental Information Concerning Litigation Against the State of California

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al.* The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

Propositions 1A and 22

Proposition 1A (SCA 4) 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, 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 from 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires 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.

Under Proposition 1A, the State no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A restricts the State's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate the State's authority to temporarily borrow or redirect some city, county, and special district funds or the State's authority to redirect local redevelopment agency revenues. However, Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (1) to use State fuel tax revenues to pay debt service on state transportation bonds; (2) to borrow or change the distribution of state fuel tax revenues; (3) to direct redevelopment agency property taxes to any other local government; (4) to temporarily shift property taxes from cities, counties, and special districts to schools; (5) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to the LAO analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 would be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's General Fund costs by approximately \$1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California will be dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide. The District can make no representations regarding what affect the implementation of ABx1 26 will have on the District's future receipt of tax increment revenues.

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 Retirement Programs

School districts participate in CalSTRS. CalSTRS covers all full-time and most part-time employees with teaching certificates. In order to receive CalSTRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. School districts also participate in CalPERS. CalPERS covers all classified personnel, generally those employees without teaching must be at least 50 years old and have had five years of covered CalPERS service as a public employee.

Contribution rates to CalPERS varies with changes in actuarial assumptions and other factors, such as changes in benefits and investment performance, and are set by a State retirement board for CalPERS. The contribution rates are set by statute for CalSTRS at a constant 8.25% of salary. CalSTRS has a substantial Statewide unfunded liability. Under current law, the liability is the responsibility of the State and not of individual school districts. See "DISTRICT INFORMATION" herein for information regarding the District's contributions to these retirement systems.

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 Office provides 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 each district must provide its County Office with scheduled interim reports throughout the fiscal year. The County Office 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 County Office.

School District Budget Process

School districts are 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. School districts' 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. Under either procedure, the school board must revise its adopted budget within 45 days after the Governor signs the State budget act to reflect any changes in budgeted revenues or expenditures made necessary by the adoption of the State's budget.

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 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 generally is not prepared (though may be at the election of the district). 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 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, including transfer of cash from proceeds of general obligation bonds; *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 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. See also "Notes to Financial Statements - Note 1" in Appendix A herein for further discussion of applicable accounting policies.

County Investment Pool

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 or finance director serves as *ex officio* treasurer for those school districts located within the county. Each county treasurer or finance director has the authority to invest school district funds held in the county treasury. Generally, the county treasurer or finance director 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 county treasurer is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 *et seq.* and 53635 *et seq.* In addition, each county treasurer is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. See "COUNTY OF SANTA CLARA POOLED INVESTMENT FUND."

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 Standard & Poor's Financial Services LLC business ("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 a premium of \$_____. The reoffering yield of the Notes is ____% (reoffering price is ____%). The Underwriter's compensation is \$_____. 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.

LOS ALTOS SCHOOL DISTRICT

By _____
Superintendent

APPENDIX A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2012**

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Los Altos School District

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

Los Altos, California

Los Altos School District

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

Mr. Jeffrey C. Baier
Superintendent

Mr. Randall A. Kenyon
Assistant Superintendent, Business Services

Los Altos School District
201 Covington Road
Los Altos, California 94024
650-947-1150
www.losaltos.k12.ca.us

**Los Altos School District
A K–8 School District
Santa Clara County, California**

**Los Altos School District
Los Altos, California**



Los Altos School District, a K–8 school district, is located in the San Francisco Bay Area in Santa Clara County. We are in the northwest section of the county, with neighboring cities Palo Alto, Mountain View, and Cupertino.

Table of Contents

TITLE	PAGE
INTRODUCTORY SECTION	
Letter of Transmittal	i
Awards.....	vi
District Organization	viii
FINANCIAL SECTION	
Independent Auditor's Report.....	2
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds Balance Sheet.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	15
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Statement of Fiduciary Assets and Liabilities.....	18
Notes to the Basic Financial Statements	19
REQUIRED SUPPLEMENTARY INFORMATION SECTION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual (GAAP) - General Fund	35
Employee Retirement and Other Postemployment Benefits	36
OTHER SUPPLEMENTARY INFORMATION SECTION:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual (GAAP) - Building Fund.....	38
Combining Statements - Nonmajor Funds:	
Nonmajor Governmental Funds - Combining Balance Sheet.....	39
Nonmajor Governmental Funds - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	40
Nonmajor Governmental Funds - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP).....	41
Fiduciary Funds Statement of Changes in Assets and Liabilities.....	42
Schedules of Capital Assets:	
Schedule of General Capital Assets by Source.....	43
Schedule of General Capital Assets by Function and Activity.....	44
Schedule of Changes in General Capital Assets by Function and Activity	45
STATISTICAL SECTION (UNAUDITED)	
Introduction	47
Net Assets	
Net Assets by Component	48
Change in Net Assets.....	49
Revenues, Expenses, and Expenditures	
Government-wide Expenses by Function	50
Government-wide Revenues.....	51
General District Revenues by Source/General District Expenditures & Other Uses by Object/ General District Expenditures by Function.....	52
General District Revenues and Expenditures, per Student.....	53
Fund Balances	
Fund Balances, Governmental Funds	54
Changes in Fund Balances, Governmental Funds	55
Revenue Base	
Assessed Valuation (AV) and Property Tax Collections.....	56
Property Tax Rates, All Direct and Overlapping Governments.....	57

Table of Contents (continued and concluded)

Principal Local Secured Taxpayers	58
Property Tax Levies and Collections.....	59
Debt	
Computation of Legal Debt Margin.....	60
Ratio of Total Debt to AV/Capita.....	61
Direct and Overlapping Debt	62
Ratio of Annual Debt Service Expenditures to General Expenditures	63
Demographics and Economic Indicators	
Enrollment and Attendance History/Student-Teacher Ratios	64
New Construction for Los Altos and Los Altos Hills	65
Taxable Transactions for Los Altos, Los Altos Hills and Santa Clara County/Bank Deposits for Santa Clara County	66
Principal Employers, Santa Clara County	67
Operating Information	
Staffing FTE by Function/2011–12 Teaching Staff Demographics	68
Capital Assets by Function and Activity.....	69
Miscellaneous Information	
School Building Information	70
History of Investment Income (Interest Earnings)	71
LASD Community Demographic Data: 2010/Comparative Birth Data	72
Miscellaneous Statistics.....	73
STATE AND FEDERAL AWARD COMPLIANCE INFORMATION SECTION	
Schedule of Excess Sick Leave	75
Schedule of Average Daily Attendance	76
Schedule of Instructional Time Offered.....	77
Schedule of Financial Trends and Analysis	78
Schedule of Expenditures of Federal Awards	79
Reconciliation of Annual Financial Budget Report (SACS) with Audited Financial Statements	80
Notes to State and Federal Compliance Section.....	81
OTHER INDEPENDENT AUDITOR'S REPORTS:	
Auditor's Report on Internal Control and Compliance and Other Matters	82
Auditor's Report on Compliance with Federal Requirements.....	83
Auditor's Report on Compliance with State Requirements	85
FINDINGS AND RECOMMENDATIONS:	
Schedule of Findings and Questioned Costs.....	87
Schedule of Prior Year Findings and Recommendations.....	89

Introductory Section

Los Altos School District

201 Covington Road

Los Altos, California 94024

Tel: (650) 947-1150 FAX: (650) 947-0118



December 13, 2012

To Honorable Board of Trustees of the Los Altos School District:

We hereby submit the Comprehensive Annual Financial Report of the Los Altos School District for the fiscal year ended June 30, 2011 (FY 2012). Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with district management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the district. All disclosures necessary to enable the reader to gain an understanding of the district's financial activities have been included.

This report is prepared in conformance with generally accepted accounting principles (GAAP) for governments as promulgated by the Government Accounting Standards Board (GASB). This report is consistent with legal reporting requirements of the State of California. The report also includes a "State and Federal Compliance Information" section which is designed to meet the reporting requirements of the Office of the California State Controller, the U. S. Government Accountability Office, the U. S. Office of Management and Budget, and the Single Audit Act Amendments of 1996.

The district's financial statements have been audited by Chavan & Associates, LLP, a certified public accounting firm. They have issued an unqualified ("clean") opinion on the district's financial statements for the fiscal year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

The report also includes a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). It provides an objective and easily readable analysis of the district's financial activities on both a short and long term basis. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The district's MD&A can be found immediately following the report of the independent auditor.

Profile of the District

Los Altos School District, one of thirty-three districts in Santa Clara County in California, is an elementary school district serving students from kindergarten to grade eight. We are located in the heart of Silicon Valley in the San Francisco Bay Area. The district boundaries include most of the City of Los Altos, half of the Town of Los Altos Hills, parts of the cities of Mountain View and Palo Alto, and some unincorporated county lands. Los Altos School District was founded in 1909. The district's mission statement is to develop confident, successful students in an optimal learning environment that builds on a tradition of academic excellence and fosters critical and creative thinking, strong character traits and a love of learning in each child.

The district serves a general population estimated at 40,653 in an area of approximately 21 square miles. In FY 2012 the district employed 373 full-time equivalent workers. Of that total, 242 were certificated employees and 131 were classified employees. Certificated employees (teachers, psychologists and counselors, nurses, principals, and other administrators) require a credential as a condition of employment. Classified employees are those for whom having a credential is not a condition of employment. Classified employees include among others instructional aides, school secretaries and other clerical staff, custodians, and maintenance workers.

An elected five-member board of trustees governs the district. The board's duties and powers include establishing a long-term vision for the district; ensuring accountability to the local community; acquiring, maintaining, and disposing of property; developing a sound organizational structure and school program; adopting an annual budget; and, establishing a system of accounting and budgetary controls. Trustees are elected for four-year terms. The superintendent, Jeff Baier, runs the day-to-day operations of the district. The district is a public agency governed by the laws of the State of California. Los Altos School District is fiscally dependent on the Santa Clara County Office of Education. The district has no component units nor is it a component of any other entity.

The district currently has 4,505 students enrolled in nine schools—seven elementary (K–6) and two intermediate (7–8). Most of our students live in neighborhoods of relatively high socio-economic status. Many of the executive officers of our country's

most prominent technology firms live within our district. The average home price in the city of Los Altos in 2011 was just under \$1.8 million.

Economic Condition and Outlook

At the close of fiscal year 2012 the district's financial health seems good and on the upswing. We have weathered the recent recession fairly well, largely due to community support and a strong tax base. Our general reserves have grown to over 16% of total expenditures. While our capital funds are not carrying high balances, the fact that we modernized our facilities over the last decade has relieved pressure on those funds.

State budget conditions impact all school districts, although the impact on our district is mitigated significantly by our strong tax base. A slow recovery from the recession continues to vex state budget forecasters. Passage of Proposition 30 in the November 2012 election will help schools weather the lagging recovery. It is unclear how long the economic recovery will take and how the recovery will impact the state budget in the near future. We need to be prepared in case there are additional funding cuts in the coming year.

The local housing market bears strongly on property tax collections. During the recent recession homes stayed on the market longer and housing prices declined, although only slightly. The average sales price three years ago was a little over \$2 million, while the current average is just under \$1.8 million. The market seems to have turned a corner over the last year with increased sales activity.

California law stipulates that the assessed valuation (AV) of secured property can rise from one year to the next no more than the year-over-year increase in state CPI or 2%, whichever is less. Offsetting this factor is change in AV due to new homes being built or housing turnover wherein the new AV represents the sales price of the home. Since one-fifth of all homes in our community have assessed valuations of \$200,000 or less and with the recent average sales price of around \$1.8 million, there is potential for significant AV increases—depending on the amount of turnover.

We continue to receive solid support from the local community through significant educational foundation and PTA funding as well as two parcel taxes that generate 23% of our total General Fund revenue.

Achievement

The district prides itself on providing an outstanding education to our students. The following is evidence that we do just that:

- The 2012 state Academic Performance Index (API) ranked all district schools among the highest in the state. Overall our students recorded the top test results in the state. We have ranked in the top four in the state every year since the testing program began in 2000.
- Students in the district have consistently scored within the top 2% of all children tested in California. California Assessment Program (CAP) scores in 1992 showed Los Altos students scoring at the 98th or 99th percentile in all grades and in all subject areas. 1997 California Achievement Test (CAT-5) scores, which are nationally normed, showed the average Los Altos student scoring higher than 88% of all students tested nationally. Over the last thirteen years (1998–2012) California's Standardized Testing and Reporting (STAR) test results, which are nationally normed, show the average Los Altos student scoring in the 80th – 90th percentile.
- All district schools are California Distinguished Schools and three schools (Gardner Bullis, Oak, and Santa Rita) have been chosen as national Blue Ribbon Schools.

Long Term Planning/Major Initiatives

Academic Excellence

The district continues to improve and refine its academic offerings, focusing on identified curriculum areas and instructional strategies each year. Recruiting and retaining fully qualified and well trained teachers and administrators are high priorities.

District Enrollment

The district has experienced steady enrollment growth over the last ten years, averaging 1% per year. FY 2012 enrollment increased by 2% over the prior year. Our demographic forecast shows continued enrollment growth through 2015.

District Funding Status

For the typical school district in California, property taxes provide less than 40% of the total formula-driven general operating revenues (called the revenue limit). The state contributes the remainder, over 60%, in state aid. In our district the picture is very different. Because of high assessed values, property tax collections are more significant and in fact have exceeded our revenue limit—meaning our status changes from a revenue limit district to a basic aid district.

A basic aid district is one in which the local property taxes collected for schools exceed the state imposed general purpose revenue limit. Because basic aid districts get to keep property tax revenues in excess of the revenue limit, there can be a significant financial advantage to being “basic aid.” As a basic aid district we are reliant on local property tax collections rather than dependent on state funding.

Reserves Policy

The district recently revised its reserves policy to reflect the need of a basic aid district to have a higher level of reserves. The new policy targets a general operating reserve of 3–5% and a second reserve layer as a basic aid district of a minimum of 5%. The state-required minimum reserves level for a district our size is 3%. District reserves at the end of FY 2012 were 16.5% of total operating expenditures.

Major Initiatives

In California school districts are limited in their ability to tax the local citizenry to raise monies for schools. State law limits ad valorem taxes to 1% of assessed valuation (AV). AV is defined as 100% of the value of real property at the time of sale. The state limits annual increases in AV to no more than 2%. The only time property is reassessed is at the time of sale with the new assessment reflecting the sale price of the property. Ad valorem property tax revenues provide the base general purpose funding for our schools. The only additional taxing authority school districts have is for general obligation bonds and parcel taxes both of which require special elections and passage by a 2/3 majority vote. A recently enacted state measure, Proposition 39, permits passage of a local general obligation bond by a 55% majority under special circumstances.

In recent years the district has undertaken two major initiatives to deal with long term planning issues—a second parcel tax and a general obligation bond measure.

Parcel Tax. The district initially put a parcel tax measure before the voters in 1989. The measure, which imposed a flat per parcel assessment of \$168, was approved and enabled the district to restore cut programs and to forestall future reductions. That tax has since been increased twice through voter elections. The most recent increase, which brought the tax up to \$597 from \$264, was approved in November 2002 by over 70% of the votes cast. This increase took effect in FY 2004 and generates an additional \$4 million in general purpose revenues for a total of \$7.5 million. The intent of the increase was to enable the district to continue its then current programs for several years, in spite of any state funding cutbacks. This tax has an indefinite lifespan.

As a result of continued funding cutbacks and a sluggish economy, the district sought voter approval of another parcel tax in May 2011. This second parcel tax, in the amount of \$193 per parcel, was approved by over 2/3 of voters and lasts six years. The intent of this tax is to act as a bridge through the recession until property tax revenues return to a more normal level. The additional funds enable the district to maintain consistency of program.

General Obligation Bonds. In the fall of 1998, a bond measure was placed before the voters of the district. The measure proposed issuing general obligation bonds in the amount of \$94.7 million to provide funding to renovate and modernize existing buildings throughout the district and to build new classrooms and other buildings to replace ninety portable buildings leased by the district. The measure was approved, with a 75% affirmative vote.

The school board appointed six community members with experience in major construction and finance projects to a Construction Oversight Committee. That committee made recommendations to the board, provided advice and assistance to district staff when needed, and helped ensure that taxpayers’ money was spent according to the approved plan.

The district issued its first series of bonds under the 1998 measure (Series A) for \$40 million in February 1999. The district issued a second series (Series B) in May 2001 worth \$46.7 million and a third and final series of bonds in October 2003 in the amount of \$8 million. The district refinanced almost all of its outstanding bonds (\$89.3 million) in June 2006. This refunding resulted in a net gain of \$10.9 million which was used to modernize the Bullis-Purissima School (now called Gardner Bullis School). The impact on taxpayers of each of these bond issuances is expected to average \$55 per \$100,000 of assessed valuation (AV), not to exceed \$60 per \$100,000 AV. Prior to these issuances, the district had no outstanding debt. The district maintains excellent credit ratings, receiving an Aa2 rating from Moody’s Investors Service and an AA rating from Standard & Poor’s.

The bonds represent a general obligation of the district. The Board of Supervisors of the County of Santa Clara is empowered and obligated to levy ad valorem taxes without limitation as to rate or amount, for the payment of the interest on and principal of the bonds, upon all property subject to taxation by the district (except certain personal property which is taxable at limited rates). Such taxes, when collected, will be placed by the County in the district's Bond Interest and Redemption Fund, which is required to be maintained by the County and used solely for the repayment of the bonds and interest thereon when due.

Due to a significant increase in construction costs at the time the district started its program, the district had to scale back its program. Some of the planned new construction has been deferred until the district is able to secure additional funding. However, the renovation and modernization work has been completed as planned. Schools and classrooms at our sites are now state of the art facilities.

Financial Information

Internal and Budgetary Controls

The district maintains internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use and disposition and to provide reliable records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes the importance of a close evaluation of costs and benefits which requires estimates and judgments by management. The objective is to secure efficient internal control, the cost of which must not exceed the benefits derived there from. We believe that the district's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The district, under Assembly Bill 1200 (Chapter 1213, Statutes of 1991), utilizes a single-adoption budget schedule. The district adopts a Final Budget prior to the state-mandated July 1 deadline.

Expenditures cannot legally exceed appropriations by major object classification, namely certificated salaries, classified salaries, employee benefits, books and supplies, services and other operating expenditures, capital outlay, debt service, other outgo, direct support/indirect costs, and operating transfers out. Education Code 42600 specifies that school districts may not spend more than the amounts authorized in the Final Budget as adjusted during the school year.

Encumbrance accounting is utilized to assure effective budgetary control and accountability. Unencumbered appropriations lapse at year-end and encumbrances outstanding also lapse at that time.

Cash Management

Cash temporarily idle during the year and not needed immediately for operations is invested. Substantially all of the district's cash is deposited in the county treasury. The district is limited by Education Code Section 41015 and Government Code Section 53601 to investments in: U. S., State or Local government securities or U. S. government guaranteed securities; banker's acceptances or negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association; and commercial paper of "prime quality". These guidelines are followed by the County Treasurer's staff in making pool and specific investments for the district. Income realized from such investments in 2011-12 was \$49,473 for all funds. As of June 30, 2012 the district's cash in the total county pool was approximately \$17.9 million.

The district also maintains some cash deposits with a local bank. At June 30, 2012 the total bank balance was \$168,476. Up to \$250,000 on deposit with the local bank is covered by federal depository insurance. Any balance above the \$250,000 threshold is collateralized in accordance with state law in the financial institution's name at 110% of the deposit value.

Risk Management

The district maintains a risk management program that includes comprehensive insurance coverage, periodic safety inspections of buildings and grounds by district staff, periodic safety evaluations by an independent consultant, participation with neighboring districts in risk management consortiums, and periodic review of contracts and policies to assure compliance with legal mandates and good business practice. The Assistant Superintendent of Business Services oversees risk management for the district.

The district purchases insurance coverage through various public entity risk pools. As a member of these pools we place coverage through various commercial carriers. We carry a \$10,000 deductible for property loss and a \$5,000 deductible for liability loss. We have no other deductibles.

Independent Audit

Education Code Section 41020 provides that each school district shall arrange for an audit by certified public accountants of its books and accounts, including the district's income by source of funds and expenditures by object and program. The district's contract auditor for the fiscal year ended June 30, 2012 is Chavan & Associates, LLP.

Awards

ASBO

The Association of School Business Officials (ASBO) International awarded its Certificate of Excellence in Financial Reporting to Los Altos School District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the eighth consecutive year that the district has received this prestigious award. Receiving this award is recognition that the district has met the highest standards of excellence in financial reporting as adopted by ASBO. The award is granted after intensive review by an expert panel of certified public accountants and practicing school business officials. The district believes that this year's Comprehensive Annual Financial Report, which will be submitted to ASBO for review, will also conform to these high standards. The district has also received the ASBO Meritorious Budget Award every year for the last eleven years.

GFOA

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Los Altos School District for its comprehensive annual financial report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirement and we are submitting it to the GFOA to determine its eligibility for another certificate.

Copies of both the ASBO and GFOA award certificates are shown on the following pages.

Acknowledgements

We wish to express our appreciation to Kim Ginelli (Fiscal Services Specialist), the staff of the District Business Office, and Sheldon Chavan (managing partner) and the staff at Chavan & Associates, LLP for their work in preparing this report.

Respectfully submitted,



Jeffrey C. Baier
Superintendent

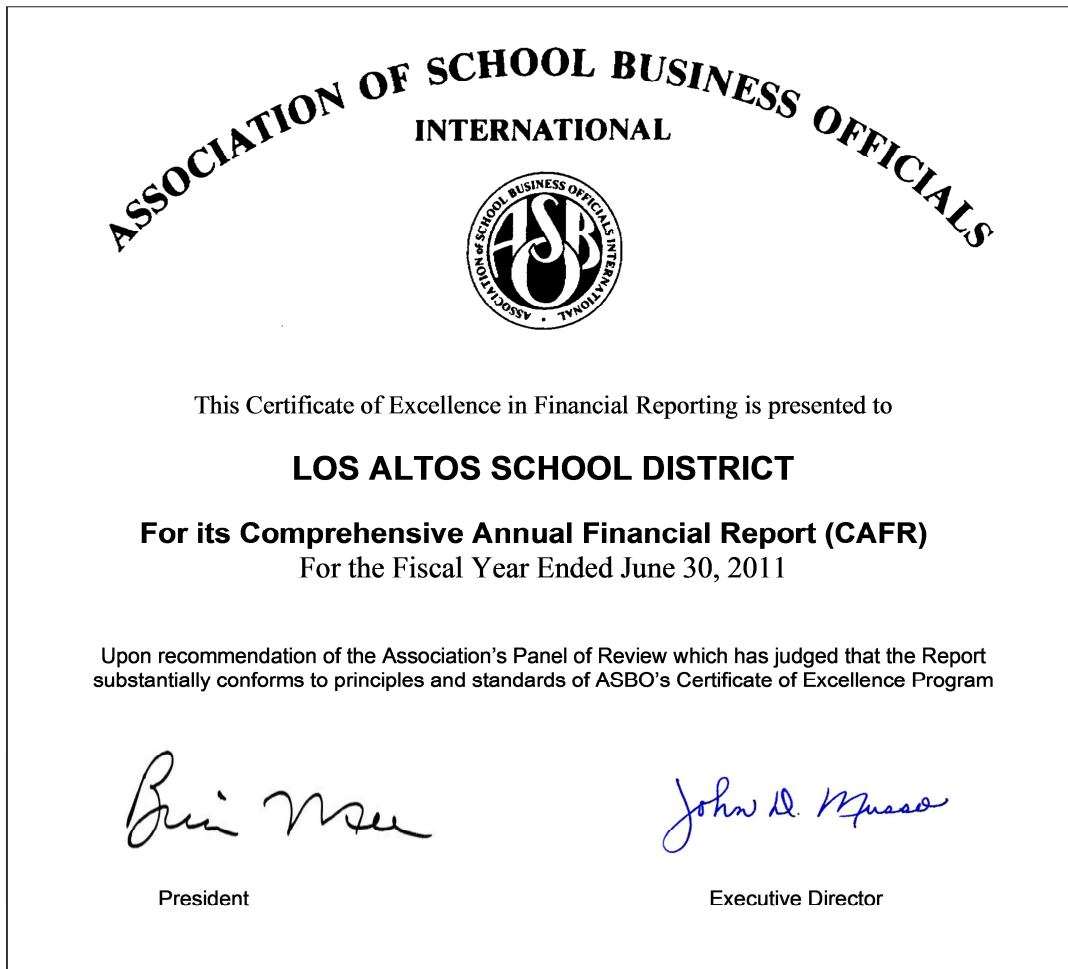


Randall A. Kenyon
Assistant Superintendent, Business Services

Awards

ASBO Certificate of Excellence in Financial Reporting

For the Fiscal Year Ended June 30, 2011



GFOA Certificate of Achievement for Excellence in Financial Reporting

For the Fiscal Year Ended June 30, 2011

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Los Altos School District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

District Organization

Los Altos School District was founded in 1909. Board members and central and site administrators are listed below.

Board of Trustees

Mr. Mark Goines
President
Term expires 2014

Mr. Steven Taglio
Member
Term expires 2016

Mr. Douglas Smith
Vice-President
Term expires 2014

Mr. Pablo Luther
Member
Term expires 2016

Mrs. Tamara Logan
Clerk
Term expires 2014

District Administration

Mr. Jeffrey Baier
Superintendent

Mr. Randall Kenyon
Assistant Superintendent, Business Services

Mrs. Alyssa Gallagher
Assistant Superintendent, Curriculum & Instruction

Mrs. Ruth Cantwell
Director of Special Education

Schools and School Principals

Elementary (K–6)

Almond School
Mrs. Nancy Davis

Oak School
Mrs. Amy Romem

Covington School
Ms. Erin Green

Santa Rita School
Mr. Ryan Haven

Gardner Bullis School
Mrs. Courtney Cadwell

Springer School
Mr. Wade Spenader

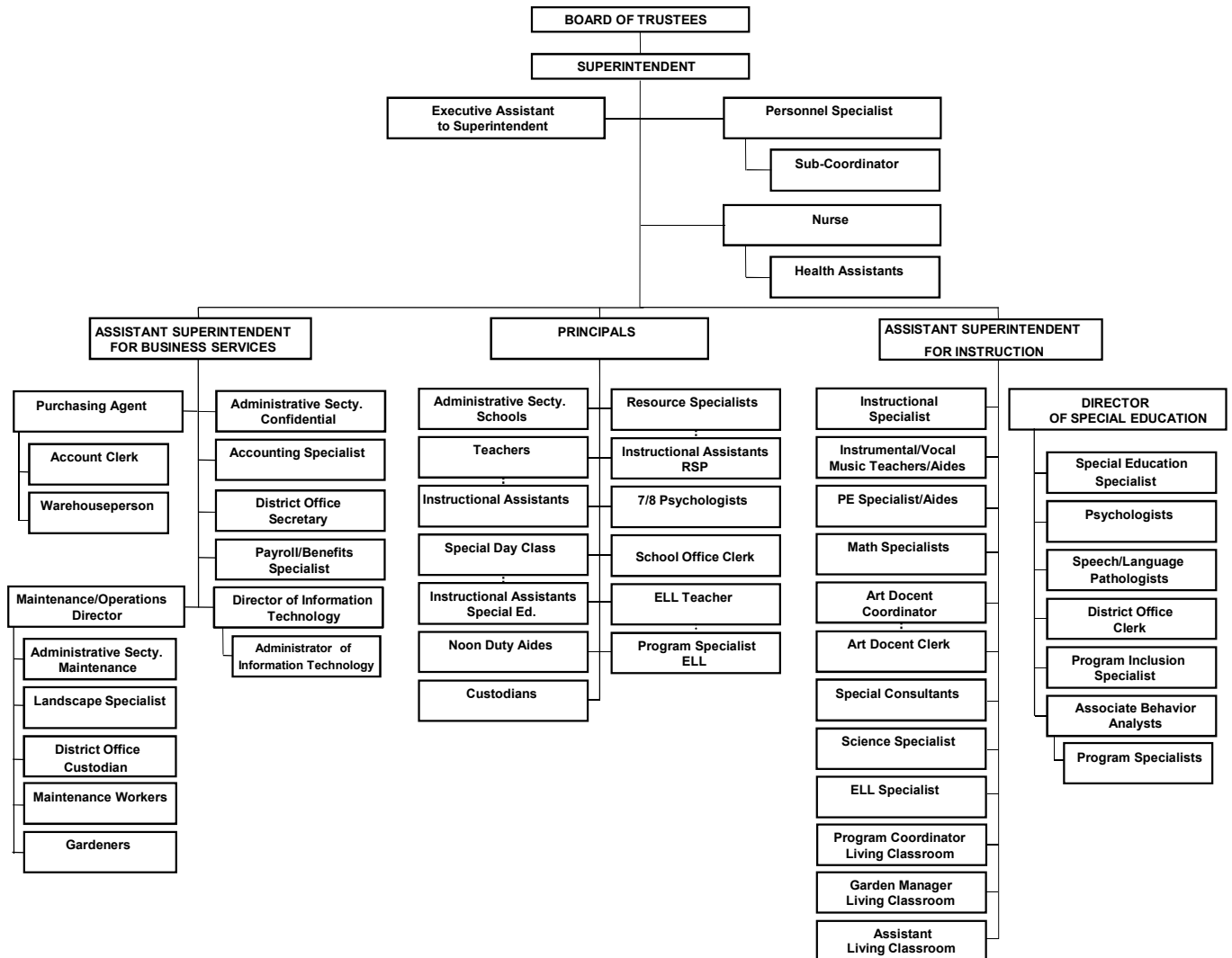
Loyola School
Mrs. Kimberly Attell

Intermediate (7–8)

Blach School
Mrs. Sandra McGonagle

Egan School
Mrs. Brenda Dyckman

Los Altos School District Organizational Chart: 2011–12



Financial Section

Independent Auditor's Report



Chavan & Associates, LLP
Certified Public Accountants

The Honorable Board of Trustees
Los Altos School District
Santa Clara, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Los Altos School District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Los Altos School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 2011-12 (K-12 Audit Guide)*, prescribed by the California State Controller's Office. 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 financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Los Altos School District at June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 35 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, schedules of capital assets, statistical section, and state and federal award compliance information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The

accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, statistical, and state and federal award compliance information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

C & A UP

September 19, 2012
San Jose, California

Management's Discussion & Analysis

The discussion and analysis of Los Altos School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2012 ("FY 2012"). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for FY 2012 are as follows:

- At year-end the district's assets exceeded its liabilities by \$29.6 million (net assets).
- General revenues (property taxes and unrestricted revenue) accounted for \$51.6 million or 93% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$4.1 million or 7% of total revenues of approximately \$55.7 million. Total revenues were approximately \$3.4 million more than expenses, reflecting the change in net assets from the prior year.
- The district's \$52.3 million in expenses was offset by \$4.1 million of program specific charges for services, grants, or contributions. The balance, \$48.2 million, was offset by general revenues.
- The district has three major funds—the General Fund, the Building Fund, and the Bond Interest and Redemption Fund.
 - At the end of FY 2012, the fund balance of the General Fund, including the Special Reserve Funds as required by GASB 54, was \$9.8 million. Of this total, \$5.8 million was unassigned. General reserves were 13.7% of general fund expenditures. The General Fund had \$45.3 million in revenues and \$42.9 million in expenditures and transfers out, an increase in fund balance of \$2.4 million from the prior year.
 - Building Fund revenues and expenditures can vary significantly from one year to the next. While the ending fund balance in FY2012 is relatively low (\$51,000), it has been much higher in prior years. We continue to elect to treat the Building Fund as a major fund since fund balances have been higher in the past and we expect higher levels in the near future.
 - Because of an increase in property tax collections the fund balance of the Bond Interest and Redemption Fund grew from \$6.9 million to \$7.4 million.

Using the Annual Report

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which follow the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance, Other Independent Auditor's Reports, and Findings and Recommendations as well as a Statistical Section.

Overview of the Financial Statements

Government-wide Financial Statements—Statement of Net Assets and the Statement of Activities

While this document contains specific information on the many funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, “How did we do financially during the previous year?” The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. The accrual basis of accounting recognizes all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the district’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district’s property tax base, current property tax laws in California restricting revenue growth, facilities condition, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the district reports governmental activities. Governmental activities are the activities where most of the district’s programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-like activities.

The government-wide financial statements can be found on pages 12–13 of this report.

Fund Financial Statements

The analysis of the district’s major funds begins on page 14. Fund financial reports provide detailed information about the district’s major funds. The district uses several funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district’s most significant funds and not the district as a whole. The district’s major governmental funds are the General Fund, the Building Fund, and the Bond Interest and Redemption Fund.

Governmental Funds. Most of the district’s activities are reported in governmental funds. Governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end available for spending in future periods. 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 you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds. The district is the trustee, or fiduciary, for student body funds. All of the district’s fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities on page 18. We exclude these activities from the district’s other financial statements because the district cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 19 of this report.

Government-wide Financial Analysis

As stated earlier the Statement of Net Assets and the Statement of Activities provide a financial glimpse of the District as a whole. “Table 1: Summary of Net Assets” provides a summary of the district’s net assets for FY 2012 as contained in the Statement of Net Assets and compares that information to FY 2011. As the table shows, our total net assets as of June 30, 2012 were \$29.6 million, an increase from the prior year of \$3.4 million. The largest portion of the district’s net assets (\$16.2 million or 55%) reflects its investment in capital assets less depreciation and any related debt used to acquire those assets that is still outstanding. The district uses capital assets to provide services; consequently, these assets are usually not available for future spending. Although the district’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves usually are not used to liquidate the debt.

Approximately \$8.3 million (28%) of the district’s net assets represent resources subject to external restrictions on how they may be used. These assets are either restricted for future spending or set aside to pay debt service on general obligation bonds.

\$234,730 is required to be spent on specific federal and state programs—funds carried over into the next fiscal year. \$714,491, by state law, can only be spent on capital projects. \$7.4 million is set aside for debt service payments in the subsequent fiscal year.

The remaining balance \$5.1 million (17%) consists of unrestricted net assets which may be used to fund the district's ongoing activities.

Table 1: Summary of Net Assets

	June 30, 2011	June 30, 2012	Change	Percentage Change
Assets				
Current and Other Assets	\$ 23,938,680	\$ 20,216,059	\$ (3,722,621)	-16%
Capital Assets	104,623,045	102,111,408	(2,511,637)	-2%
Total Assets	128,561,725	122,327,467	(6,234,258)	-5%
Liabilities				
Other Liabilities	10,880,645	4,385,499	(6,495,146)	-60%
Long-Term Liabilities	91,432,020	88,299,125	(3,132,895)	-3%
Total Liabilities	102,312,665	92,684,624	(9,628,041)	-9%
Net Assets				
Invested in Capital Assets, Net of Related Debt	15,609,775	16,185,607	575,832	4%
Restricted	7,798,583	8,341,730	543,147	7%
Unrestricted	2,840,702	5,115,506	2,274,804	80%
Total Net Assets	\$ 26,249,060	\$ 29,642,843	\$ 3,393,783	13%

In comparing FY 2012 to the prior year we note the following:

- Current and other assets decreased by \$3.7 million, which reflected a \$6.5 million decrease in cash borrowed (TRAN) compared to FY2011, offset in part by a \$3 million increase in cash in the county treasury.
- A decline in capital assets is the result of depreciation expense.
- Long-term liabilities decreased primarily due to paying off general obligation bond debt. For more information on long-term liabilities, see Note 7 in the "Notes to the Basic Financial Statements" section.
- Other liabilities in FY2011 were higher due to the obligation to repay the \$6.5 million TRAN (tax and revenue anticipation notes).
- Of our total net assets, those invested in capital assets, net of related debt, increased by \$0.6 million because of the repayment of bond principal and the amortization of bond issuance costs, discounts, premiums and losses from prior bond refunding.
- Restricted net assets increased as a result of additional cash in the Bond Interest and Redemption Fund for debt repayment.
- Our unrestricted net assets increased by \$2.3 million primarily because of an improved cash position.

"Table 2: Change in Net Assets" reflects data extracted from the Statement of Activities and shows the changes in net assets from FY 2011 to FY 2012.

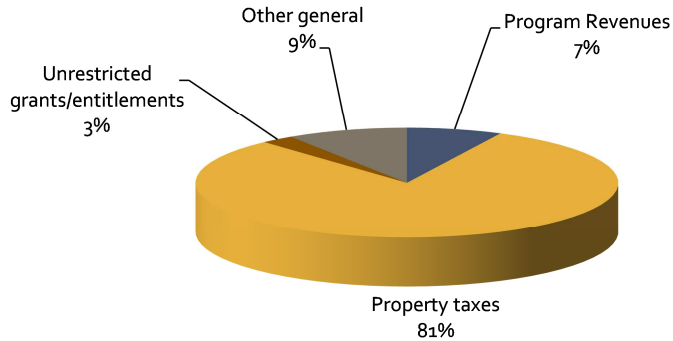
Table 2: Change in Net Assets				
	June 30, 2011	June 30, 2012	Change	Percentage Change
Revenues				
Program Revenues:				
Charges for Services	\$ 565	\$ 1,752	\$ 1,187	210%
Operating Grants and Contributions	4,946,391	4,068,933	(877,458)	-18%
General Revenues:				
Property Taxes	43,424,004	45,045,735	1,621,731	4%
Grants and Entitlements - Unrestricted	560,790	1,410,300	849,510	151%
Other	3,908,283	5,161,440	1,253,157	32%
Total Revenues	52,840,033	55,688,160	2,848,127	5%
Program Expenses				
Instruction	32,026,266	31,371,747	(654,519)	-2%
Support Services:				
Instruction-related services	4,274,264	4,548,245	273,981	6%
Pupil services	2,370,819	2,272,223	(98,596)	-4%
General administration	2,928,965	3,102,062	173,097	6%
Plant services	5,214,914	4,917,999	(296,915)	-6%
Other educational programs	3,340	-	(3,340)	-100%
Interest and Fiscal Charges	5,743,858	6,082,101	338,243	6%
Total Expenses	52,562,426	52,294,377	(268,049)	-1%
Change in Net Assets	277,607	3,393,783	3,116,176	1123%
Beginning Net Assets	25,971,453	26,249,060	277,607	1%
Ending Net Assets	\$ 26,249,060	\$ 29,642,843	\$ 3,393,783	13%

The most significant changes resulted from the following:

- Federal funding for FY 2011 included one-time ARRA grants which were not funded in FY 2012.
- Property tax collections were higher due to an increase in property assessed valuations and the imposition of a second parcel tax beginning in FY2012. These increases were partially offset by a change in how the district's transfer of property tax revenues to the charter school was recorded from one year to the next.
- State funding (grants and entitlements) was cut due to state budget issues, but this decline was offset by how the transfer of tax revenues to the charter school was recorded in FY2011.
- Other general revenues increased as a result of higher funding from the Los Altos Educational Foundation and increased developer fee revenue.
- Expenditures on instructional programs were lower in FY2012 due to the drop in federal ARRA funding.
- Plant service expenses vary from year to year depending on the amount of repairs needed.
- Interest and fiscal charges grew as a result of increased debt service payments.

District programs for FY 2012 cost \$52.3 million. To support those programs the district garnered \$4.1 million in program revenues. The balance of support came from property taxes and other general revenues. Since property tax collections amounted to \$45 million, the district's dependence upon tax revenues is apparent. The chart below shows FY 2012 revenues by category.

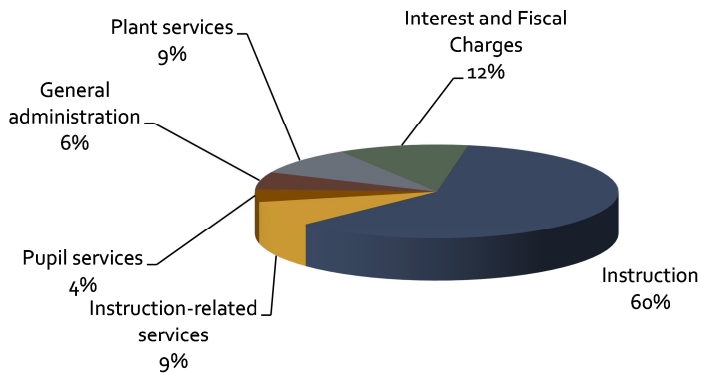
FY 2012 Revenues



Total Revenues: \$55,688,160

Instruction comprises 60% of district expenses. Support service expenses make up 28% of the total, with the balance being interest and fiscal charges. The accompanying chart displays FY 2012 expenses by category.

FY 2012 Expenses



Total Expenses: \$52,294,377

Governmental Activities

The Statement of Activities on page 13 shows the cost of program services and the charges for services and grants offsetting those services. "Table 3: Net Cost of Services" extracts information from the Statement of Activities and compares the net cost of services from one year to the next. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements. The net cost of services increased by \$608,222 due to an overall increase in spending.

Table 3: Net Cost of Services

	Net Cost of Services for the Fiscal Year Ended June 30, 2011	Net Cost of Services for the Fiscal Year Ended June 30, 2012	Change	Percentage Change
Instruction	\$ 27,533,938	\$ 27,733,023	\$ 199,085	1%
Support Services:				
Instruction-related services	4,005,286	4,290,070	284,784	7%
Pupil services	2,205,436	2,118,839	(86,597)	-4%
General administration	2,909,097	3,082,123	173,026	6%
Plant services	5,214,515	4,917,536	(296,979)	-6%
Other educational programs	3,340	-	(3,340)	-100%
Interest and Fiscal Charges	5,743,858	6,082,101	338,243	6%
Total Expenses	\$ 47,615,470	\$ 48,223,692	\$ 608,222	1%

The expense categories shown in Table 3 are summarized below.

- “Instruction” expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- “Instruction-related services” and “pupil services” include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).
- “General administration” costs include expenses associated with the administrative and financial supervision of the district.
- “Plant services” involve keeping the school grounds, buildings, and equipment in good working condition.
- “Interest and fiscal charges” involve the transactions associated with the payment of interest and other charges related to debt of the district.

Financial Analysis of the District's Funds

The district's governmental funds report a combined fund balance of \$18.3 million, an increase of \$3 million over the prior year. “Table 4: Governmental Fund Balances” provides an analysis of the district's fund balances and the total change in fund balances from the prior year.

The following information helps explain the changes from the prior year.

- General Fund reserves increased as a result of additional property tax, parcel tax, and other revenues in the current year.
- The decrease in fund balance for the Building Fund results from increases in current year facility expenses.
- The Bond Interest and Redemption Fund is used to repay bonded indebtedness. The fund balance will fluctuate depending on the debt repayment schedule.
- The Deferred Maintenance fund balance increased due primarily to an additional transfer of funds from the General Fund.
- Current year increases in developer fee revenue caused an increase in fund balance in the Capital Facilities Fund.

Table 4: Governmental Fund Balances

Fund	Fund Balance June 30, 2011	Fund Balance June 30, 2012	Increase (Decrease)	Percentage Change
General	\$ 7,390,104	\$ 9,787,007	\$ 2,396,903	32%
Building	431,259	50,819	(380,440)	-88%
Bond Interest & Redemption	6,932,467	7,392,509	460,042	7%
Deferred Maintenance	242,494	417,908	175,414	72%
Capital Facilities	283,372	663,672	380,300	134%
Total	\$ 15,279,696	\$ 18,311,915	\$ 3,032,219	20%

General Fund Budgetary Highlights

The district's budget is prepared according to California law and is based on the modified accrual basis of accounting.

During the course of the 2012 fiscal year the district amended its General Fund budget numerous times, resulting in changes to revenue and expenditure estimates. Expenditure appropriation adjustments were made to reflect actual staffing, salary changes for professional growth credit earned by teachers, changes in the cost of contracted services, and the spending of one-time grants carried forward from the prior year.

The district uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. In early June the district made its final appropriations adjustments to match expected revenue and expenditure totals as closely as possible.

Capital Asset and Long-term Liabilities

Capital Assets

At the end of the fiscal year, the district had \$102.1 million invested in land, buildings, and equipment (including computer equipment, furniture, and vehicles). "Table 5: Capital Assets" shows FY 2012 balances as compared to the prior year.

Capital outlay during the fiscal year included minor site improvements and the purchase of computers and other equipment. For more information see the Notes to the Basic Financial Statements (note 5; page 28).

Table 5: Capital Assets

	June 30, 2011	June 30, 2012	Increase (Decrease)	Percentage Change
Land	\$ 1,488,885	\$ 1,488,885	-	0%
Site improvements	1,225,056	1,225,056	-	0%
Buildings and Improvements	127,278,911	127,304,089	25,178	0%
Equipment	1,734,920	1,882,375	147,455	8%
Total	131,727,772	131,900,405	172,633	0%
<i>Less: Accumulated Depreciation</i>	<i>27,104,727</i>	<i>29,788,997</i>	<i>2,684,270</i>	<i>10%</i>
Net Capital Assets	\$ 104,623,045	\$ 102,111,408	(2,511,637)	-2%

Long Term Liabilities

As of June 30, 2012 the district had \$88.3 million in long term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The District's long-term liabilities also include \$1.4 million for other postemployment benefit obligations (OPEB). This amount is the difference from the annual required contributions and the district's actual contributions in the OPEB plan. The remaining \$230,453 in long term obligations is the amount of compensated absences liability recorded by the district at year end, an increase of \$8,166 from the prior year.

"Table 6: Long Term Liabilities" shows the district's outstanding debt as of June 30, 2012 as well as comparable data for the prior year. A more detailed discussion is included in the Notes to the Financial Statements (note 7) starting on page 28.

State law limits the amount of general obligation debt an elementary school district may issue to 1.25% of its total assessed valuation. The debt limitation for the district as of June 30, 2012 was \$180.8 million, which is \$97.2 million greater than the district's outstanding general obligation debt as of that date.

Table 6: Long-term Liabilities

	June 30, 2011	June 30, 2012	Increase (Decrease)	Percentage Change
Long-term Debt:				
2006 General obligation bonds:				
Current Interest Bonds	77,810,000	76,955,000	(855,000)	-1%
Capital Appreciation Bonds	8,854,000	6,648,480	(2,205,520)	-25%
Unamortized bond premium	7,781,711	7,133,235	(648,476)	-8%
Deferred loss on early retirement of long-term Debt	(8,412,644)	(7,711,591)	701,053	-8%
Site lease purchase obligations	3,841,525	3,690,222	(151,303)	-4%
Subtotal long-term debt	89,874,592	86,715,346	(3,159,246)	-4%
Other Long-term Liabilities:				
Net OPEB obligation	1,335,141	1,353,326	18,185	100%
Compensated absences	222,287	230,453	8,166	4%
Subtotal other long-term liabilities	1,557,428	1,583,779	26,351	2%
Total Long-term Liabilities	\$ 91,432,020	\$ 88,299,125	\$ (3,132,895)	-3%

Factors Bearing on the District's Future

- The state and national economy continues to negatively impact school funding. Even with the passage of Proposition 30 it is unclear when the state will begin reversing several years of funding cuts.
- The local economy seems to have weathered the worst of the recession and shows signs of good recovery. Housing turnover has picked up, which bodes well for growth in property assessed valuations.
- The charter school, which has enrolled 475 district students, continues to impact district finances.
- Continued escalating insurance costs (health, workers compensation, property and liability, etc.) and competition for quality teachers both create additional potential financial burdens on the district.
- The district has increased its reserve levels to maintain consistency of program even with funding cutbacks. It remains to be seen whether property tax revenues can climb high enough to offset the expiration of the second parcel tax at the close of the 2016–17 fiscal year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Mr. Randall Kenyon, Assistant Superintendent for Business Services, Los Altos School District, 201 Covington Road, Los Altos, California 94024.

Basic Financial Statements

Los Altos School District
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets	
Cash in county treasury	\$ 17,716,829
Cash in revolving fund	5,000
Accounts receivable	1,217,202
Due from grantor government	487,209
Stores Inventory	274
Unamortized discounts and issuance costs	789,545
Capital assets - net:	
Land	1,488,885
Site improvements	1,225,056
Building and improvements	127,304,089
Equipment	1,882,375
Less accumulated depreciation	(29,788,997)
Total capital assets - net	<u>102,111,408</u>
Total Assets	<u>\$ 122,327,467</u>
Liabilities	
Accounts payable	\$ 1,065,225
Due to grantor government	31,641
Unearned revenue	17,733
Accrued interest	3,270,900
Long-term liabilities:	
Due within one year:	
General obligation bonds payable	3,846,396
Deferred loss on early retirement of long-term debt	(701,053)
Compensated absences payable	230,453
Site lease purchase obligation	158,606
Total due within one year	<u>3,534,402</u>
Due after one year:	
General obligation bonds:	
2006 General obligation bonds	86,890,319
Deferred loss on early retirement of long-term debt	(7,010,538)
Subtotal general obligation bonds	<u>79,879,781</u>
Site lease purchase obligation	3,531,616
Net OPEB obligation	1,353,326
Total due after one year	<u>84,764,723</u>
Total Liabilities	<u>\$ 92,684,624</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 16,185,607
Restricted for:	
Capital projects	714,491
Debt service	7,392,509
Educational programs	234,730
Unrestricted	<u>5,115,506</u>
Total Net Assets	<u>\$ 29,642,843</u>

The notes to the basic financial statements are an integral part of this statement.

Los Altos School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

		Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
	Expenses	Services	Grants and	Changes in
			Contributions	Net Assets
Governmental activities:				
Instruction	\$ 31,371,747	\$ -	\$ 3,638,724	\$ (27,733,023)
Instruction-related services:				
Supervision of instruction	1,108,047	-	258,175	(849,872)
Instruction library, media and technology	728,882	-	-	(728,882)
School site administration	2,711,316	-	-	(2,711,316)
Pupil services:				
Home-to-school transportation	266,025	-	133,412	(132,613)
Food services	6,619	1,752	-	(4,867)
All other pupil services	1,999,579	-	18,220	(1,981,359)
General administration:				
Data processing	412,722	-	-	(412,722)
All other general administration	2,689,340	-	19,939	(2,669,401)
Plant services	4,917,999	-	463	(4,917,536)
Interest on long-term debt	6,082,101	-	-	(6,082,101)
Total governmental activities	<u>\$ 52,294,377</u>	<u>\$ 1,752</u>	<u>\$ 4,068,933</u>	<u>(48,223,692)</u>
General revenues:				
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				28,183,270
Taxes levied for debt service				9,093,651
Taxes levied for other specific purposes				7,768,814
Federal and state aid not restricted to specific purposes				1,410,300
Interest and investment earnings				49,473
Miscellaneous				<u>5,111,967</u>
Total general revenues				<u>51,617,475</u>
Change in net assets				3,393,783
Net assets beginning				<u>26,249,060</u>
Net assets ending				<u>\$ 29,642,843</u>

The notes to the basic financial statements are an integral part of this statement.

Los Altos School District
Governmental Funds
Balance Sheet
June 30, 2012

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash in county treasury	\$ 9,165,913	\$ 51,729	\$ 7,386,506	\$ 1,112,681	\$ 17,716,829
Cash in revolving fund	5,000	-	-	-	5,000
Accounts receivable	1,186,232	6,546	6,003	18,421	1,217,202
Due from grantor government	487,209	-	-	-	487,209
Prepaid items and inventory	274	-	-	-	274
Total Assets	\$ 10,844,628	\$ 58,275	\$ 7,392,509	\$ 1,131,102	\$ 19,426,514
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,008,247	\$ 7,456	\$ -	\$ 49,522	\$ 1,065,225
Due to grantor government	31,641	-	-	-	31,641
Deferred revenue	17,733	-	-	-	17,733
Total Liabilities	1,057,621	7,456	-	49,522	1,114,599
Fund balances:					
Nonspendable:					
Revolving fund	5,000	-	-	-	5,000
Stores inventory	274	-	-	-	274
Restricted for:					
Educational programs	234,730	-	-	-	234,730
Debt service	-	-	7,392,509	-	7,392,509
Assigned for:					
Other Postemployment Benefits	1,226,050	-	-	-	1,226,050
Educational programs	1,286,227	-	-	-	1,286,227
Site Repairs	-	-	-	417,908	417,908
Capital Projects	-	50,819	-	663,672	714,491
Unassigned:					
Unappropriated	7,034,726	-	-	-	7,034,726
Total Fund Balances	9,787,007	50,819	7,392,509	1,081,580	18,311,915
Total Liabilities and Fund Balances	\$ 10,844,628	\$ 58,275	\$ 7,392,509	\$ 1,131,102	\$ 19,426,514

The notes to the basic financial statements are an integral part of this statement.

Los Altos School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2012

Total fund balances - governmental funds	\$	18,311,915
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Amounts reported 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.

Capital assets at cost	\$	131,900,405	
Accumulated depreciation		<u>(29,788,997)</u>	102,111,408

Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not reported in the governmental funds.		(3,270,900)
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Other assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.

Unamortized bond issuance costs and discounts		789,545
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligation bonds	\$	83,603,480	
Unamortized bond premium		7,133,235	
Deferred loss on early retirement of long-term debt		(7,711,591)	
Site lease purchase obligation		3,690,222	
Net OPEB obligation		1,353,326	
Compensated absences (vacation)		<u>230,453</u>	<u>(88,299,125)</u>

Total net assets - governmental activities	\$	<u>29,642,843</u>
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The notes to the basic financial statements are an integral part of this statement.

Los Altos School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2012

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Revenue limit sources	\$ 26,170,118	\$ -	\$ -	\$ -	\$ 26,170,118
Federal revenue	1,005,829	-	-	-	1,005,829
Other state	1,638,884	-	42,688	-	1,681,572
Other local	16,476,330	184,347	9,067,064	1,155,476	26,883,217
Total revenues	45,291,161	184,347	9,109,752	1,155,476	55,740,736
Expenditures:					
Current					
Instruction	28,756,222	-	-	-	28,756,222
Instruction-related services:					
Supervision of instruction	1,100,846	-	-	-	1,100,846
Instruction library, media and technology	535,255	-	-	-	535,255
School site administration	2,506,981	-	-	-	2,506,981
Pupil services:					
Home-to-school transportation	266,025	-	-	-	266,025
Food services	5,880	-	-	-	5,880
All other pupil services	1,998,134	-	-	-	1,998,134
General administration:					
Data processing	405,451	-	-	-	405,451
All other general administration	2,636,221	-	-	-	2,636,221
Plant services	4,002,694	229,116	-	555,389	4,787,199
Facilities acquisition and construction	-	335,671	-	340,403	676,074
Debt service:					
Principal	151,302	-	3,060,520	-	3,211,822
Interest and fees	233,217	-	5,589,190	-	5,822,407
Total expenditures	42,598,228	564,787	8,649,710	895,792	52,708,517
Other financing sources (uses):					
Transfers in	-	-	-	296,030	296,030
Transfers out	(296,030)	-	-	-	(296,030)
Total other financing sources (uses)	(296,030)	-	-	296,030	-
Net changes in fund balances	2,396,903	(380,440)	460,042	555,714	3,032,219
Fund balances beginning	7,390,104	431,259	6,932,467	525,866	15,279,696
Fund balances ending	\$ 9,787,007	\$ 50,819	\$ 7,392,509	\$ 1,081,580	\$ 18,311,915

The notes to the basic financial statements are an integral part of this statement.

Los Altos School District
Reconciliation of the Governmental Funds Statement of
Revenues and Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

Total net change in fund balances - governmental funds	\$	3,032,219
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Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital asset additions	\$	172,633	
Less current year depreciation		<u>(2,684,270)</u>	(2,511,637)

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Repayment of site lease purchase obligations	\$	151,303	
Repayment of bond principal		<u>3,060,520</u>	3,211,823

Issuance costs, discounts and premiums related to bond issues is recorded as other financing sources and uses in the fund financial statements but is recorded as assets or liabilities and amortized over the life of the bond in the statement of net assets:

Amortization of bond premium	\$	648,476	
Deferred loss on early retirement of long-term debt		(701,053)	
Amortization of bond issuance costs and discounts		<u>(71,777)</u>	(124,354)

In the statement of activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net OPEB obligation was not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the statement of activities in the amount of:	(18,185)
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In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation used exceeded the amounts earned by:	(8,166)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>(187,917)</u>
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Changes in net assets of governmental activities	\$	<u>3,393,783</u>
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The notes to the basic financial statements are an integral part of this statement.

Los Altos School District
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2012

	Student Body Agency Fund Total
Assets:	
Cash on hand and in banks	\$ 157,015
Total Assets	<u>\$ 157,015</u>
Liabilities	
Due to student groups	\$ 157,015
Total Liabilities	<u>\$ 157,015</u>

The notes to the basic financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

Note 1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

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

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District has evaluated whether any other entity should be included in these financial statements using criteria established by GASB. The District does not have any component units and is not a component unit of any reporting entity for the fiscal year ended June 30, 2012.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. However, interfund services provided and used are not eliminated in the process of consolidation.

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

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

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus except for agency funds, which have no measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

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

Unearned revenue:

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

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, than unrestricted resources as they are needed.

E. Fund Accounting

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

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Building Fund* is used to account for proceeds from the sale or lease of real property and account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.
- The *Bond Interest and Redemption Fund* is used to account for the interest and redemption of principal of general obligation bonds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund. The District maintains one nonmajor special revenue funds:

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

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains one nonmajor capital projects fund:

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

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the two intermediate schools' student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Bond Interest and Redemption Fund. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. A legally adopted budget is not required for the Bond Interest and Redemption Fund.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

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

For the fiscal year ended June 30, 2012, books and supplies expenditures exceeded budget by \$42,223, within the General Fund. In total, the expenditures of the General Fund were \$190,242 within budget and the overage in the above category was deemed by management to not be significant to the financial statements.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

H. Assets, Liabilities, and Equity**1. Cash and Investments**

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation except for non-interest bearing accounts which are completely insured.

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

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. This includes cash in the County Treasury. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

2. Stores Inventories and Prepaid Expenditures***Stores inventories***

Stores inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's central warehouse inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets. The District did not report any prepaid expenditures for the fiscal year ended June 30, 2012.

3. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements,

and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Site improvements	20
Buildings	50
Portable buildings	20
Building improvements	20
Furniture and fixtures	20
Playground equipment	20
Food services equipment	15
Transportation equipment	15
Telephone system	10
Reprographics equipment	10
Vehicles	8
Computer system and equipment	5
Office equipment	5

4. Unearned Revenue

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

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

7. Fund Balance Classifications

The District maintains a minimum unassigned fund balance of not less than 3 percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The District believes a reserve of this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues to which basic aid districts are vulnerable. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and board policy, the District classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of trustees.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The District's board established a fund balance policy delegating the authority to assign fund balance amounts to the Superintendent and Assistant Superintendent of Business Services.
- Unassigned includes positive fund balance amounts within the general fund that have not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

In order to comply with the requirements of GASB 54, the District has combined transactions in the Special Reserve fund for Other than Capital Outlay (Special Reserve Fund) and the Special reserve fund for Other Postemployment Benefits (OPEB Fund) with the General Fund. The Special Reserve Fund and the OPEB Fund do not meet the definition of a special revenue fund as defined by GASB 54.

8. 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, laws or regulations of other governments. When an incurred expense's purpose can be appropriately applied to either restricted or unrestricted net assets, the District applies the applicable expense to restricted net assets.

Capital Projects restrictions will be used for the acquisition and construction of capital facilities.

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Educational Program restrictions reflect the amounts to be expended for federal and state funded educational programs.

9. Revenue Limit/Property Tax

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

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

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

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

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

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

10. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District has joined together with other school districts in the County to form the South Bay Area Schools Insurance Authority ("SBASIA"), the Santa Clara County School Insurance Group ("SCCSIG"), and to participate in the Schools Excess Liability Fund (SELF) public entity risk pools currently operating as common risk management and insurance program. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The joint powers agreements (JPA) provide that the SBASIA and SCCSIG will be self-sustaining through member premiums and will reinsure through commercial companies (or the excess JPA mentioned above) for claims in excess of self-insured levels.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage in each of the past three years.

11. Interfund Transactions

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

12. Accounting Estimates

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

I. New Accounting Pronouncements

Summary of Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 5 (Issued 06/11)*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement were implemented as of June 30, 2012 and did **not** have a significant impact on the District's financial statements.

J. Upcoming Accounting and Reporting Changes

Summary of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (Issued 12/10)*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the District's financial statements.

Summary of Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Issued 06/11)*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the District's financial statements.

Summary of Statement No. 65 Items Previously Reported as Assets and Liabilities (Issued 03/12). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The implementation of this standard will **not** have a significant impact on the District's financial statements.

Summary of Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 (Issued 06/12). This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Note 2. CASH AND INVESTMENTS**A. Summary of Deposits**

A summary of cash and investments as of June 30, 2012 is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
Cash in county treasury investment pool	\$ 17,716,829	\$ 17,706,003	AA
Cash in revolving fund	5,000	5,000	n/a
Subtotal cash and investments	17,721,829	17,711,003	
Fiduciary funds cash	157,015	157,015	
Total Cash and Investments	\$ 17,878,844	\$ 17,868,018	

B. Cash in banks and revolving funds

As of June 30, 2012, the bank balances of the District's accounts totaled \$168,476. All bank balances were fully covered by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC covers up to \$250,000 per bank for interest bearing accounts. Coverage on noninterest bearing accounts is unlimited through December 31, 2013.

C. Cash 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 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 fair value of the District's position in the pool is the same as the value of the pool. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

D. 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.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 investing in the County Treasury. The District maintains deposits with the Santa Clara County Investment Pool, which has a fair value of approximately \$3.85 billion. The amortized book value of the investment pool is \$3.83 billion. The average weighted maturity for this pool is 472 days. The District follows the County's interest rate risk policy but does not have a formal investment policy.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Santa Clara County Investment Pool is governed by the County's general investment policy, which is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The County's investment policy limits all investments to the top three ratings issued by at least two of the nationally recognized statistical rating organizations (NRSRO). The District follows the County's credit risk policy but does not have a formal investment policy.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California

law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Custodial Credit Risk – Investments

This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All of the District's cash has been invested with the Santa Clara County Investment Pool and is governed by the County's general investment policy.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

Note 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2012:

Receivables Categories	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Totals
Federal Government:					
Special education	\$ 202,267	\$ -	\$ -	\$ -	\$ 202,267
Title I Low Income	38,433	-	-	-	38,433
Other federal resources	7,867	-	-	-	7,867
State Government:					
Lottery	270,572	-	-	-	270,572
Special education	487,209	-	-	-	487,209
Interest	21,892	83	-	980	22,955
All other resources	645,201	6,463	6,003	17,441	675,108
Total Receivables	1,673,441	6,546	6,003	18,421	1,704,411
Less: Due from Other Governments	487,209	-	-	-	487,209
Accounts Receivable	\$ 1,186,232	\$ 6,546	\$ 6,003	\$ 18,421	\$ 1,217,202

Note 4. INTERFUND TRANSACTIONS

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

A. Interfund Receivables and Payables (Due to/from)

There were no interfund receivable or payable balances at June 30, 2012.

B. Interfund Transfers in and out

Interfund transfers consisted of the following as of June 30, 2012:

Fund Receiving Transfers	Fund Making Transfers	Amount
Deferred Maintenance Fund	General Fund	\$ 296,030 ¹
¹ Transfer of unrestricted deferred maintenance money from the General Fund for facilities upkeep		

Note 5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2012 were as follows:

Capital Asset Category	Balance June 30, 2011	Additions	Disposals	Adjustments & Reclassifications	Balance June 30, 2012
Non-Depreciable Capital Assets:					
Land	\$ 1,488,885	\$ -	\$ -	\$ -	\$ 1,488,885
Subtotal non-depreciable capital assets	1,488,885	-	-	-	1,488,885
Depreciable Capital Assets:					
Site improvements	1,225,056	-	-	-	1,225,056
Buildings and improvements	127,278,911	25,178	-	-	127,304,089
Equipment	1,734,920	147,455	-	-	1,882,375
Subtotal depreciable capital assets	130,238,887	172,633	-	-	130,411,520
Less accumulated depreciation for:					
Site improvements	1,041,672	12,750	-	-	1,054,422
Buildings and improvements	24,886,560	2,481,041	-	-	27,367,601
Equipment	1,176,495	190,479	-	-	1,366,974
Total accumulated depreciation	27,104,727	2,684,270	-	-	29,788,997
Subtotal depreciable capital asset - net depreciation	103,134,160	(2,511,637)	-	-	100,622,523
Capital Assets - Net	\$ 104,623,045	\$ (2,511,637)	\$ -	\$ -	\$ 102,111,408

Depreciation expense was charged to governmental activities as follows:

Governmental Activities Depreciation Expense by Function	
Instruction	\$ 2,085,733
Supervision of instruction	7,201
Instruction library, media and technology	193,627
School site administration	204,335
Food services	739
All other pupil services	1,445
Data processing	7,271
All other general administration	53,119
Plant services	130,800
Total Depreciation Expense	\$ 2,684,270

Note 6. TAX AND REVENUE ANTICIPATION NOTES

The District issued \$6,500,000 of tax and revenue anticipation notes dated July 1, 2011. The notes matured on June 28, 2012 and yield 0.25% interest. The TRAN was issued to supplement cash flow with a premium of \$910. The accrued interest expense of \$16,160 was paid in June of 2012. All TRAN payments are made from the General Fund.

The TRAN summary schedule of changes for the year ended June 30, 2012 was as follows:

Beginning balance	\$ 6,500,000
Increases	6,500,000
Decreases	(13,000,000)
Ending Balance	\$ -

Note 7. LONG-TERM LIABILITIES**A. Defeased Debt**

On June 22, 2006, the District issued \$112 million in 2006 General Obligation Refunding Bonds with interest rate ranging from 4.0 percent to 5.0 percent to advance refund \$88 million of outstanding general obligation bonds, with interest rate ranging from 4.0 percent to 10.0 percent, as follows: (i) \$34.6 million of 1999 General Obligation Bonds (Election of 1998, Series A, the "Series A Bonds"); (ii) \$46.2 million of 2001 General Obligation Bonds (Election of 1998, Series B, the "Series B Bonds") and (iii) \$7.2 million of 2003 General Obligation Bonds (Election of 1998, Series C, the "Series C Bonds"). Collectively the Series A Bonds, Series B Bonds, and Series C Bonds are referred to as the "Refunded Bonds." The net proceeds of \$99.9 million (after payment of \$1.2 million in underwriting fees, insurance and other issuance costs and a capital improvement reserve of \$10.9 million) were

used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded Bonds. As a result, the Refunded Bonds are considered to be defeased and the liability of those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference of \$11.9 million between the reacquisition price and the net carrying value amount of the old debt. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged (amortized) to operations through the year of 2024 using the straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 19 years by 1.2 million and obtain an economic gain (the difference between the present value of the old and new debt service payments) of \$3.7 million.

The 2006 General Obligation Refunding Bonds consist of Current Interest Bonds of \$92,215,000 and Capital Appreciation Bonds of \$8,854,000. Interest on Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2006. It bears interest rates ranging from 4.0% to 5.0%. The principal of the bonds is payable on August 1 of each year, commencing August 1, 2006. The Current Interest Bonds maturing on and after August 1, 2017 are subject to optional redemption prior to maturity at the option of the District beginning on August 1, 2016. The Capital Appreciation Bonds will not bear current interest, but will accrete interest, at their stated Bond Yields, commencing on their date of delivery, from their respective Denominational Amounts to their respective Maturity Values on their respective maturity dates. Interest is compounded semiannually on each February 1 and August 1, commencing August 1, 2006. The principal and interest of the bonds is payable on August 1 of each year for the Capital Appreciation Bonds, commencing August 1, 2011. The Capital Appreciation Bonds are not subject to redemption prior to their stated maturity dates.

The annual debt service requirements of the 2006 General Obligation Refunding Bonds, Current Interest and Capital Appreciation Bonds, as of June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2013	\$ 3,197,920	\$ 5,788,380	\$ 8,986,300
2014	3,392,000	5,946,700	9,338,700
2015	3,639,800	6,053,875	9,693,675
2016	3,963,760	6,108,290	10,072,050
2017	7,115,000	3,264,900	10,379,900
2018-2022	48,180,000	10,005,750	58,185,750
2023-2024	14,115,000	426,875	14,541,875
Total Debt Service	\$ 83,603,480	\$ 37,594,770	\$ 121,198,250

B. Site Lease Deposits

In June 2008, the District entered into a lease-leaseback agreement in which the Gardner Bullis School site, located on 25890 Fremont Road, Los Altos Hills, California, (owned by the District) was leased to a third party for a \$2,165,000 advance and subsequently leased back to the District pursuant to a 20 year operating lease. The District retained ownership of the underlying land and, therefore, accounted for the transaction under the deposit method of accounting as a lease purchase.

In October 2008, the District entered into a lease-leaseback agreement in which a site in Los Altos Hills, California, (owned by the District) was leased to a third party for a \$2,025,000 advance and subsequently leased back to the District pursuant to a 20 year operating lease. The District retained ownership of the underlying land and, therefore, accounted for the transaction under the deposit method of accounting as a lease purchase.

The principal and interest payments on the lease are payable twice a year and began in July of 2008 and end in November of 2028. The following is a schedule of the future minimum lease payments required under the lease:

Year Ending June 30,	Principal	Interest	Total Payment
2013	\$ 158,606	\$ 174,197	\$ 332,803
2014	166,261	166,541	332,802
2015	174,286	158,517	332,803
2016	182,698	150,104	332,802
2017	191,516	141,286	332,802
2018-2022	1,105,495	558,517	1,664,012
2023-2027	1,399,326	264,687	1,664,013
2028-2030	312,034	12,999	325,033
Total Lease Payable	\$ 3,690,222	\$ 1,626,848	\$ 5,317,070

C. Schedule of Changes in Long-term Liabilities

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2012, is shown below:

Long-term Liabilities	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
2006 GO Refunding Bond:					
Current Interest Bonds	\$ 77,810,000	\$ -	\$ 855,000	\$ 76,955,000	\$ 1,235,000
Capital Appreciation Bonds	8,854,000	-	2,205,520	6,648,480	1,962,920
Unamortized bond premium	7,781,711	-	648,476	7,133,235	648,476
Total 2006 GO Refunding Bond	94,445,711	-	3,708,996	90,736,715	3,846,396
Deferred loss on early retirement of long-term debt	(8,412,644)	-	(701,053)	(7,711,591)	(701,053)
Net 2006 GO Refunding Bond	86,033,067	-	3,007,943	83,025,124	3,145,343
Site lease purchases	3,841,525	-	151,303	3,690,222	158,606
Net postemployment benefits	1,335,141	1,456,021	1,437,836	1,353,326	-
Compensated Absences	222,287	234,640	226,474	230,453	230,453
Total Long-term Liabilities	\$ 91,432,020	\$ 1,690,661	\$ 4,823,556	\$ 88,299,125	\$ 3,534,402

Payments on the general obligation bonds are made from the Bond Interest and Redemption Fund using local revenues. Compensated absences and net postemployment benefits are paid by the General Fund. Site lease payments also are made from the General Fund.

Note 8. OPERATING LEASES

The District has entered into various operating leases for portables, building space and office equipment with lease terms in excess of one year. None of the agreements contain purchase options. All of the agreements contain termination clauses providing for lease cancellation after written notice is provided to the lessors. However, it is unlikely that the District will cancel any of the agreements before the expiration date. It is expected that in the normal course of business most of these leases will be replaced by similar leases. None of the leases have been sublet. The rent expense for the fiscal year ended June 30, 2012 was \$938,435 and the annual minimum lease payment is expected to be approximately \$639,000 for each of the next five years.

Note 9. JOINT POWERS AGREEMENTS

The District participates in five joint powers agreement ("JPA") entities: the South Bay Area Schools Insurance Authority ("SBASIA"), the Schools Excess Liability Fund ("SELF"), the Santa Clara County Schools Insurance Group ("SCCSIG"), Community Health Awareness Council ("CHAC"), and the Silicon Valley Joint Powers Transportation Agency ("SVJPTA"). A board consisting of a representative from each member district governs each JPA. The governing boards control the operation of the JPAs independent of any influence by the District beyond the District's representation on the governing board. Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionately to their participation. The relationship between the District and each JPA is such that each JPA is not a component unit of the District for financial reporting purposes. The following is the summary of coverage provided by each JPA, and each JPA's most recent financial statement information:

	Risk Management			Other	
	SBASIA	SELF	SCCSIG	SVJPTA	CHAC
	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Total Assets	\$ 4,660,164	\$ 61,306,000	\$ 14,542,296	\$ 1,050,091	\$ 1,556,469
Total Liabilities	2,596,007	28,613,000	5,716,585	646,188	146,385
Total Equity	2,064,157	32,693,000	8,825,711	403,903	1,410,084
Total Revenues	3,288,291	16,509,000	29,247,441	7,694,809	2,588,331
Total Expenditures	3,595,923	19,523,000	29,342,454	7,676,811	2,520,880
SBASIA provides property and liability insurance coverage.					
SELF provides excess liability insurance coverage.					
SCCSIG provides worker's compensation insurance.					
SVJPTA provides transportation services to students with disabilities.					
CHAC provides treatment services and prevention & intervention counseling services					

Note 10. COMMITMENTS AND CONTINGENCIES

A. Litigation

Various claims involving the District are currently outstanding. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

B. Federal and State Allowances, Award, and Grants

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

C. Early Retirement

The board of education has adopted an early retirement incentive program. The District has entered into contracts with certain eligible employees whereby 20 service days per year will be performed during the future five year period or age 65, whichever comes first, for a stipulated yearly amount plus employee benefits. The outstanding contract amount for this purpose is \$156,057. This amount is contingent upon the employees performing the required service days per year.

Note 11. EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System

1. Plan Description

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

2. Funding Policy

Active plan members are required to contribute 8% of their salaries and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012 was 8% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ended June 30, 2012, 2011 and 2010 were \$1,625,419, \$1,643,718 and \$1,652,347 respectively, and equal to 100% of the required contributions for each year.

B. Public Employees' Retirement System

1. Plan Description

The District contributes to PERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. 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. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

2. Funding Policy

Active plan members are required to contribute 7% of their salaries (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute at an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 10.923% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to PERS for the fiscal year ended June 30, 2012, 2011 and 2010 were \$654,280, \$740,460 and \$528,212 respectively, and equal to 100% of the required contributions for each year.

Note 12. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Los Altos School District Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the District. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the District, its management employees, and unions representing District employees. The District provides retiree medical benefits through the California Public Employees' Retirement System healthcare program (PEMHCA).

The eligibility requirements and benefits payable are:

Certificated employees hired prior to October, 1988 who retire after age 55 with at least 10 years of service are entitled to 100% (95% if retired after June 30, 2006) of the full medical premium for any CalPERS medical plan except PERS Care. Certificated employees hired after September, 1988 who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit (\$108 per month in 2011, \$112 in 2012). Dependent spouses are not covered, but medical benefits and the PEMHCA minimum continue to a surviving spouse after the retiree's death.

Classified employees hired prior to November, 1988 who retire after age 55 with at least 10 years of service are entitled to 100% (95% if retired after June 30, 2006) of the full medical premium for any CalPERS medical plan except PERS Care. Classified employees hired after October, 1988 who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit. Dependent spouses are not covered, but medical benefits and the PEMHCA minimum continue to a surviving spouse after the retiree's death.

Management employees hired prior to July 1989 and **confidential employees** hired prior to November, 1988 who retire after age 55 with at least 10 years of service (including 5 years of District service) are entitled to 100% (95% if retired after June 30, 2006) of the full medical premium for any CalPERS medical plan except PERS Care, plus dental coverage. Dependent spouses are also covered. All other management and confidential employees who retire after age 50 with at least 35 years of service will be paid the PEMHCA minimum benefit. Dental benefits are also payable if hired before July 1989 and retired before May 2009. Dependent spouses are not covered, but the PEMHCA minimum continues to a surviving spouse after the retiree's death.

A few retirees participate in the Merchant Industry Trust medical plan.

As of July 1 2011, plan membership consisted of 406 active participants and 174 retirees and beneficiaries. Copies of the Plan's annual audited financial report are not available.

Funding Policy. There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal years 2011/12 and 2010/11, the District paid \$1,437,836 and \$861,796 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Annual OPEB Cost and Net OPEB Obligation. The following table, based on the District's actuarial valuation as of July 1, 2011, 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:

Annual required contribution	\$ 1,481,730
Interest on net OPEB obligation	56,743
Adjustment to annual required contribution	(82,452)
Annual OPEB cost (expense)	1,456,021
Contributions made	(1,437,836)
Increase in net OPEB obligation	18,185
Net OPEB obligation - beginning of year	1,335,141
Net OPEB obligation - end of year	\$ 1,353,326

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010/11 and 2011/12 are as follows:

Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 1,271,000	70.75%	654,844
6/30/2011	\$ 1,542,093	55.88%	1,335,141
6/30/2012	\$ 1,456,021	98.75%	1,353,326

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

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 are consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected long-term investment return on District investments, a 3% general inflation assumption and an annual aggregate payroll increase rate of 3.25%. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis, starting June 30, 2008.

Note 13. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes (the "Notes")

The District issued \$5,500,000 of tax and revenue anticipation notes dated July 3, 2012. The notes mature on June 28, 2013 and yield 1.5% interest. The notes were sold to supplement cash flow. Both the principal and interest on the notes are payable in full by June 28, 2013.

Required Supplementary Information Section

Los Altos School District
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget to Actual (GAAP)
 General Fund
 For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	(GAAP Basis)	Final Budget Positive - (Negative)
Revenues:				
Revenue limit sources:	\$ 25,035,112	\$ 25,659,648	\$ 26,170,118	\$ 510,470
Federal revenues	955,553	1,014,492	1,005,829	(8,663)
Other state	774,741	1,435,374	1,638,884	203,510
Other local	12,815,280	15,329,454	16,476,330	1,146,876
Total revenues	39,580,686	43,438,968	45,291,161	1,852,193
Expenditures:				
Certificated salaries	17,777,185	19,822,154	19,793,946	28,208
Classified salaries	5,839,616	6,366,032	6,351,681	14,351
Employee benefits	9,113,990	9,422,359	9,379,352	43,007
Books and supplies	1,327,581	1,703,412	1,745,635	(42,223)
Services and other operating expenditures	5,009,867	4,954,635	4,839,063	115,572
Capital outlay	176,349	181,575	155,749	25,826
Other outgo	338,303	338,303	332,802	5,501
Total expenditures	39,582,891	42,788,470	42,598,228	190,242
Excess (deficiency) of revenues over (under) expenditures	(2,205)	650,498	2,692,933	2,042,435
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(148,532)	(148,015)	(296,030)	(148,015)
Total other financing sources (uses)	(148,532)	(148,015)	(296,030)	(148,015)
Change in fund balance	(150,737)	502,483	2,396,903	1,894,420
Fund balances beginning	7,390,104	7,390,104	7,390,104	-
Fund balances ending	\$ 7,239,367	\$ 7,892,587	\$ 9,787,007	\$ 1,894,420

Notes to RSI:

The budgetary information in the above schedule is presented in the GAAP basis which serves as the District's basis for budgeting.

Los Altos School District
 Required Supplementary Information
 Employee Retirement and Other Postemployment Benefits
 For the Fiscal Year Ended June 30, 2012

Schedule of Funding Progress - Postemployment Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
1/1/2009	-	\$ 18,322,000	\$ 18,322,000	0.00%	\$ 24,689,000	74.21%
7/1/2011	-	20,509,002	20,509,002	0.00%	26,320,000	77.92%

Schedule of Employer Contributions - Postemployment Healthcare Plan				
Year Ended June 30,	Annual Required Contribution	Contributions Made	Percentage Contribution	
2010	\$ 1,271,000	\$ 899,199	70.75%	
2011	1,265,000	861,796	68.13%	
2012	1,481,730	1,437,836	97.04%	

STRS Actuarial Pool for California School Districts (millions)							
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll	
2009	\$ 185,683	\$ 145,142	\$ 40,541	78%	\$ 27,327	148%	
2010	196,315	140,291	56,024	71%	26,275	213%	
2011	208,405	143,930	64,475	69%	25,576	252%	

CalPERS Actuarial Pool for California School Districts (millions)							
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll	
2009	\$ 52,490	\$ 34,150	\$ 18,340	65.1%	\$ 10,420	176%	
2010	55,307	38,435	16,872	69.5%	10,584	159%	
2011	58,358	45,901	12,457	78.7%	9,935	125%	

Other Supplementary Information

Los Altos School District
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget to Actual (GAAP)
 Building Fund
 For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
Revenues:				
Other local	\$ 183,760	\$ 193,060	\$ 184,347	\$ (8,713)
Total revenues	183,760	193,060	184,347	(8,713)
Expenditures:				
Books and supplies	24,000	36,200	23,900	12,300
Services and other operating expenditures	293,390	459,700	447,707	11,993
Capital outlay	145,000	102,000	93,180	8,820
Total expenditures	462,390	597,900	564,787	33,113
Excess (deficiency) of revenues over (under) expenditures	(278,630)	(404,840)	(380,440)	24,400
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(150,000)	-	-	-
Total other financing sources (uses)	(150,000)	-	-	-
Change in fund balance	(428,630)	(404,840)	(380,440)	24,400
Fund balances beginning	431,259	431,259	431,259	-
Fund balances ending	\$ 2,629	\$ 26,419	\$ 50,819	\$ 24,400

Los Altos School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2012

	Special Revenue Fund	Capital Projects Fund	
	Deferred Maintenance Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds
Assets			
Cash in county treasury	\$ 417,452	\$ 695,229	\$ 1,112,681
Accounts receivable	456	17,965	18,421
Due from other funds	-	-	-
Total Assets	\$ 417,908	\$ 713,194	\$ 1,131,102
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 49,522	\$ 49,522
Total Liabilities	-	49,522	49,522
Fund Balances:			
Assigned for site repairs	417,908	-	417,908
Assigned for capital projects	-	663,672	663,672
Total Fund Balances	417,908	663,672	1,081,580
Total Liabilities and Fund Balances	\$ 417,908	\$ 713,194	\$ 1,131,102

Los Altos School District
 Nonmajor Governmental Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2012

	Special Revenue Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Deferred Maintenance Fund	Capital Facilities Fund	
Revenues:			
Other local	\$ 1,711	\$ 1,153,765	\$ 1,155,476
Total revenues	1,711	1,153,765	1,155,476
Expenditures:			
Current			
Plant services	75,891	479,498	555,389
Facilities acquisition and construction	46,436	293,967	340,403
Total expenditures	122,327	773,465	895,792
Excess (deficiency) of revenues over (under) expenditures	(120,616)	380,300	259,684
Other financing sources (uses):			
Transfers in	296,030	-	296,030
Total other financing sources (uses)	296,030	-	296,030
Change in fund balances	175,414	380,300	555,714
Fund balances beginning	242,494	283,372	525,866
Fund balances ending	\$ 417,908	\$ 663,672	\$ 1,081,580

Los Altos School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP)
For the Fiscal Year Ended June 30, 2012

	Deferred Maintenance Fund			Capital Facilities Fund			Total Nonmajor Governmental Funds		
	Budget	Actual	Variance Positive - (Negative)	Budget	Actual	Variance Positive - (Negative)	Budget	Actual	Variance Positive - (Negative)
Revenues:									
Other local	\$ 3,000	\$ 15,504	\$ 12,504	\$ 1,128,100	\$ 1,153,765	\$ 25,665	\$ 1,131,100	\$ 1,169,269	\$ 38,169
Total revenues	3,000	15,504	12,504	1,128,100	1,153,765	25,665	1,131,100	1,169,269	38,169
Expenditures:									
Classified salaries	56,112	56,112	-	-	-	-	56,112	56,112	-
Employee benefits	33,719	33,572	147	-	-	-	33,719	33,572	147
Books and supplies	11,000	-	11,000	68,000	64,557	3,443	79,000	64,557	14,443
Services and other operating expenditures	-	-	-	514,257	554,760	(40,503)	514,257	554,760	(40,503)
Capital outlay	76,000	46,436	29,564	135,000	154,148	(19,148)	211,000	200,584	10,416
Total expenditures	176,831	136,120	40,711	717,257	773,465	(56,208)	894,088	909,585	(15,497)
Excess (deficiency) of revenues over (under) expenditures	(173,831)	(120,616)	53,215	410,843	380,300	(30,543)	237,012	259,684	22,672
Other financing sources (uses):									
Transfers in	148,015	296,030	148,015	-	-	-	148,015	296,030	148,015
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	148,015	296,030	148,015	-	-	-	148,015	296,030	148,015
Changes in fund balances	(25,816)	175,414	201,230	410,843	380,300	(30,543)	385,027	555,714	170,687
Fund balances beginning	242,494	242,494	-	283,372	283,372	-	525,866	525,866	-
Fund balances ending	\$ 216,678	\$ 417,908	\$ 201,230	\$ 694,215	\$ 663,672	\$ (30,543)	\$ 910,893	\$ 1,081,580	\$ 170,687

Los Altos School District
 Fiduciary Funds
 Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2012

	Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012
Assets				
Cash on hand and in banks				
Egan Junior High School	\$ 119,580	\$ 329,378	\$ 309,552	\$ 139,406
Blach Junior High School	15,243	158,682	156,316	17,609
Total cash on hand and in banks	<u>134,823</u>	<u>488,060</u>	<u>465,868</u>	<u>157,015</u>
Total Assets	<u>134,823</u>	<u>488,060</u>	<u>465,868</u>	<u>157,015</u>
Liabilities				
Due to student groups				
Egan Junior High School	119,580	329,378	309,552	139,406
Blach Junior High School	15,243	158,682	156,316	17,609
Total due to student groups	<u>134,823</u>	<u>488,060</u>	<u>465,868</u>	<u>157,015</u>
Total Liabilities	<u>\$ 134,823</u>	<u>\$ 488,060</u>	<u>\$ 465,868</u>	<u>\$ 157,015</u>

Los Altos School District
Schedule of General Capital Assets by Source
June 30, 2012

	Cost Basis June 30, 2012	Accumulated Depreciation	Book Value June 30, 2012
Capital assets			
Land	\$ 1,488,885	\$ -	\$ 1,488,885
Site improvements	1,225,056	1,054,422	170,634
Buildings and improvements	127,304,089	27,367,601	99,936,488
Equipment	1,882,375	1,366,974	515,401
Total capital assets	\$131,900,405	\$29,788,997	\$102,111,408
Capital assets by source:			
General Fund	\$ 4,345,631	\$ 2,303,647	\$ 2,041,984
Deferred Maintenance Fund	109,388	31,127	78,261
Building Fund	126,439,008	27,254,623	99,184,385
Capital Facilities Fund	1,006,378	199,600	806,778
Total capital assets by source	\$131,900,405	\$29,788,997	\$102,111,408

Los Altos School District
Schedule of General Capital Assets by Function and Activity
June 30, 2012

Function and Activity	Land	Site Improvements	Buildings and Improvements	Equipment	Total	Accumulated Depreciation	Net Book Value
Instruction	\$ 1,488,885	\$ 130,276	\$ 100,684,946	\$ 1,003,996	\$ 103,308,103	\$ 22,660,882	\$ 80,647,221
Supervision of instruction	-	-	360,061	-	360,061	72,872	287,189
Instruction library, media and technology	-	3,074	9,773,451	-	9,776,525	1,980,275	7,796,250
School site administration	-	1,032,467	8,472,419	425,822	9,930,708	3,184,432	6,746,276
Food services	-	384	37,143	9,631	47,158	13,870	33,288
All other pupil services	-	384	81,425	-	81,809	47,432	34,377
Data processing	-	-	137,686	41,174	178,860	57,785	121,075
All other general administration	-	-	2,702,448	24,500	2,726,948	697,489	2,029,459
Plant services	-	58,471	5,054,510	377,252	5,490,233	1,073,960	4,416,272
Total capital assets	<u>\$ 1,488,885</u>	<u>\$ 1,225,056</u>	<u>\$ 127,304,089</u>	<u>\$ 1,882,375</u>	<u>\$ 131,900,405</u>	<u>\$ 29,788,997</u>	<u>\$ 102,111,408</u>

Los Altos School District
Schedule of Changes in General Capital Assets by Function and Activity
June 30, 2012

Function and Activity	Capital Assets June 30, 2011	Additions	Deletions	Capital Assets June 30, 2012	Accumulated Depreciation June 30, 2011	Additions	Deletions	Accumulated Depreciation June 30, 2012	Net Book Value
Instruction	\$ 103,164,639	\$ 143,464	\$ -	\$ 103,308,103	\$ 20,575,149	\$ 2,085,733	\$ -	\$ 22,660,882	\$ 80,647,221
Supervision of instruction	360,061	-	-	360,061	65,671	7,201	-	72,872	287,189
Instruction library, media and technology	9,776,525	-	-	9,776,525	1,786,648	193,627	-	1,980,275	7,796,250
School site administration	9,930,708	-	-	9,930,708	2,980,097	204,335	-	3,184,432	6,746,276
Food services	47,158	-	-	47,158	13,131	739	-	13,870	33,288
All other pupil services	81,809	-	-	81,809	45,987	1,445	-	47,432	34,377
Data processing	178,860	-	-	178,860	50,514	7,271	-	57,785	121,075
All other general administration	2,726,948	-	-	2,726,948	644,370	53,119	-	697,489	2,029,459
Plant services	5,461,064	29,169	-	5,490,233	943,160	130,800	-	1,073,960	4,416,273
Total capital assets	\$ 131,727,772	\$ 172,633	\$ -	\$ 131,900,405	\$ 27,104,727	\$ 2,684,270	\$ -	\$ 29,788,997	\$ 102,111,408

Statistical Section

Statistical Section (Unaudited)

The Statistical Section presents information useful in giving the reader an overall understanding of the school district as well as an historical perspective regarding financial information in this report. Unless noted otherwise, historical data is presented for the most recent ten-year period. The information in this section helps the reader better understand the overall financial health of the district.

Financial Trends

These schedules contain trend information to help the reader understand how the district's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the district's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the district's ability to issue additional debt in the future.

Economic and Demographic Information

These schedules offer economic and demographic indicators to help the reader understand the environment within which the district's financial activities take place.

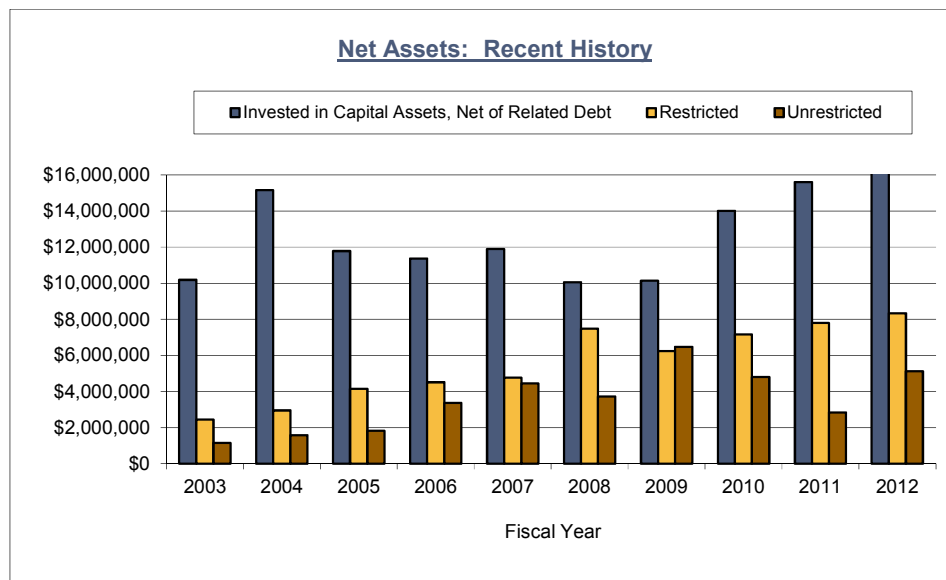
Operating Information

These schedules contain service and capital asset data to help the reader understand how the information in the financial report relates to the services the district provides and the activities it performs.

Net Assets by Component

Invested in Capital Assets, Net of								
Fiscal Year	Related Debt		Restricted		Unrestricted		Total	
2003	\$	10,193,815	\$	2,449,302	\$	1,145,129	\$	13,788,246
2004	\$	15,163,405	\$	2,948,950	\$	1,585,104	\$	19,697,459
2005	\$	11,790,516	\$	4,141,209	\$	1,823,734	\$	17,755,459
2006	\$	11,369,936	\$	4,522,081	\$	3,368,812	\$	19,260,829
2007	\$	11,898,470	\$	4,775,888	\$	4,452,343	\$	21,126,701
2008	\$	10,059,123	\$	7,478,699	\$	3,717,166	\$	21,254,988
2009	\$	10,143,853	\$	6,242,842	\$	6,482,798	\$	22,869,493
2010	\$	14,009,604	\$	7,156,505	\$	4,805,344	\$	25,971,453
2011	\$	15,609,775	\$	7,798,583	\$	2,840,702	\$	26,249,060
2012	\$	16,185,607	\$	8,341,730	\$	5,115,506	\$	29,642,843

Source: Data extracted from District Financial Statements.



Change in Net Assets

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Expenses										
Governmental Activities										
Instruction	\$ 22,256,186	\$ 23,031,493	\$ 25,956,666	\$ 26,338,576	\$ 29,114,176	\$ 30,678,800	\$ 31,994,828	\$ 30,939,120	\$ 32,026,266	\$ 31,371,747
Instruction-related services	2,599,949	2,765,767	2,925,391	3,408,301	3,704,634	4,217,861	4,322,623	4,429,222	4,274,264	4,548,245
Pupil services	1,765,685	1,685,076	1,704,609	1,780,992	1,986,613	2,082,925	2,144,915	2,248,887	2,370,819	2,272,223
General administration	3,025,307	3,842,776	3,188,511	2,998,713	2,784,208	2,700,089	2,631,750	3,015,739	2,928,965	3,102,062
Plant services	4,838,124	3,338,470	3,598,358	4,074,580	4,016,375	4,193,525	4,801,128	4,832,257	5,214,914	4,917,999
Facilities acquisition and construction	-	-	1,540,120	164,685	385,721	984,314	-	-	-	-
Other educational programs	183,697	119,828	698,513	903,635	1,382,410	5,380	-	-	3,340	-
Interest and fiscal charges	3,077,663	3,478,651	3,801,985	2,625,209	4,927,496	4,661,558	4,706,547	4,499,114	5,743,858	6,082,101
Total Governmental Activities	<u>37,746,611</u>	<u>38,262,061</u>	<u>43,414,153</u>	<u>42,294,691</u>	<u>48,301,633</u>	<u>49,524,452</u>	<u>50,601,791</u>	<u>49,964,339</u>	<u>52,562,426</u>	<u>52,294,377</u>
Special Item - Bond Arbitrage		799,213								
Total Expenses	<u>37,746,611</u>	<u>39,061,274</u>	<u>43,414,153</u>	<u>42,294,691</u>	<u>48,301,633</u>	<u>49,524,452</u>	<u>50,601,791</u>	<u>49,964,339</u>	<u>52,562,426</u>	<u>52,294,377</u>
Revenues										
Program Revenues										
Charges for Services										
Pupil Services	462,697	352,713	1,675	1,132	21,894	8,106	1,587	531	565	1,752
Operating Grants and Contributions	14,439,918	11,470,125	4,645,749	4,553,367	6,091,317	5,624,637	5,414,423	4,970,086	4,946,391	4,068,933
Total Program Revenues	<u>14,902,615</u>	<u>11,822,838</u>	<u>4,647,424</u>	<u>4,554,499</u>	<u>6,113,211</u>	<u>5,632,743</u>	<u>5,416,010</u>	<u>4,970,617</u>	<u>4,946,956</u>	<u>4,070,685</u>
Net Revenue/(Expense)	<u>(22,843,996)</u>	<u>(27,238,436)</u>	<u>(38,766,729)</u>	<u>(37,740,192)</u>	<u>(42,188,422)</u>	<u>(43,891,709)</u>	<u>(45,185,781)</u>	<u>(44,993,722)</u>	<u>(47,615,470)</u>	<u>(48,223,692)</u>
General Revenues										
Property taxes	25,167,472	29,986,336	31,625,124	33,358,076	36,884,366	38,063,765	40,226,775	43,121,882	43,424,004	45,045,735
Grants and entitlements, unrestricted	1,961,826	2,163,441	2,586,363	2,865,431	3,423,867	2,973,588	2,785,203	1,739,376	560,790	1,410,300
Interest and investment earnings	971,060	591,287	415,252	437,524	1,036,178	726,272	429,949	165,935	160,518	49,473
Miscellaneous	227,600	406,585	2,197,990	2,584,531	2,709,884	2,513,383	3,358,359	3,068,489	3,747,765	5,111,967
Total General Revenues	<u>28,327,958</u>	<u>33,147,649</u>	<u>36,824,729</u>	<u>39,245,562</u>	<u>44,054,295</u>	<u>44,277,008</u>	<u>46,800,286</u>	<u>48,095,682</u>	<u>47,893,077</u>	<u>51,617,475</u>
Special Item - Loss on disposals						(257,013)				
Total General Revenues and special items						<u>44,019,995</u>				
Total Revenues	<u>\$ 43,230,573</u>	<u>\$ 44,970,487</u>	<u>\$ 41,472,153</u>	<u>\$ 43,800,061</u>	<u>\$ 50,167,506</u>	<u>\$ 49,909,751</u>	<u>\$ 52,216,296</u>	<u>\$ 53,066,299</u>	<u>\$ 52,840,033</u>	<u>\$ 55,688,160</u>
Change in Net Assets	<u>\$ 5,483,962</u>	<u>\$ 5,909,213</u>	<u>\$ (1,942,000)</u>	<u>\$ 1,505,370</u>	<u>\$ 1,865,873</u>	<u>\$ 128,286</u>	<u>\$ 1,614,505</u>	<u>\$ 3,101,960</u>	<u>\$ 277,607</u>	<u>\$ 3,393,783</u>

Source: Data extracted from District Financial Statements.

Government-wide Expenses by Function, Total

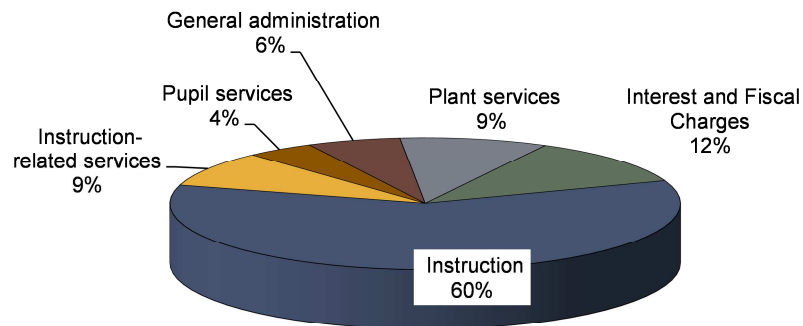
Fiscal Year	Enrollment	Instruction	Instruction-related services	Pupil services	General administration	Plant services	Facilities acquisition & construction	Other Educ. programs	Interest and Fiscal Charges	Total
2003	4,032	\$ 22,256,186	\$ 2,599,949	\$ 1,765,685	\$ 3,025,307	\$ 4,838,124	\$ -	\$ 183,697	\$ 3,077,663	\$ 37,746,611
2004	4,050	23,031,493	2,765,767	1,685,076	3,842,776	3,338,470	-	119,828	3,478,651	38,262,061
2005	3,941	25,956,666	2,925,391	1,704,609	3,188,511	3,598,358	1,540,120	698,513	3,801,985	43,414,153
2006	4,036	26,338,576	3,408,301	1,780,992	2,998,713	4,074,580	164,685	903,635	2,625,209	42,294,691
2007	4,158	29,114,176	3,704,634	1,986,613	2,784,208	4,016,375	385,721	1,382,410	4,927,496	48,301,633
2008	4,265	30,678,800	4,217,861	2,082,925	2,700,089	4,193,525	984,314	5,380	4,661,558	49,524,452
2009	4,245	31,994,828	4,322,623	2,144,915	2,631,750	4,801,128	-	-	4,706,547	50,601,791
2010	4,287	30,939,120	4,429,222	2,248,887	3,015,739	4,832,257	-	-	4,499,114	49,964,339
2011	4,384	32,026,266	4,274,264	2,370,819	2,928,965	5,214,914	-	3,340	5,743,858	52,562,426
2012	4,477	31,371,747	4,548,245	2,272,223	3,102,062	4,917,999	-	-	6,082,101	52,294,377

Source: District records.

Government-wide Expenses by Function, Per Student

Fiscal Year	Enrollment	Instruction	Instruction-related services	Pupil services	General administration	Plant services	Facilities acquisition & construction	Other Educ. programs	Interest and Fiscal Charges	Total
2003	4,032	\$ 5,520	\$ 645	\$ 438	\$ 750	\$ 1,200	\$ -	\$ 46	\$ 763	\$ 9,362
2004	4,050	5,687	683	416	949	824	-	30	859	9,447
2005	3,941	6,586	742	433	809	913	391	177	965	11,016
2006	4,036	6,526	844	441	743	1,010	41	224	650	10,479
2007	4,158	7,002	891	478	670	966	93	332	1,185	11,617
2008	4,265	7,193	989	488	633	983	231	1	1,093	11,612
2009	4,245	7,537	1,018	505	620	1,131	-	-	1,109	11,920
2010	4,287	7,217	1,033	525	703	1,127	-	-	1,049	11,655
2011	4,384	7,305	975	541	668	1,190	-	1	1,310	11,990
2012	4,477	7,007	1,016	508	693	1,099	-	-	1,359	11,681

Source: District records.



Government-wide Expenses, FY 2012

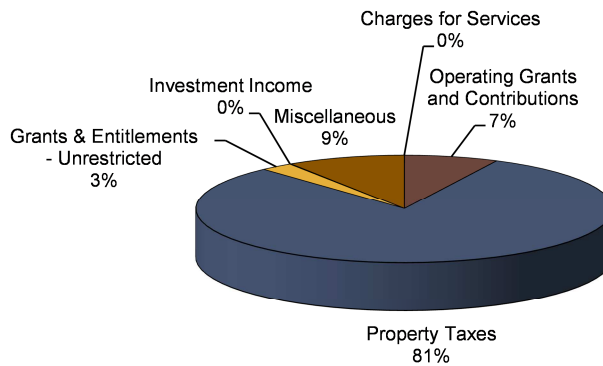
Government-wide Revenues

Fiscal Year	Program Revenues		General Revenues				Total
	Charges for Services	Operating Grants and Contributions	Property Taxes	Grants & Entitlements - Unrestricted	Investment Income	Miscellaneous ⁽¹⁾	
2003	\$ 462,697	\$ 14,439,918	\$ 25,167,472	\$ 1,961,826	\$ 971,060	\$ 227,600	\$ 43,230,573
2004	\$ 352,713	\$ 11,470,125	\$ 29,986,336	\$ 2,163,441	\$ 591,287	\$ 406,585	\$ 44,970,487
2005	\$ 1,675	\$ 4,645,749	\$ 31,625,124	\$ 2,586,363	\$ 415,252	\$ 2,197,990	\$ 41,472,153
2006	\$ 1,132	\$ 4,553,367	\$ 33,358,076	\$ 2,865,431	\$ 437,524	\$ 2,584,531	\$ 43,800,061
2007	\$ 21,894	\$ 6,091,317	\$ 36,884,366	\$ 3,423,867	\$ 1,036,178	\$ 2,709,884	\$ 50,167,506
2008	\$ 8,106	\$ 5,624,637	\$ 38,063,765	\$ 2,973,588	\$ 726,272	\$ 2,256,370	\$ 49,652,738
2009	\$ 1,587	\$ 5,414,423	\$ 40,226,775	\$ 2,785,203	\$ 429,949	\$ 3,358,359	\$ 52,216,296
2010	\$ 531	\$ 4,970,086	\$ 43,121,882	\$ 1,739,376	\$ 165,935	\$ 3,068,489	\$ 53,066,299
2011	\$ 565	\$ 4,946,391	\$ 43,424,004	\$ 560,790	\$ 160,518	\$ 3,747,765	\$ 52,840,033
2012	\$ 1,752	\$ 4,068,933	\$ 45,045,735	\$ 1,410,300	\$ 49,473	\$ 5,111,967	\$ 55,688,160

⁽¹⁾ FY2008 "Miscellaneous" includes a \$257,013 special item (loss on disposals).

Source: District records.

Government-wide Revenues, FY 2012



General District Revenues by Source

Fiscal Year	Revenue Limit Sources	Federal	Other State	Other Local	Other Financing Sources	Operating Transfers In	Total Revenues
2003	\$ 18,320,988	\$ 565,591	\$ 3,634,402	\$ 6,871,721	\$ -	\$ 153,175	\$ 29,545,877
2004	\$ 18,142,164	\$ 736,569	\$ 3,198,949	\$ 10,802,453	\$ -	\$ -	\$ 32,880,135
2005	\$ 19,503,372	\$ 952,473	\$ 3,596,225	\$ 11,189,600	\$ -	\$ 309,486	\$ 35,551,156
2006	\$ 21,438,243	\$ 1,050,397	\$ 3,739,955	\$ 11,492,356	\$ -	\$ -	\$ 37,720,951
2007	\$ 23,372,515	\$ 958,670	\$ 5,380,143	\$ 12,478,951	\$ -	\$ -	\$ 42,190,279
2008	\$ 23,666,077	\$ 883,387	\$ 4,695,789	\$ 12,233,364	\$ -	\$ 157,166	\$ 41,635,783
2009	\$ 25,299,763	\$ 1,075,398	\$ 4,406,477	\$ 12,915,695	\$ -	\$ -	\$ 43,697,333
2010	\$ 26,275,514	\$ 1,932,612	\$ 2,567,382	\$ 12,607,715	\$ -	\$ 275,848	\$ 43,659,071
2011	\$ 25,458,478	\$ 1,783,741	\$ 2,115,088	\$ 13,746,462	\$ -	\$ 1,364,462	\$ 44,468,231
2012	\$ 26,170,118	\$ 1,005,829	\$ 1,638,884	\$ 16,478,041	\$ -	\$ 296,030	\$ 45,588,902

Funds included are General Fund and Special Revenue Funds.

Source: District records.

General District Expenditures & Other Uses by Object

Fiscal Year	Certificated Salaries	Classified Salaries	Employee Benefits	Books & Supplies	Services & Other Oper. Exp.	Capital Outlay	Other Outgo	Operating Transfers Out	Total Expenditures & Other Uses
2003	15,930,727	4,290,048	6,057,361	685,720	3,029,870	293,493	-	-	30,287,219
2004	16,606,201	4,547,804	6,672,045	807,455	3,653,390	490,245	2,828	-	32,779,968
2005	17,443,985	5,005,355	6,646,670	1,212,061	4,380,617	368,199	698,512	-	35,755,399
2006	17,715,512	5,214,671	7,009,680	977,407	4,415,864	1,266,274	903,634	-	37,503,042
2007	19,385,955	5,773,231	7,557,002	1,374,281	4,372,642	1,045,469	1,375,512	-	40,884,092
2008	20,468,766	6,261,356	8,206,581	1,963,449	4,255,628	255,744	5,381	157,166	41,574,071
2009	20,706,572	6,360,244	8,650,400	1,508,458	4,263,747	288,858	-	-	42,047,100
2010	20,146,577	6,247,351	8,442,562	1,818,732	4,745,088	229,941	-	275,848	42,238,902
2011	19,854,449	6,678,388	9,302,308	1,626,460	4,859,402	282,527	3,340	1,364,462	44,304,139
2012	19,793,946	6,407,793	9,412,924	1,745,635	4,825,270	202,185	-	296,030	43,016,585

Funds included are General Fund and Special Revenue Funds.

Source: District records.

General District Expenditures by Function

Fiscal Year	Instruction	Instruction-related services	Pupil services	General administration	Plant services	Other Educ. Programs	Total
2003	20,803,929	2,437,517	1,655,374	2,836,301	2,381,877	172,221	30,287,219
2004	22,131,588	2,640,536	1,608,777	3,664,703	2,618,535	115,829	32,779,968
2005	24,563,627	2,765,039	1,611,174	3,013,737	2,899,586	902,236	35,755,399
2006	24,718,586	3,199,480	1,671,873	2,814,986	3,914,092	1,184,026	37,503,043
2007	27,384,127	3,564,017	1,884,886	2,621,146	3,716,310	1,713,606	40,884,092
2008	28,808,870	3,841,939	2,080,922	2,640,392	3,950,581	251,367	41,574,071
2009	28,789,890	3,917,608	2,143,165	2,571,419	4,103,506	521,512	42,047,100
2010	28,001,455	4,018,356	2,246,602	2,957,361	4,227,636	511,642	41,963,052
2011	28,816,638	3,863,397	2,368,534	2,869,932	4,525,211	495,965	42,939,677
2012	28,756,222	4,143,081	2,270,039	3,041,672	4,125,021	384,520	42,720,555

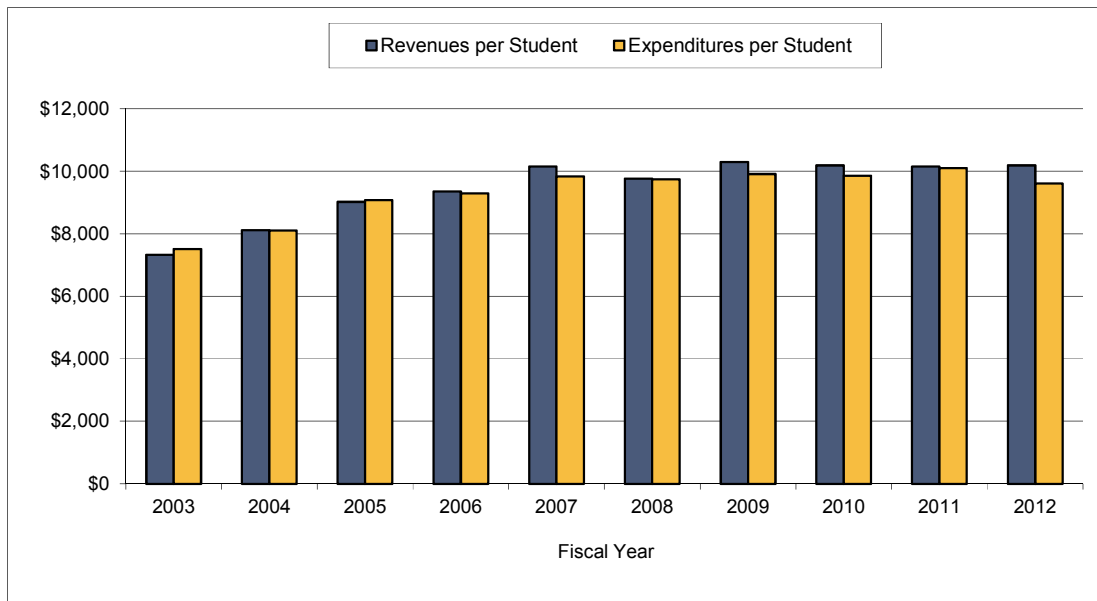
Source: District records.

General District Revenues and Expenditures, per Student

Fiscal Year	Total Revenues	Total Expenditures	Enrollment	Revenues per Student	Expenditures per Student
2003	29,545,877	30,287,219	4,032	7,328	7,512
2004	32,880,135	32,779,968	4,050	8,119	8,094
2005	35,551,156	35,755,399	3,941	9,021	9,073
2006	37,720,951	37,503,042	4,036	9,346	9,292
2007	42,190,279	40,884,092	4,158	10,147	9,833
2008	41,635,783	41,574,071	4,265	9,762	9,748
2009	43,697,333	42,047,100	4,245	10,294	9,905
2010	43,659,071	42,238,902	4,287	10,184	9,853
2011	44,468,231	44,304,139	4,384	10,143	10,106
2012	45,588,902	43,016,585	4,477	10,183	9,608

Funds included are General Fund and Special Revenue Funds. Expenditures include Operating Transfers Out.

Source: District records.



Fund Balances, Governmental Funds

General Fund								
Fiscal Year	Reserved	Unreserved	Nonspendable	Restricted	Committed	Assigned	Unassigned	Total
2003	918,378	812,191	-	-	-	-	-	1,730,569
2004	629,225	1,228,766	-	-	-	-	-	1,857,991
2005	460,594	797,164	-	-	-	-	-	1,257,758
2006	1,011,919	1,193,153	-	-	-	-	-	2,205,072
2007	767,057	2,858,786	-	-	-	-	-	3,625,843
2008	561,001	3,025,841	-	-	-	-	-	3,586,842
2009	2,471,979	2,768,009	-	-	-	-	-	5,239,988
2010	2,108,555	4,645,743	-	-	-	-	-	6,754,298
2011	-	-	5,274	151,485	-	1,797,472	5,435,873	7,390,104
2012	-	-	5,274	234,730	-	2,512,277	7,034,726	9,787,007

All Other Governmental Funds								
Fiscal Year	Reserved	Unreserved	Nonspendable	Restricted	Committed	Assigned	Unassigned	Total
2003	2,429,583	26,568,678	-	-	-	-	-	28,998,261
2004	3,138,824	15,806,860	-	-	-	-	-	18,945,684
2005	3,490,656	2,790,593	-	-	-	-	-	6,281,249
2006	3,796,839	11,985,546	-	-	-	-	-	15,782,385
2007	4,972,903	10,842,006	-	-	-	-	-	15,814,909
2008	5,500,738	2,233,497	-	-	-	-	-	7,734,235
2009	5,972,360	820,068	-	-	-	-	-	6,792,428
2010	6,274,946	1,470,041	-	-	-	-	-	7,744,987
2011	-	-	-	6,932,467	-	714,631	242,494	7,889,592
2012	-	-	-	7,392,509	-	1,132,399	-	8,524,907

Total, All Governmental Funds								
Fiscal Year	Reserved	Unreserved	Nonspendable	Restricted	Committed	Assigned	Unassigned	Total
2003	3,347,961	27,380,869	-	-	-	-	-	30,728,830
2004	3,768,049	17,035,626	-	-	-	-	-	20,803,675
2005	3,951,250	3,587,757	-	-	-	-	-	7,539,007
2006	4,808,758	13,178,699	-	-	-	-	-	17,987,457
2007	5,739,960	13,700,792	-	-	-	-	-	19,440,752
2008	6,061,739	5,259,338	-	-	-	-	-	11,321,077
2009	8,444,339	3,588,077	-	-	-	-	-	12,032,416
2010	8,383,501	6,115,784	-	-	-	-	-	14,499,285
2011	-	-	5,274	7,083,952	-	2,512,103	5,678,367	15,279,696
2012	-	-	5,274	7,627,239	-	3,644,676	7,034,726	18,311,915

Note: GASB 54 requirements for fund balance reporting changed as of fiscal year 2011.

Source: District records.

Changes in Fund Balances, Governmental Funds

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues:										
Revenue limit sources	\$18,320,988	\$18,142,164	\$19,503,373	\$21,438,243	\$23,372,515	\$23,666,075	\$25,299,763	\$26,275,514	\$25,458,478	\$26,170,118
Federal	565,591	736,569	952,473	1,050,397	958,670	883,388	1,075,398	1,932,612	1,783,741	1,005,829
Other state	8,902,823	9,094,101	3,655,258	3,773,195	5,420,658	4,735,937	4,445,265	3,503,288	2,626,630	1,681,572
Other local	12,280,770	16,318,216	17,361,049	17,538,227	20,415,664	20,624,353	21,448,447	21,407,462	23,023,763	26,883,217
Total revenues	40,070,172	44,291,050	41,472,153	43,800,062	50,167,507	49,909,753	52,268,873	53,118,876	52,892,612	55,740,736
Expenditures:										
Instruction	20,803,929	22,131,588	24,563,627	24,718,586	27,384,127	28,808,869	28,715,203	28,001,455	28,816,637	28,756,222
Instruction-related services:										
Supervision of instruction	320,516	357,122	395,779	839,872	953,289	1,070,529	1,074,403	1,262,974	1,157,483	1,100,846
Instruction library, media and technology	438,108	427,378	384,983	334,903	350,373	395,508	399,804	311,464	326,008	535,255
School site administration	1,678,893	1,856,036	1,984,278	2,024,705	2,260,355	2,375,903	2,443,401	2,443,918	2,379,907	2,506,981
Pupil services:										
Home-to-school transportation	476,114	293,611	248,740	220,327	249,668	261,635	323,729	273,193	256,647	266,025
Food services	28,342	40,233	32,869	42,233	50,072	58,972	87,929	98,674	110,721	5,880
All other pupil services	1,150,918	1,274,934	1,329,564	1,409,314	1,585,146	1,760,315	1,731,507	1,874,735	2,001,166	1,998,134
General administration:										
Data processing	143,927	303,069	220,683	246,180	341,267	408,606	363,357	361,469	489,844	405,451
All other general administration	2,692,374	3,361,634	2,793,054	2,568,806	2,279,880	2,231,786	2,208,063	2,595,892	2,380,088	2,636,221
Plant services	2,761,930	3,187,308	3,401,119	3,824,936	4,159,924	4,145,444	4,680,449	4,705,061	5,086,314	4,787,199
Facilities acquisition and construction	32,001,701	24,799,288	13,711,859	1,910,338	1,697,065	11,620,610	3,742,556	576,096	541,464	676,074
Other educational programs	172,221	115,829	698,512	903,634	1,382,410	5,380	-	-	3,340	-
Debt service:										
Principal	425,000	522,786	1,069,228	1,326,212	2,902,244	2,475,000	3,126,136	3,677,690	4,299,336	3,211,822
Interest, fees and issuance costs	3,285,163	3,425,610	3,902,526	5,143,170	3,118,392	4,575,870	4,685,998	4,469,387	4,263,245	5,822,407
Total expenditures	66,379,136	62,096,426	54,736,821	45,513,216	48,714,212	60,194,427	53,582,535	50,652,008	52,112,200	52,708,517
Excess (deficiency) of revenues over (under) expenditures	(26,308,964)	(17,805,376)	(13,264,668)	(1,713,154)	1,453,295	(10,284,674)	(1,313,662)	2,466,868	780,412	3,032,219
Other financing sources (uses):										
Issuance of long-term debt	-	8,000,000	-	101,069,000	-	-	-	-	-	-
Defeasance of long-term debt	-	-	-	(99,931,490)	-	-	-	-	-	-
Bond premium	-	-	-	11,024,091	-	-	-	-	-	-
Proceeds from lease-leaseback transaction	-	-	-	-	-	2,165,000	2,025,000	-	-	-
All other financing sources (uses)	3,160,401	(119,776)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,160,401	7,880,224	-	12,161,601	-	2,165,000	2,025,000	-	-	-
Net changes in fund balances	(23,148,563)	(9,925,152)	(13,264,668)	10,448,447	1,453,295	(8,119,674)	711,338	2,466,868	780,412	3,032,219
Fund balances beginning	53,877,393	30,728,830	20,803,678	7,539,010	17,987,457	19,440,752	11,321,078	12,032,416	14,499,284	15,279,696
Fund balances ending	\$30,728,830	\$20,803,678	\$7,539,010	\$17,987,457	\$19,440,752	\$11,321,078	\$12,032,416	\$14,499,284	\$15,279,696	\$18,311,915
Debt service as a % of non-capital expenditures	10.3%	10.6%	11.7%	14.8%	12.8%	14.2%	15.4%	16.1%	16.5%	17.2%

Source: Data extracted from District Financial Statements.

Revenue Base: Assessed Valuation (AV) and Property Tax Collections
(Dollars in Millions)

Fiscal Year	Residential Property	Commercial Property	Total Net Secured	Utilities	Total Net Unsecured	Total Net (Taxable) AV	Weighted Average Tax Rate per \$100 AV	Total Property Tax Collections
2003			\$8,301.55	\$0.61	\$168.99	\$8,471.16	0.2085	\$17.66
2004			\$9,036.12	\$0.09	\$145.65	\$9,181.86	0.2023	\$18.58
2005			\$9,686.68	\$0.11	\$140.30	\$9,827.09	0.1930	\$18.97
2006			\$10,660.79	\$0.10	\$133.11	\$10,794.00	0.1882	\$20.31
2007	\$10,645.64	\$957.10	\$11,602.74	\$0.09	\$124.18	\$11,727.01	0.1903	\$22.32
2008	\$11,467.97	\$1,016.27	\$12,484.24	\$0.00	\$122.86	\$12,607.10	0.1936	\$24.40
2009	\$12,340.22	\$1,133.62	\$13,473.84	\$0.00	\$153.26	\$13,627.10	0.1931	\$26.32
2010	\$12,851.07	\$1,163.18	\$14,014.25	\$0.00	\$162.75	\$14,177.00	0.1896	\$26.88
2011	\$12,730.15	\$1,134.01	\$13,864.16	\$0.00	\$151.53	\$14,015.69	0.1879	\$26.34
2012	\$13,226.58	\$1,102.81	\$14,329.39	\$0.00	\$136.88	\$14,466.27	0.1883	\$27.23

⁽¹⁾ Breakdown of Secured Property by type of property not available prior to FY2007.

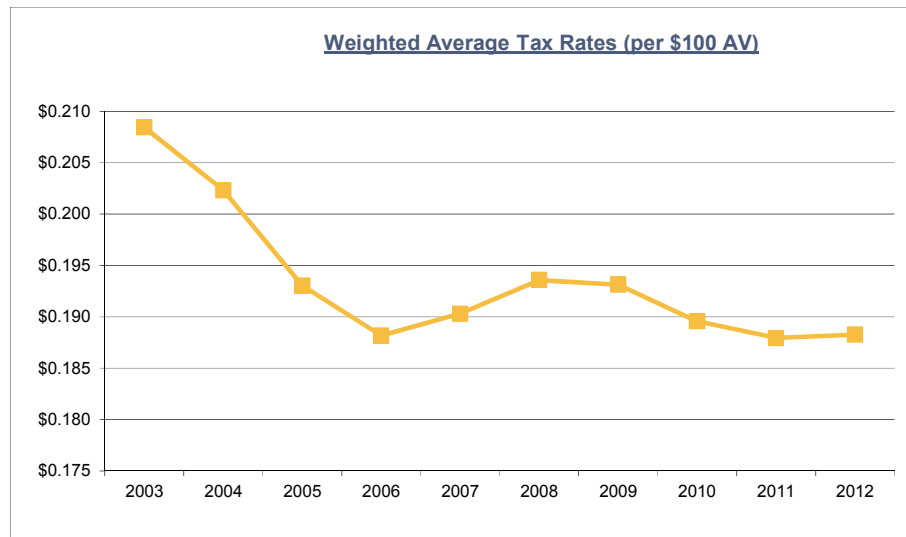
Per California law all properties are taxed at 1% of AV.

A portion of these tax proceeds goes to schools; that proportion differs from one tax rate area to another.

There are 40 different tax rate areas within Los Altos School District.

Note: Under the Teeter Plan (an alternate method of apportioning tax revenues to school districts), Santa Clara County distributes 100% of the general purpose taxes levied to its districts each year.

Source: Santa Clara County Controller; Santa Clara County Assessor



Revenue Base: Property Tax Rates, All Direct and Overlapping Governments

	2002/03	2003/04	2004/05	2005/06	2006/07
County-wide Rate ^(a)	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
County Retirement Levy	0.0388%	0.0388%	0.0388%	0.0388%	0.0388%
County Library Retirement	0.0024%	0.0024%	0.0024%	0.0024%	0.0024%
County Hospital Bonds	n/a	n/a	n/a	n/a	n/a
Los Altos Elementary 1998	0.0398%	0.0483%	0.0487%	0.0452%	0.0551%
El Camino Hospital District	n/a	n/a	n/a	n/a	0.0129%
Foothill-De Anza Coll. 1999	0.0108%	0.0110%	0.0129%	0.0119%	0.0110%
MV-Los Altos High Bond No. 1	0.0188%	0.0183%	0.0193%	0.0179%	0.0169%
SCVWD-State Water Project	0.0063%	0.0075%	0.0086%	0.0069%	0.0070%
SCVWD-Zone W-1 Bond	0.0009%	0.0012%	0.0006%	0.0009%	0.0020%
TOTAL	1.1178%	1.1275%	1.1313%	1.1240%	1.1461%

	2007/08	2008/09	2009/10	2010/11	2011/12
County-wide Rate ^(a)	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
County Retirement Levy	0.0388%	0.0388%	0.0388%	0.0388%	0.0388%
County Library Retirement	0.0024%	0.0240%	0.0024%	0.0024%	0.0024%
County Hospital Bonds	n/a	n/a	n/a	0.0095%	0.0047%
Los Altos Elementary 1998	0.0543%	0.0526%	0.0539%	0.0600%	0.0595%
El Camino Hospital District	0.0129%	0.0129%	0.0129%	0.0129%	0.0129%
Foothill-De Anza Coll. 1999	0.0113%	0.0123%	0.0322%	0.0326%	0.0297%
MV-Los Altos High Bond No. 1	0.0159%	0.0148%	0.0147%	0.0151%	0.0147%
SCVWD-State Water Project	0.0067%	0.0059%	0.0071%	0.0070%	0.0063%
SCVWD-Zone W-1 Bond	0.0004%	0.0002%	0.0003%	0.0002%	0.0001%
TOTAL	1.1427%	1.1399%	1.1623%	1.1785%	1.1691%

(a) Maximum rate for purposes other than paying debt service in accordance with Article XIII A of the State Constitution. Only a portion of this rate applies to the district.

Source: County of Santa Clara Auditor-Controller's Office (Typical Tax Rate per \$100 Assessed Valuation TRA 11-001).

Data Extracted From Above

The Los Altos School District's share of the county-wide general purpose 1% secured tax rate is based on historical formulas and can vary slightly from year to year. **For purposes of this table we show the weighted average tax rate for all 40 tax rate areas within the district.** Tax rates for the ten year period directly applicable to Los Altos School District include its share of the general purpose tax rate and the special purpose bond rate (used to retire debt on the "Los Altos Elementary 1998" general obligation bonds).

	2002/03	2003/04	2004/05	2005/06	2006/07
Los Altos School District, General Purpose	0.2085%	0.2023%	0.1930%	0.1882%	0.1903%
<u>Los Altos School District, 1998 Bonds</u>	<u>0.0398%</u>	<u>0.0483%</u>	<u>0.0487%</u>	<u>0.0452%</u>	<u>0.0551%</u>
Total	0.2483%	0.2506%	0.2417%	0.2334%	0.2454%
	2007/08	2008/09	2009/10	2010/11	2011/12
Los Altos School District, General Purpose	0.1936%	0.1931%	0.1896%	0.1879%	0.1883%
<u>Los Altos School District, 1998 Bonds</u>	<u>0.0543%</u>	<u>0.0526%</u>	<u>0.0539%</u>	<u>0.0600%</u>	<u>0.0595%</u>
Total	0.2479%	0.2457%	0.2435%	0.2479%	0.2478%

Principal Local Secured Taxpayers

2011-12 compared to nine years earlier

Property Owner	Primary Land Use	2012-13 A.V.		% of Total (1)	2002/2003		% of Total (1)
					A.V.	Rank	
1 Avalonbay Communities, Inc.	Apartments	\$56,330,127		0.39%	\$25,396,249	5	0.31%
2 2440 El Camino LP	Office Building	\$48,820,175		0.34%			
3 Behringer Harvard El Camino Real LP	Office Building	\$40,522,807		0.28%			
4 San Antonio Center LLC	Shopping Center	35,888,964		0.25%	31,109,361	3	0.37%
5 Los Altos Gardens I LP	Apartments	26,444,234		0.18%			
6 Douglas M. Leone	Residential	25,000,000		0.17%			
7 Compass Grand Los Altos LLC	Shopping Center	21,411,487		0.15%			
8 Pacific Retail Master LP	Shopping Center	21,233,621		0.15%	20,290,287	7	0.24%
9 KRC Los Altos LP	Residential Care Facility	20,720,000		0.14%	17,502,735	8	0.21%
10 West Fremont Office Corp.	Office Building	19,500,000		0.14%			
11 SI 29 LLC	Office Building	19,087,836		0.13%			
12 4 Seasons Associates LLC	Hotel	19,061,754		0.13%			
13 Palo Alto Medical Foundation	Office Building	18,092,557		0.13%			
14 Diane M. Santos	Shopping Center	17,553,493		0.12%			
15 Los Altos Hotel Associates LLC	Hotel	16,990,461		0.12%			
16 Palo Alto Bowl LLC	Planned Hotel/Residential	15,529,379		0.11%			
17 Book LLC	Undeveloped	15,477,097		0.11%			
18 Village Court Partners	Commercial	15,314,674		0.11%	13,278,303	12	0.16%
19 Avery Palo Alto Plaza LP	Apartments	13,603,102		0.09%			
20 Mark and Karen S. Jung	Residential	13,287,481		0.09%			
Sobrato Interest III/John A. and Susan R. Sobrato	Office Building				55,564,516	1	0.67%
Los Altos Office Associates, LLC	Office Building				38,164,232	2	0.46%
David and Lucille Packard Foundation (2)	Office Building				29,435,675	4	0.35%
Nearly-Vidovich	Shopping Center				20,442,962	6	0.25%
99 Investors LLC	Shopping Center				17,409,106	9	0.21%
Sunnyvale Partners	Office Building				17,322,053	10	0.21%
Marie A. Addiego	Shopping Center				15,223,075	11	0.18%
Los Altos Golf and Country Club	Golf & Country Club				13,249,944	13	0.16%
J.D. Molex One LLC	Office Building				12,160,581	14	0.15%
Central Park Partnership	Apartments				11,797,133	15	0.14%
James A. and Lisa A. Dorrian	Apartments				11,224,280	16	0.14%
Wilfred J. Corrigan	Residential				11,167,373	17	0.13%
Forest Casa Real LLC	Apartments				10,977,996	18	0.13%
Los Altos Woods LLC	Office Building				10,820,160	19	0.13%
Schneider Properties LP	Apartments				10,553,000	20	0.13%
		\$479,869,249		3.35%	\$393,089,021		4.74%

(1) 2011-12 Local Secured Assessed Valuation: \$14,329,396,773

(2) Taxable property only.

(1) 2002-03 Local Secured AV: \$8,301,554,855

Source: California Municipal Statistics, Inc.

Property Tax Levies and Collections

General Purpose Levy						
Fiscal Year	Taxes Levied (a)	Amount Collected as of June 30	% Collected as of June 30	Amount Collected in Subsequent Years	Total Amount Collected	Total Collected as % of Total Levy
2003	17,658,152	17,658,152	100.00%	-	17,658,152	100.00%
2004	18,575,453	18,575,453	100.00%	-	18,575,453	100.00%
2005	18,968,055	18,968,055	100.00%	-	18,968,055	100.00%
2006	20,310,657	20,310,657	100.00%	-	20,310,657	100.00%
2007	22,317,307	22,317,307	100.00%	-	22,317,307	100.00%
2008	24,404,229	24,404,229	100.00%	-	24,404,229	100.00%
2009	26,318,414	26,318,414	100.00%	-	26,318,414	100.00%
2010	26,875,522	26,875,522	100.00%	-	26,875,522	100.00%
2011	26,340,708	26,340,708	100.00%	-	26,340,708	100.00%
2012	27,234,353	27,234,353	100.00%	-	27,234,353	100.00%

(a) Under the Teeter Plan (an alternate method of apportioning tax revenues to school districts), Santa Clara County distributes 100% of the general purpose taxes levied to its districts each year.

Debt Service Levy						
Fiscal Year	Taxes Levied	Amount Collected as of June 30	% Collected as of June 30	Amount Collected in Subsequent Years ⁽¹⁾	Total Amount Collected	Total Collected as % of Total Levy
2003	3,279,621	3,249,698	99.09%	-	3,249,698	99.09%
2004	4,267,883	4,230,547	99.13%	-	4,230,547	99.13%
2005	4,831,184	4,790,195	99.15%	-	4,790,195	99.15%
2006	4,741,020	4,697,424	99.08%	-	4,697,424	99.08%
2007	6,338,457	6,286,654	99.18%	-	6,286,654	99.18%
2008	6,727,926	6,673,482	99.19%	-	6,673,482	99.19%
2009	7,003,562	6,903,830	98.58%	-	6,903,830	98.58%
2010	7,450,153	7,357,174	98.75%	-	7,357,174	98.75%
2011	8,254,953	8,179,868	99.09%	-	8,179,868	99.09%
2012	8,433,408	8,378,415	99.35%	-	8,378,415	99.35%

Total, All Levies						
Fiscal Year	Taxes Levied	Amount Collected as of June 30	% Collected as of June 30	Amount Collected in Subsequent Years	Total Amount Collected	Total Collected as % of Total Levy
2003	20,937,773	20,907,850	99.86%	-	20,907,850	99.86%
2004	22,843,336	22,806,000	99.84%	-	22,806,000	99.84%
2005	23,799,239	23,758,250	99.83%	-	23,758,250	99.83%
2006	25,051,677	25,008,081	99.83%	-	25,008,081	99.83%
2007	28,655,764	28,603,960	99.82%	-	28,603,960	99.82%
2008	31,132,155	31,077,711	99.83%	-	31,077,711	99.83%
2009	33,321,976	33,222,244	99.70%	-	33,222,244	99.70%
2010	34,325,675	34,232,696	99.73%	-	34,232,696	99.73%
2011	34,595,661	34,520,576	99.78%	-	34,520,576	99.78%
2012	35,667,761	35,612,768	99.85%	-	35,612,768	99.85%

⁽¹⁾ The County's current property tax system is unable to track collections by respective year of levy. Thus information on collections of delinquent taxes in subsequent years is not available.

Source: Santa Clara County records and California Municipal Statistics, Inc.

Computation of Legal Debt Margin

Fiscal Year	Assessed Valuation ¹	Statutory Bonding Capacity ²	Outstanding Debt	Additional Bonding Capacity (Debt Margin)	Ratio of Debt Margin to Debt Limit
2003	8,471,162,769	105,889,535	84,584,049	21,305,486	20.1%
2004	9,181,857,704	114,773,221	92,061,263	22,711,958	19.8%
2005	9,827,090,970	122,838,637	90,992,035	31,846,602	25.9%
2006	10,794,004,114	134,925,051	102,721,243	32,203,808	23.9%
2007	11,727,024,593	146,587,807	99,819,000	46,768,807	31.9%
2008	12,607,097,537	157,588,719	97,344,000	60,244,719	38.2%
2009	13,627,085,860	170,338,573	94,359,000	75,979,573	44.6%
2010	14,176,996,881	177,212,461	90,819,000	86,393,461	48.8%
2011	14,015,681,413	175,196,018	86,664,000	88,532,018	50.5%
2012	14,466,276,540	180,828,457	83,603,480	97,224,977	53.8%

¹ California Municipal Statistics, Inc. and Santa Clara County.

² Statutory Bonding Capacity is equal to 1.25% of the District's total assessed valuation.

Ratio of Total Debt to AV / Capita

Year	Net General Bonded Debt ⁽¹⁾	Site Lease Purchase Obligations ⁽¹⁾	Capital Leases ⁽¹⁾	Total Debt ⁽¹⁾	Assessed Value	Debt / A.V.	Estimated Population ⁽²⁾	LA + LA Hills Population ⁽³⁾	Debt/Capita
2003	\$84,584,049	\$0	\$0	\$84,584,049	\$8,471,162,769	0.998%	38,932	35,983	\$2,173
2004	92,061,263	0	0	92,061,263	9,181,857,704	1.003%	39,252	36,006	2,345
2005	90,992,035	0	0	90,992,035	9,827,090,970	0.926%	39,393	35,933	2,310
2006	102,721,243	0	0	102,721,243	10,794,004,114	0.952%	39,997	36,059	2,568
2007	99,819,000	0	146,508	99,965,508	11,727,024,593	0.852%	40,406	36,497	2,470
2008	97,344,000	2,165,000	74,687	99,583,687	12,607,089,540	0.790%	40,764	36,964	2,388
2009	94,359,000	4,123,551	0	98,482,551	13,627,085,860	0.723%	41,178	37,347	2,291
2010	90,819,000	3,985,861	0	94,804,861	14,176,996,881	0.669%	40,791	37,905	2,226
2011	86,664,000	3,841,525	0	90,505,525	14,015,681,413	0.646%	40,496	37,631	2,140
2012	83,603,480	3,690,222	0	87,293,702	14,466,276,540	0.603%	40,341	37,487	2,072

⁽¹⁾ As of June 30th

⁽²⁾ Estimated population from the U.S. Census Bureau, <http://www.census.gov/did/www/saie/index.html>

Data for 2011 and 2012 were estimated based off of the population growth in Los Altos and Los Altos Hills.

⁽³⁾ Population of Los Altos and Los Altos Hills is as of January 1st of the year indicated except for the census year.

(<http://www.dof.ca.gov/research/demographic/reports/estimates/e-4/2001-10/view.php>)

There were slight discrepancies in the data provided by the State of California, Department of Finance for the census year.

Direct and Overlapping Debt

2012-13 Assessed Valuation: \$15,205,649,537

	Total Debt 6/30/2012	% Applicable	Debt 6/30/12
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Santa Clara County	\$316,800,000	4.93%	\$15,608,736
Foothill-De Anza Community College District	628,424,291	14.557	91,479,724
Mountain View-Los Altos Union High School District	47,971,664	48.955	23,484,528
City of Palo Alto	54,540,000	0.66	359,964
City of Los Altos 1915 Act Bonds (Estimate)	1,030,757	80.271	827,399
City of Los Altos Hills Assessment District No. 1	1,940,000	100	1,940,000
El Camino Hospital District	142,280,001	26.711	38,004,411
Santa Clara Valley Water District Benefit Assessment District	133,440,004	4.927	6,574,589
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	\$1,326,426,716		\$178,279,351
OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	\$770,947,006	4.93%	\$37,984,559
Santa Clara County Pension Obligations	383,034,828	4.927	18,872,126
Santa Clara County Board of Education Certificates of Participation	11,540,004	4.927	568,576
Foothill-DeAnza Community College District Certificates of Participation	18,889,998	14.557	2,749,817
Mountain View-Los Altos Union High School District Certificates of Participation	5,710,001	48.955	2,795,331
City of Los Altos Certificates of Participation	1,855,000	80.003	1,484,056
City of Mountain View Certificates of Participation	13,750,000	11.684	1,606,550
Other City General Fund Obligations		Various	55,900
Midpeninsula Regional Park District and General Fund Obligations	138,474,716	8.895	12,317,326
Santa Clara Valley Vector Control District Certificates of Participation	3,629,998	4.927	178,850
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT	\$1,347,831,552		\$78,613,091
Less: City of Mountain View Certificates of Participation (100% supported from tax increment revenues)			1,175,995
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$77,437,096
GROSS COMBINED TOTAL OVERLAPPING DEBT			\$256,892,442 (1)
NET COMBINED TOTAL OVERLAPPING DEBT			\$255,716,447
(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.			
District Direct Debt			
General Bonded Debt	83,603,480	100%	83,603,480
Site Lease Purchases	3,690,222	100%	3,690,222
Total, District Direct Debt	87,293,702	100%	87,293,702
Total, Direct and Overlapping Debt (gross)			\$344,186,144
Total, Direct and Overlapping Debt (net)			\$343,010,149
Ratios to 2012-13 Assessed Valuation:			
Direct Debt (\$87,293,702)		0.57%	
Total Overlapping Tax and Assessment Debt		1.17%	
Total Overlapping General Fund Debt (gross)		0.52%	
Total Overlapping General Fund Debt (net)		0.51%	
Gross Combined Total Debt		2.26%	
Net Combined Total Debt		2.26%	

Source: California Municipal Statistics, Inc.

Ratio of Annual Debt Service Expenditures to General Expenditures

Fiscal Year	Annual Debt Service	Total General Expenditures ⁽¹⁾	Debt / Expenditures
2003	3,708,658	30,216,772	12.27%
2004	3,946,891	32,684,951	12.08%
2005	4,765,645	35,660,525	13.36%
2006	4,968,783	36,731,567	13.53%
2007	5,689,437	40,567,312	14.02%
2008	6,813,450	41,169,978	16.55%
2009	7,214,250	41,885,604	17.22%
2010	7,633,750	41,771,005	18.28%
2011	8,069,075	42,743,485	18.88%
2012	8,648,100	42,598,228	20.30%

⁽¹⁾ General Fund expenditures only.

Annual debt service is bond debt service due in the upcoming fiscal year as of June 30 of the prior year and excludes bonds issued during the fiscal year.

Source: District records, Annual Budget Documents

Enrollment & Attendance History

Fiscal Year	Average Daily Attendance (ADA) (2nd Period)	Enrollment (October)	Ratio, ADA to Enrollment	Enrollment Growth: %
2003	3,943	4,032	0.98	1.6%
2004	3,957	4,050	0.98	0.4%
2005	3,863	3,941	0.98	-2.7%
2006	3,945	4,036	0.98	2.4%
2007	4,070	4,158	0.98	3.0%
2008	4,158	4,265	0.97	2.6%
2009	4,156	4,245	0.98	-0.5%
2010	4,197	4,287	0.98	1.0%
2011	4,301	4,384	0.98	2.3%
2012	4,387	4,477	0.98	2.1%

FY2005 enrollment declined due to transfer of students into charter school.

Source: District records.

Student-Teacher Ratios

Fiscal Year	Student Enrollment	No. of Teachers⁽¹⁾	Student-Teacher Ratio
2003	4,032	208	19.38
2004	4,050	213	19.01
2005	3,941	214	18.42
2006	4,036	216	18.69
2007	4,158	223	18.65
2008	4,265	229	18.62
2009	4,245	232	18.30
2010	4,287	224	19.14
2011	4,384	225	19.48
2012	4,477	223	20.08

⁽¹⁾ Classroom teachers only (full-time equivalents).

Source: District records.

New Construction for Los Altos and Los Altos Hills

Year	Los Altos Number of New Units			Los Altos Hills Number of New Units		
	Single Unit	Multi-Units	Total	Single Unit	Multi-Units	Total
2002	59	0	59	23	0	23
2003	36	0	36	34	0	34
2004	59	0	59	19	0	19
2005	64	0	64	26	0	26
2006	64	0	64	19	0	19
2007	41	6	47	22	0	22
2008	36	2	38	23	0	23
2009	29	0	29	16	1	17
2010	80	3	83	18	0	18
2011	44	23	67	26	0	26

Year	Los Altos Valuations (in thousands)			Los Altos Hills Valuations (in thousands)		
	Single Unit	Multi-Units	Total	Single Unit	Multi-Units	Total
2002	26,270	0	26,270	10,528	0	10,528
2003	23,670	0	23,670	15,439	0	15,439
2004	33,823	0	33,823	9,237	0	9,237
2005	50,896	0	50,896	15,324	0	15,324
2006	46,808	0	46,808	10,093	0	10,093
2007	31,356	21,400	52,756	16,298	0	16,298
2008	26,622	1,748	28,369	17,309	0	17,309
2009	25,395	0	25,395	13,401	1,770	15,172
2010	35,219	210	35,429	18,446	0	18,446
2011	31,672	8,178	39,850	22,551	0	22,551

Source: U.S. Census Bureau

(http://censtats.census.gov/bldg/bldgprmt.shtml)

Total Taxable Transactions for Los Altos, Los Altos Hill and Santa Clara County

Year	Los Altos	Los Altos Hills	Santa Clara County
2002	184,731	8,050	27,453,942
2003	181,202	6,722	27,062,663
2004	194,076	7,058	28,491,576
2005	200,659	7,283	30,193,802
2006	205,603	7,163	32,273,238
2007	224,289	8,187	33,663,448
2008	219,960	8,001	32,274,306
2009	181,790	7,252	27,427,709
2010	191,425	6,836	30,523,322
2011*	96,484	4,549	15,908,416

Source: State Board of Equalization (<http://www.boe.ca.gov/news/tsalescont.htm>)

*Information available only for the first TWO quarters of 2011.

Bank Deposits for Santa Clara County

Data unavailable for the District.

Fiscal Year	Deposits (in millions)
2003	41,381
2004	46,601
2005	49,081
2006	49,927
2007	51,834
2008	51,217
2009	56,640
2010	62,548
2011	68,057
2012	73,478

Source: Federal Deposit Insurance Corporation
(<http://www2.fdic.gov/sod/SODSumReport.asp>)

Principal Employers, Santa Clara County

Most recent (FY2011) compared to nine years earlier

				Fiscal Year 2002		
Employer	Product/Service	Employees	% of Total County Employment	Employees	Rank	% of Total County Employment
1 County of Santa Clara	Government	15,474	1.97%	18,616	1	2.28%
2 Cisco Systems	Computer products	13,000	1.65%	14,000	2	1.72%
3 Stanford University	Higher Education	10,101	1.28%	9,944	5	1.22%
4 Apple Computer	Personal computers	10,000	1.27%	3,000		0.37%
5 Kaiser Permanente	Health Maintenance Organization	8,343	1.06%	5,000		0.61%
6 Lockheed Martin Corp.	Search & navigation systems	7,600	0.97%	7,500	6	0.92%
7 City of San Jose	Government	5,840	0.74%	6,436	8	0.79%
8 Stanford Hospital & Clinics	Medical & surgical hospital	5,569	0.71%	5,500		0.67%
9 Intel Corporation	Computer products	5,000	0.64%	6,000	9	0.74%
10 Hewlett Packard Co.	Computers and software	5,000	0.64%	11,300	4	1.39%
Applied Materials	Computer products	3,746	0.48%	12,000	3	1.47%
Silicon Graphics	Computer products	2,600	0.33%	7,000	7	0.86%
Solectron California Corporation ¹	Electronic assembly	n/a	n/a	5,800	10	0.71%
Total, Top Ten Employers		<u>85,927</u>		<u>98,596</u>		
Total County Employment		<u>786,100</u>		<u>815,300</u>		

¹ Acquired by Flextronics in 2007.

Source: County of Santa Clara annual financial report.

Staffing FTE by Function

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Instruction										
Teachers	207.92	212.82	214.48	215.65	222.72	229.03	231.63	224.22	223.92	222.70
Para-professionals	56.36	61.27	67.89	69.90	74.59	81.24	82.62	74.36	85.05	76.35
sub-total, Instruction	264.28	274.09	282.37	285.55	297.31	310.27	314.25	298.58	308.97	299.05
Instruction-related services	20.22	20.22	20.22	21.20	24.20	24.70	25.70	26.13	25.73	25.12
Pupil services	5.60	5.70	5.70	5.70	6.60	7.40	7.20	7.40	8.20	7.70
General administration	17.76	18.69	20.67	19.40	21.37	23.71	20.76	19.89	20.82	20.48
Plant services	19.63	19.63	19.63	23.38	23.75	23.75	23.38	23.00	23.00	21.00
Facilities acquisition & construction	2.00	2.00	2.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00
Total, all staffing	329.48	340.33	350.58	356.23	373.23	389.84	391.29	375.00	386.72	373.35
Teachers (FTE)	207.92	212.82	214.48	215.65	221.72	228.03	230.63	223.22	223.10	222.38
% of total staffing	63%	63%	61%	61%	59%	58%	59%	60%	58%	60%

Source: District records.

2011–12 Teaching Staff Demographics

Average Age	46
Average Years Teaching in District	11
Average Total Years Teaching	16
1st Year	17 teachers
2nd Year	9 teachers
3-5 Years	13 teachers
6+ Years	194 teachers
Male	24
Female	209
	233
Ethnicity	
White	206 (88%)
All Other	27 (12%)
	233
Highest Education Level Attained	
Masters or greater	123
Teachers with CLAD Credentials	220

Source: District records.

Capital Assets by Function and Activity

Function and Activity	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Instruction	\$ 64,125,943	\$ 68,237,145	\$ 80,173,405	\$ 79,764,924	\$ 81,034,081	\$ 100,820,061	\$ 102,980,304	\$ 103,050,454	\$ 103,164,639	\$ 103,308,103
Supervision of instruction	988,858	1,108,257	1,291,809	2,710,175	2,753,297	360,061	360,061	360,061	360,061	360,061
Instruction library, media and technology	1,348,443	1,326,276	1,256,560	1,080,695	1,097,890	9,574,393	9,776,525	9,776,525	9,776,525	9,776,525
School site administration	5,164,036	5,759,828	6,476,500	6,533,561	6,637,518	9,741,352	9,930,707	9,930,707	9,930,707	9,930,708
Home-to-school transportation	1,458,316	911,155	811,843	710,962	722,274	-	-	-	-	-
Food services	89,896	124,844	107,266	136,296	138,465	21,892	47,158	47,158	47,158	47,158
All other pupil services	3,535,916	3,956,468	4,339,570	4,547,726	4,620,086	56,544	81,810	81,810	81,810	81,809
Data processing	439,492	940,530	720,287	794,417	807,057	156,274	165,384	165,384	178,860	178,860
All other general administration	8,270,449	10,711,381	8,924,585	8,289,304	8,421,197	2,721,189	2,726,948	2,726,948	2,726,948	2,726,948
Plant services	13,943,897	9,891,105	11,100,930	12,342,732	12,539,120	5,178,538	5,395,098	5,432,174	5,461,064	5,490,233
All other educational programs	519,400	80,258	-	-	-	-	-	-	-	-
Total capital assets	\$ 99,884,646	\$ 103,047,247	\$ 115,202,755	\$ 116,910,792	\$ 118,770,984	\$ 128,630,303	\$ 131,463,995	\$ 131,571,221	\$ 131,727,772	\$ 131,900,405

During FY2008 capital assets were re-categorized to appropriate function/activity.

Source: Data extracted from District Financial Statements.

School Building Information

	Year <i>Built</i>	Year <i>Renovated</i>	Fiscal Year									
			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Almond Elementary	1957	2003										
Square Feet			34,294	32,427	32,427	32,427	32,427	32,427	32,427	32,427	32,427	32,427
Capacity			450	350	350	350	350	350	350	350	350	350
Enrollment			579	564	581	571	574	586	554	538	531	526
Gardner Bullis Elementary ¹	1961	2008										
Square Feet			16,843	16,843	16,843	16,843	16,843	16,843	16,588	16,588	16,588	16,588
Capacity			200	200	200	200	200	200	200	200	200	200
Enrollment			341	(closed)		93	89	94	202	246	291	298
Covington Elementary	1950	2003										
Square Feet			53,378	48,824	48,824	48,824	48,824	48,824	48,824	48,824	48,824	48,824
Capacity			650	600	600	600	600	600	600	600	600	600
Enrollment			(closed)	553	477	488	542	542	488	455	455	498
Loyola Elementary	1949	2004										
Square Feet			34,648	34,648	30,851	30,851	30,851	30,851	30,851	30,851	30,851	30,851
Capacity			500	500	475	475	475	475	475	475	475	475
Enrollment			560	547	530	527	516	535	538	571	590	588
Oak Elementary	1957	2005										
Square Feet			23,606	23,606	23,606	21,264	21,264	21,264	21,264	21,264	21,264	21,264
Capacity			325	325	325	350	350	350	350	350	350	350
Enrollment			458	433	419	404	416	450	445	450	446	463
Santa Rita Elementary	1957	2004										
Square Feet			24,547	24,547	25,578	25,578	25,578	25,578	25,578	25,578	25,578	25,578
Capacity			325	325	400	400	400	400	400	400	400	400
Enrollment			519	541	536	552	577	575	514	523	542	537
Springer Elementary	1955	2003										
Square Feet			34,366	29,603	29,603	29,603	29,603	29,603	29,603	29,603	29,603	29,603
Capacity			500	500	500	500	500	500	500	500	500	500
Enrollment			619	438	450	445	463	490	490	521	516	535
Blach Intermediate	1957	2002										
Square Feet			64,784	64,784	64,784	64,784	64,784	64,784	64,784	64,784	64,784	64,784
Capacity			600	600	600	600	600	600	600	600	600	600
Enrollment			448	448	433	446	468	462	475	449	476	476
Egan Intermediate	1959	2002										
Square Feet			59,488	59,488	59,488	59,488	59,488	59,488	59,488	59,488	59,488	59,488
Capacity			600	600	600	600	600	600	600	600	600	600
Enrollment			508	526	515	510	513	531	539	534	537	556
District Administration	1950	2003										
Square Feet			(previously housed at Covington School)	12,593	12,593	12,593	12,593	12,593	12,593	12,593	12,593	12,593
Maintenance	2003	n/a										
Square Feet				5,440	5,440	5,440	5,440	5,440	5,440	5,440	5,440	5,440

¹ Gardner Bullis School housed only pilot full day kindergarten classes in FY2006 through FY2008.

Square Footage reflects permanent buildings only.

Capacity based on average of 25 students per classroom and excludes portable buildings.

Source: District records.

History of Investment Income (Interest Earnings)

By Fund Type

Fiscal Year	General	Special Revenue	Capital Projects	Bond Interest & Redemption	Total, All Funds
2003	124,020	18,208	808,317	20,514	971,059
2004	209,446	15,683	543,712	16,208	785,049
2005	221,052	23,784	147,035	23,381	415,252
2006	329,258	37,524	34,653	47,512	448,947
2007	436,951	34,290	513,228	71,415	1,055,884
2008	311,471	33,309	328,580	72,154	745,514
2009	402,979	18,973	26,869	44,427	493,248
2010	202,434	7,544	(3,695)	13,681	219,964
2011	184,310	4,771	4,862	21,010	214,953
2012	69,865	13,344	2,737	16,100	102,047

Includes interest earnings in Deferred Maintenance Fund, which in the Statement of Activities are reclassified as Operating Grants & Contributions (per GASB 34).

Source: District records.

LASD Community Demographic Data: 2010⁽¹⁾

	District	County	State
Population	40,653	1,786,927	37,330,448
Distribution by Age			
Under 5 Years	6%	7%	7%
5–19 Years	20%	20%	21%
20–44 Years	26%	37%	36%
45–64 Years	31%	25%	25%
65 Years or Older	17%	11%	11%
Median Age	44	36	35
Household Characteristics ⁽²⁾			
Number of children under 18	10,261	418,923	9,342,343
% Living in Single-Parent Households	9%	23%	30%
Income and Wealth			
Median Household Income	\$136,722	\$87,148	\$59,641
Income Per Person	\$74,781	\$39,290	\$28,504
Median Home Value	\$1,000,000+	\$639,200	\$370,400
Adult Education Attainment Levels			
Adults with H.S. Diploma	98%	87%	81%
Adults with Bachelor's Degree	80%	46%	30%

Source: U.S. Census Bureau, 2008-2010 American Community Survey
<http://factfinder.census.gov/>

⁽¹⁾ The data is updated every two years, with this being the most recent data available.

⁽²⁾ Household characteristics data is from the 2006-2008 American Community Survey. No more recent data is available.

Comparative Birth Data

Calendar Year	LASD Zip Codes	Santa Clara County	California
2002	411	27,060	529,245
2003	390	26,997	540,827
2004	373	26,537	544,685
2005	385	26,553	548,700
2006	376	26,942	562,157
2007	377	27,484	566,137
2008	366	26,730	551,567
2009	314	25,200	526,774
2010	318	23,936	509,974
2011	309	23,652	502,023

Total births by place of mother's residence. Data for Los Altos School District extracted from zip code data.

Source: California Department of Health Statistics

Miscellaneous Statistics

District Name:	Los Altos School District	
Type of District:	Elementary (K-8)	
Year Founded:	1909	
Area (square miles):	20.64	(est.)
Population Served:	40,653	(est.)
Number of Schools:		
Elementary (K-6)	7	
Intermediate (7-8)	2	
Total	9	
Enrollment:		
Elementary (K-6)	3,445	(Fall 2011)
Intermediate (7-8)	1,032	(Fall 2011)
Total	4,477	
% of students eligible for free or reduced lunches	4%	
Number of Employees:		
Certificated	230	full-time equivalents
Classified	120	full-time equivalents
Management/Confidential	23	full-time equivalents
Total	373	
Teacher to Pupil Ratio:	20.08	

Source: District records.

State and Federal Award Compliance Information Section

Education Audit Appeals Panel Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Los Altos School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

Los Altos School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2012

	Second Period Report	Annual Report
Elementary:		
Kindergarten	442.56	444.09
Grades one through three	1,436.01	1,439.02
Grades four through six	1,426.77	1,428.27
Grades seven and eight	981.69	979.49
Home and Hospital	0.34	0.58
Special education	99.81	101.00
ADA Totals	<u>4,387.18</u>	<u>4,392.45</u>

Los Altos School District
Schedule of Instructional Time Offered
For the Fiscal Year Ended June 30, 2012

Grade Level	1982-83 Actual Minutes ⁽¹⁾	Reduced 1982-83 Actual Minutes ⁽¹⁾	1986-87 Minutes Requirements ⁽¹⁾	Reduced 1986-87 Minutes Requirements ⁽¹⁾	2011-12 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	31,500	29,400	36,000	33,600	37,244	180	0	In compliance
Grades 1	49,875	46,550	50,400	47,040	51,400	180	0	In compliance
Grades 2	49,875	46,550	50,400	47,040	51,400	180	0	In compliance
Grades 3	49,875	46,550	50,400	47,040	51,400	180	0	In compliance
Grades 4	55,125	51,450	54,000	50,400	55,145	180	0	In compliance
Grades 5	55,125	51,450	54,000	50,400	55,145	180	0	In compliance
Grades 6	55,125	51,450	54,000	50,400	55,145	180	0	In compliance
Grades 7	57,750	53,900	54,000	50,400	56,557	180	0	In compliance
Grades 8	57,750	53,900	54,000	50,400	56,557	180	0	In compliance

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Educational Code Section 46201.

⁽¹⁾ Commencing in the 2009-10 school year and continuing through the 2012-13 school year, a school district, county office of education or charter school may reduce the equivalent of up to 7 days of instruction or the equivalent number of instructional minutes without incurring penalties set forth in Sections 41420, 46200, 46200.5, 46201, 46202, and 47612.5. A school district, county office of education, or charter school shall receive revenue limit funding based on the adjustments prescribed pursuant to Section 42238.146 whether or not it reduces the number of school days or instructional minutes.

Los Altos School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2012

	2013 (Budgeted)	2012	2011	2010
<u>General Fund</u>				
Revenues and other financial sources	\$ 43,974,433	\$ 45,291,161	\$ 44,318,303	\$ 43,561,163
Expenditures	43,040,699	42,598,228	42,743,485	41,771,005
Other uses and transfers (out)	148,015	296,030	1,364,462	275,848
Total outgo	43,188,714	42,894,258	44,107,947	42,046,853
Change in fund balance	\$ 785,719	\$ 2,396,903	\$ 210,356	\$ 1,514,310
Ending fund balance ⁽¹⁾	\$ 10,572,726	\$ 9,787,007	\$ 7,390,104	\$ 6,754,298
Available reserves ⁽²⁾⁽³⁾	\$ 7,826,188	\$ 7,034,726	\$ 5,435,873	\$ 5,071,193
Available reserves as a percentage of total outgo	18.2%	16.5%	12.7%	12.1%
Total long-term debt	\$ 84,764,723	\$ 88,299,125	\$ 91,432,020	\$ 94,984,640
Average daily attendance at P2	4,454	4,301	4,301	4,197

Average daily attendance has increased by 145 over the past three years. The district anticipates an increase of 60 ADA.

- ⁽¹⁾ Fiscal year 2011 includes beginning balances of \$425,450 from the Special Reserve Fund for Other Than Capital Outlay Projects, which is combined with the General Fund since it does not meet the definition of a special revenue fund per GASB 54.
- ⁽²⁾ Available reserves consists of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties. For a district of this size, the State recommends available reserves of at least 3% of total outgo.
- ⁽³⁾ 2010 available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty within the general fund and the special reserve fund for other than capital outlay projects.

Los Altos School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

PROGRAM NAME	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U. S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
<i>Special Education Cluster</i>			
IDEA Local Assistance	84.027 ⁽¹⁾	13379	\$ 662,042
IDEA Private School ISPs	84.027 ⁽¹⁾	10115	27,384
IDEA Preschool Local Grant	84.027 ⁽¹⁾	13682	61,372
IDEA Mental Health	84.027 ⁽¹⁾	14468	10,444
IDEA Preschool Staff Development	84.173 ⁽¹⁾	13430	40,406
IDEA Preschool	84.173 ⁽¹⁾	13431	<u>422</u>
Total Special Education Cluster			802,070
<i>Title I, Part A Cluster</i>			
Title I: Block Grant	84.010	14329	<u>106,505</u>
Total Title I, Part A Cluster			106,505
ARRA Education Jobs Fund	84.410	25152	28,104
Title II: Part A, Teacher Quality	84.367	15144	85,900
Title II: Part A, Administrator Training	84.367	14344	3,000
Title III: Immigrant Education Program	84.365	15146	8,717
Title III: Limited English Proficiency	84.365	14346	<u>28,152</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			1,062,448
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
National school lunch program	10.555	13390	<u>5,880</u>
TOTAL FEDERAL PROGRAMS			<u><u>\$ 1,068,328</u></u>

⁽¹⁾ Audited as major program

Los Altos School District
 Reconciliation of Annual Financial and Budget Report (SACS)
 with Audited Financial Statements
 For the Fiscal Year Ended June 30, 2012

	GENERAL FUND	BUILDING FUND	BOND INTEREST AND REDEMPTION FUND	OTHER ⁽¹⁾ NONMAJOR GOVERNMENTAL FUNDS	CAPITAL ASSETS	LONG TERM Liabilities
JUNE 30, 2012 ANNUAL FINANCIAL AND BUDGET REPORT (SACS) FUND BALANCES, CAPITAL ASSETS & LONG TERM LIABILITIES	\$ 8,129,101	\$ 50,819	\$ 7,392,509	\$ 2,739,486	\$ 102,119,719	\$ 89,440,600
ADJUSTMENTS AND RECLASSIFICATIONS:						
Special Reserve Fund for Other Than Capital Outlay:						
Cash with County Treasury	431,182	-	-	(431,182)	-	-
Accounts receivable	674	-	-	(674)	-	-
Special Reserve Fund for Postemployment Benefits:						
Cash with County Treasury	1,224,138	-	-	(1,224,138)	-	-
Accounts receivable	1,912	-	-	(1,912)	-	-
Depreciation adjustment for capital assets	-	-	-	-	(8,311)	-
Compensated absences	-	-	-	-	-	1
Net OPEB obligation	-	-	-	-	-	(563,119)
Site lease purchase obligations	-	-	-	-	-	(1)
Unamortized bond premium	-	-	-	-	-	7,133,235
Deferred loss on early retirement of long-term debt	-	-	-	-	-	(7,711,591)
JUNE 30, 2012 AUDITED FINANCIAL STATEMENTS FUND BALANCES, CAPITAL ASSETS & LONG TERM LIABILITIES	<u>\$ 9,787,007</u>	<u>\$ 50,819</u>	<u>\$ 7,392,509</u>	<u>\$ 1,081,580</u>	<u>\$ 102,111,408</u>	<u>\$ 88,299,125</u>

⁽¹⁾ Includes the following funds:
 Deferred maintenance fund \$ 417,908
 Capital facilities fund 663,672
 Total other governmental funds \$ 1,081,580

1. PURPOSE OF SCHEDULES

A. Schedule of Excess Sick Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

B. Schedule of Average Daily Attendance

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

C. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Year. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

D. 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.

E. Schedule of Expenditures of Federal and State Awards

To comply with state requirements, this schedule was prepared for the District that shows activity related to federal and state awards.

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

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

3. EARLY RETIREMENT INCENTIVE PROGRAM

The District has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased to two years.

4. BASIS OF PRESENTATION – 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 OMB 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 basic financial statements.



Chavan & Associates, LLP
Certified Public Accountants

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

Board of Trustees
Los Altos School District
Los Altos, California

We have audited the financial statements of the governmental activities and each major fund of the Los Altos School District as of and for the year ended June 30, 2012, which collectively comprise the Los Altos School District's basic financial statements, and have issued our report thereon dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Los Altos School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Los Altos School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Los Altos School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Los Altos 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 a 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal controls over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Los Altos 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*.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the Board, management, 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.

C & A LLP

September 19, 2012
Campbell, California



**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**

Board of Trustees
Los Altos School District
Los Altos, California

Compliance

We have audited the compliance of Los Altos 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 Los Altos School District's major federal programs for the year ended June 30, 2012. Los Altos School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Los Altos School District's management. Our responsibility is to express opinions on Los Altos 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 State, 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 Los Altos 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 opinions. Our audit does not provide a legal determination on Los Altos School District's compliance with those requirements.

In our opinion, Los Altos 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, 2012.

Internal Control over Compliance

Management of Los Altos School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Los Altos School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Los Altos 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C & A UP

September 19, 2012
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

Board of Trustees
Los Altos School District
Los Altos, California

We have audited Los Altos School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Education Agencies 2011-12, published by the Education Audit Appeals Panel that could have a direct and material effect on each of Los Altos School District's State programs for the year ended June 30, 2012. Compliance with the applicable requirements is the responsibility of Los Altos School District's management. Our responsibility is to express an opinion on the District's compliance with the applicable requirements based on our compliance audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance 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 Education Agencies 2011-12 (K-12 Audit Guide)*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the compliance 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 State program occurred. The compliance audit includes examining, on a test basis, evidence about Los Altos School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our compliance audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Los Altos School District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	6	6
Teacher Certification and Missassignments	3	3
Kindergarten Continuance	3	3
Independent Study	23	23
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	6
County Offices of Education	3	Not applicable
Instructional Materials - General Requirements	8	8
Ratios of Administrative Employees to Teachers	1	1
Classroom Teacher Salaries	1	1
Early Retirement Incentive	4	4
Gann Limit Calculation	1	1
School Accountability Report Card	3	3
Public Hearing Requirements - Receipt of Funds	1	1

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Juvenile Courts	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	2
Class Size Reduction:		
General Requirements	7	7
Option One	3	3
Option Two	4	Not applicable
Districts 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	5	Not applicable
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	4	Not applicable

In our opinion, Los Altos School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2012.

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

C & A UP

September 19, 2012
San Jose, California

Schedule of Findings and Questioned Costs

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses?	<u> </u> Yes <u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes <u> </u> No
Non-compliance material to financial statements noted?	<u> </u> Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weaknesses?	<u> </u> Yes <u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes <u> X </u> No
Type of auditor's report issued on compliance over major programs	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)	<u> </u> Yes <u> X </u> No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027	IDEA Local Assistance
84.027	IDEA Private School ISPs
84.027	IDEA Preschool Local Grant
84.027	IDEA Mental Health
84.173	IDEA Preschool Staff Development
84.173	IDEA Preschool

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low risk auditee?	<u> X </u> Yes <u> </u> No

State Awards

Internal control over state programs:	
Material weaknesses?	<u> </u> Yes <u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes <u> X </u> No
Type of auditor's report issued on compliance over state programs:	<u>Unqualified</u>

Section II - Financial Statement Findings**Finding 2012-1; 30000 – Associated Student Body Funds, Allowable Expenditures****Criteria or Specific Requirements**

Guidelines set forth in the FCMAT ASB Manual indicate that a booster club may not pay any employee of the school district a stipend or salary without prior approval from the district's business and/or personnel office. The requirements for expenditures of ASB funds are governed by Board Policy and California Education Code.

Condition

During the audit of the District's Associated Student Body Funds (ASB) at Egan Junior High School, we noted that checks were written from the school's ASB account to pay stipends to teachers.

Questioned costs

There are no questioned costs associated with this condition.

Context

The use of ASB funds should directly promote the general welfare, morale or educational experience of the students.

Management is responsible for establishing and maintaining a system of internal control to provide the District with a reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorizations, recorded properly and are allowable student body transactions.

Effect

The District was not in compliance with California Education Code and Board Policy regulating student body activities.

Cause

There was insufficient communication between the District, school sites and booster organizations in regards to appropriate expenditures from ASB accounts. Decentralized operations were dependent on the actions of individuals who were not aware of the specific requirements noted above.

Recommendation

We recommend that the District work with site personnel to correct the above-mentioned issues and establish written policies in regards to the payment of teachers' stipends through funds from booster organizations. These organizations should donate funds directly to the District for inclusion in the District's budget for various student related programs. This process allows for teachers to be reimbursed directly through the District's payroll and/or disbursement process for ASB activities. Booster organizations should not explicitly direct District disbursements for any donations, nor should the organizations donate directly to student body accounts for the purpose of reimbursing teachers' or any other District employees.

District Response

The District has informed school staff of this finding and has altered accounting practices during the 2012–13 fiscal year. All donations now flow through the district budget and stipends are paid through district payroll. Additionally the District has developed related policies and procedures that have been shared with all school staffs and has increased district staff's review and oversight responsibilities for ASB funds.

Section III – Federal Awards Findings

None

Section IV – State Awards Findings

None

Schedule of Prior Year Findings and Recommendations

Section II - Financial Statement Findings

Finding 2011-1; 30000 – Associated Student Body Funds, Commingling PTA Funds

Criteria or Specific Requirements

Because student organizations operate under the school entity's tax-exempt status, the funds deposited in bank accounts are not subject to state or federal taxes. For this reason, the funds raised by parent groups, booster clubs, foundations or auxiliary organizations should not be deposited into or commingled with the student organization's or the school entity's funds or bank accounts; rather, they should be deposited into the parent group's own bank account. Parent groups may donate funds to the student organization(s); however, after they do so, only the student organizations can control how the funds will be used.

These nonstudent groups are also responsible for their own tax status and accounting; they may not use the district's tax-exempt status or open bank accounts using the district's tax identification number.

Organizations formed by teachers and/or other employees of a school entity also are not a part of the ASB or the district and may not use the district's tax identification number or deposit funds into the school's ASB account or district bank accounts.

Condition

During the audit of the district's Associated Student Body Funds (ASB) at Egan Junior High School, we noted that checks received from the school's Parent Teacher Association (PTA) were deposited into the ASB accounts.

Questioned costs

There are no questioned costs associated with this condition.

Context

Expenditure of student funds for expenses of parent-teacher organizations such as the PTA or boosters is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a district responsibility, or are a gift of public funds.

Management is responsible for establishing and maintaining effective internal control a system of internal control to provide it with a reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorizations, recorded properly and are allowable student body transactions.

Effect

The District was not in compliance with California Education Code and Board Policies regulating student body activities.

Cause

It appears that decentralized operations were dependent on the actions of individuals who were not aware of the specific requirements noted above.

Recommendation

We recommend that the district work with site personnel to correct the above-mentioned issues. The District should consider providing annual in-house training to site personnel and periodically review the progress of improvement regarding these issues. We also recommend that the District implement a policy requiring a semi-annual internal audit and review of the ASB accounts and transactions.

District Response

The District has increased its efforts to provide training for staff members who are responsible for ASB activities. The District has provided Quicken (ASB accounting software) training to all the sites that will provide broader access to ASB financial

information and will allow students, advisors, site administrators, and the district business office to monitor ASB activities more closely. In addition, all PTA funds have been removed from the ASB accounts and the commingling of funds has been stopped.

Status

Implemented. PTA checks are no longer being deposited into ASB bank accounts.

Section III – Federal Awards Findings

None

Section IV – State Awards Findings

None

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the LOS ALTOS 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 \$5,000,000* Los Altos School District (Santa Clara County, California) 2013 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 13, 2013, and a resolution adopted by the Board on June 4, 2013 (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: [Closing Date]

LOS ALTOS SCHOOL DISTRICT

By _____
Name: _____
Title: _____

APPENDIX C
PROPOSED FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees
Los Altos School District
201 Covington Road
Los Altos, California 94024

OPINION: \$5,000,000* Los Altos School District (Santa Clara County, California)
 2013 Tax and Revenue Anticipation Notes

Members of the Board of Trustees:

We have acted as bond counsel to the Los Altos School District (the "District") in connection with the issuance by the Board of Supervisors of Santa Clara County (the "Board") of \$5,000,000* principal amount of Los Altos School District (Santa Clara County, California) 2013 Tax and Revenue Anticipation Notes, dated July 1, 2013 (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 13, 2013 (the "District Resolution"), and a resolution adopted by the Board on June 4, 2013 (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

March 31, 2013



Fund	Cost Value	Market Value	Variance	% Variance
Commingled Investment Pool	\$4,606,048,311	\$4,618,128,743	\$12,080,432	0.26%
Retiree Health Fixed Income*	\$147,246,678	\$154,614,140	\$7,367,462	5.00%
Retiree Health Equity*	\$11,689,722	\$14,239,906	\$2,550,184	21.82%
Mountain View-Los Altos***	\$2,007,884	\$2,008,662	\$777	0.04%
Palo Alto Unified***	\$2,169,837	\$2,171,317	\$1,480	0.07%
Park Charter Fund	\$25,094,156	\$25,121,388	\$27,232	0.11%
San Jose-Evergreen***	\$19,682,304	\$19,705,415	\$23,111	0.12%
West Valley Mission CCD - Building Fund***	\$48,651,401	\$48,661,615	\$10,214	0.02%
Medical Malpractice Insurance Fund (1)	\$14,009,245	\$14,160,869	\$151,624	1.08%
Total	\$4,876,599,538	\$4,898,812,054	\$22,212,516	0.46%

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2013		2012
	Jan 31	Feb 28	Mar 31
Commingled Investment Pool	0.62%	0.59%	0.49%
Retiree Health Fixed Income	2.87%	2.83%	2.65%
Weighted Yield	0.68%	0.67%	0.55%
			0.84%

*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

***Individual securities within municipal security accounts are from time to 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.

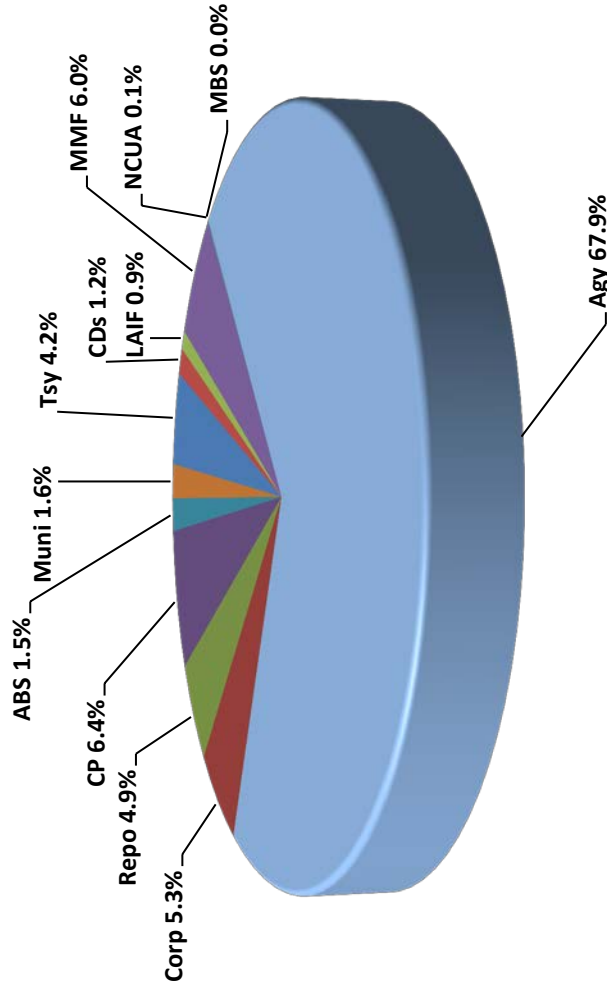
Santa Clara County Commingled Pool

Allocation by Security Types

March 31, 2013

Sector	3/31/2013	12/31/2012	% Chng
Federal Agencies	67.89%	74.83%	-6.9%
Corporate Bonds	5.35%	6.58%	-1.2%
Repurchase Agreements	4.88%	6.50%	-1.6%
Commercial Paper	6.40%	4.98%	1.4%
Asset-Backed Securities	1.51%	1.80%	-0.3%
Municipal Securities	1.57%	1.63%	-0.1%
U.S. Treasuries	4.23%	1.19%	3.0%
Negotiable CDs	1.19%	1.19%	0.0%
LAIF	0.87%	0.87%	0.0%
Money Market Funds	5.96%	0.30%	5.7%
NCUA Corporate Bonds**	0.11%	0.11%	0.0%
Mortgage-Backed Securities	0.02%	0.03%	0.0%
Total	100.00%	100.00%	

Sector	3/31/2013	12/31/2012
Federal Agencies	3,127,177,394	3,455,150,993
Corporate Bonds	246,377,518	303,588,095
Repurchase Agreements	225,000,000	300,000,000
Commercial Paper	294,957,034	229,744,642
Asset-Backed Securities	69,772,449	83,237,351
Municipal Securities	72,363,904	75,081,194
U.S. Treasuries	194,993,088	55,134,570
Negotiable CDs	55,002,321	55,008,896
LAIF	40,000,000	40,000,000
Money Market Funds	274,426,174	13,724,219
NCUA Corporate Bonds**	4,996,172	4,993,050
Mortgage-Backed Securities	982,258	1,562,950
Total	4,606,048,311	4,617,225,963



* Amounts are in base upon book value

**Bonds are guaranteed by the NCUA (National Credit Union Association)

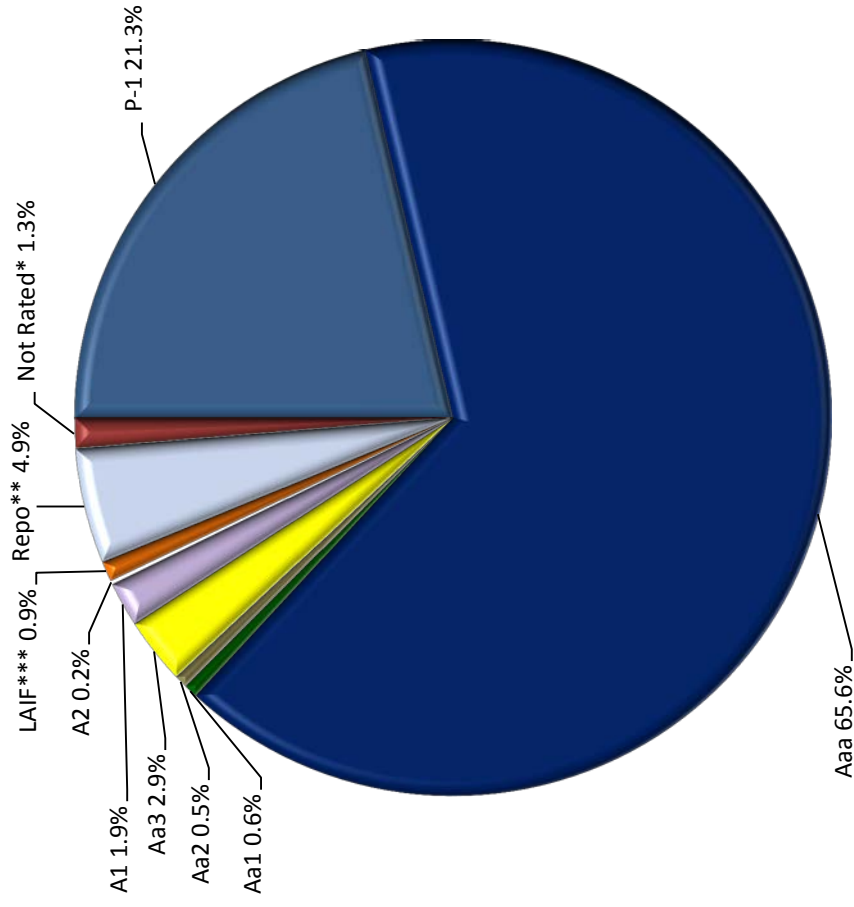
Santa Clara County Commingled Pool

Allocation by Ratings

March 31, 2013



Moody's Rating	Portfolio \$	Portfolio %
P-1	979,900,558	21.3%
Aaa	3,021,435,696	65.6%
Aa1	27,240,136	0.6%
Aa2	24,989,413	0.5%
Aa3	131,467,624	2.9%
A1	87,892,096	1.9%
A2	8,134,422	0.2%
A3	-	0.0%
LAIF***	40,000,000	0.9%
Repo**	225,000,000	4.9%
Not Rated*	59,988,366	1.3%
Total	4,606,048,311	100.0%



*Not Rated securities are issued by Farmer Mac, a U.S. Federal Agency

**Repurchase Agreements are not rated, but are collateralized by U.S. Treasury securities

*** LAIF is not rated, but is comprised of State Code allowable securities

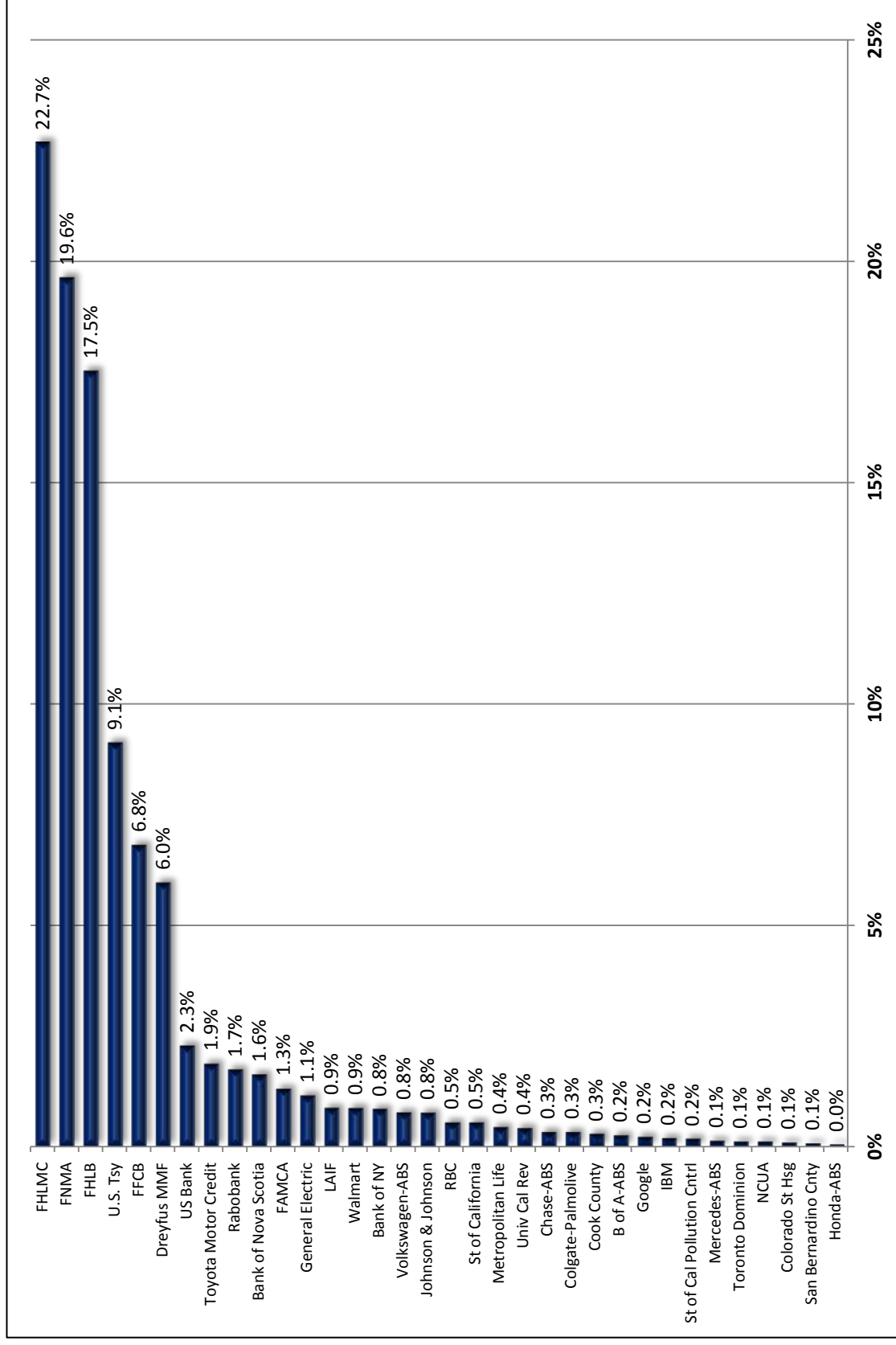
Amounts are based on book values



Santa Clara County Commingled Pool

Holdings by Issuer - Percent of Commingled Pool

March 31, 2013



Amounts are based upon book values

