

## 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.



### **\$7,000,000\*** **FREMONT UNION HIGH 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 Fremont Union High School District (the "District") will be issued in fully registered form, without coupons. The Notes will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Notes. Individual purchases of Notes will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers of the Notes will not receive securities certificates representing their ownership interest in the Notes. The principal of and interest on the Notes will be paid at maturity by the Director of Finance of the County, as paying agent (the "Paying Agent"), to DTC, which is obligated in turn to remit such principal and interest to its DTC participants for subsequent disbursement to the Beneficial Owners of the Notes, as described herein. See "THE NOTES" herein.

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

The Notes are issued to finance, in part, the general fund cash flow requirements of the District during Fiscal Year 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, (b) in an amount equal to fifty percent (50%) of the principal amount of the Notes to be received by the County on behalf of the District in April, 2014, and (c) an amount equal to all interest due on the Notes, to be received by the County on behalf of the District in May, 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>
_____ %	_____ %	357172 ____

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.

†Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. The CUSIP number has been assigned by an independent company not affiliated with the District and is included solely for the convenience of the registered owners of the Notes. Neither the District nor the Underwriter is responsible for the selection or uses of the CUSIP number and no representation is made as to its correctness on the Notes or as included herein. The CUSIP number is subject to being changed after the delivery of the Notes as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Notes.

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*

**FREMONT UNION HIGH SCHOOL DISTRICT  
Board of Trustees**

Nancy A. Newton  
*President*

Bill Wilson  
*Vice President*

Barbara F. Nunes  
*Clerk*

Jeff Moe  
*Member*

Hung Wei  
*Member*

**District Administration**

Polly M. Bove  
*Superintendent*

Christine Mallery  
*Chief Business Officer, Associate Superintendent*

Kate Jamentz, Ed.D.  
*Academic Deputy Superintendent*

**SPECIAL SERVICES**

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

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

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

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## OFFICIAL STATEMENT

**\$7,000,000\***

### **FREMONT UNION HIGH 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 \$7,000,000.\* 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 Fremont Union High School District (the "District").

#### **General**

The Notes are general obligations of the District but are payable only out of taxes, income, revenue, cash receipts and other moneys of the District attributable to the fiscal year ending June 30, 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 District provides educational services to the residents of the Cities of Sunnyvale and Cupertino and portions of the Cities of San Jose, Los Altos, Saratoga and Santa Clara in Santa Clara County, California. Enrollment in the District for the 2012-13 school year was approximately 10,664. The District is governed by a five-member Board of Trustees (the "District Board") which is elected in alternating four-year terms. The chief executive officer of the District is the Superintendent, who is appointed by the District Board. More detailed information regarding the area served by the District, the student population of the District, and the financial position of the District may be found under "DISTRICT INFORMATION," and "COUNTY ECONOMIC PROFILE" herein.

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\* Preliminary, subject to change.

## **Authority for Issuance of the Notes**

The Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the Government Code (the “Act”) and pursuant to a resolution adopted by the District Board on May 21, 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 589 West Fremont Avenue, Sunnyvale, CA 94087, Telephone: (408) 522-2201.

## **THE NOTES**

### **Authority for Issuance**

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



Notes (the “District Resolution”) on May 21, 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](http://www.dtcc.com) and [www.dtc.org](http://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.

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, (b) in an amount equal to fifty percent (50%) of the principal amount of the Notes to be received by the County on behalf of the District in April, 2014, and (c) an amount equal to all interest due on the Notes, to be received by the County on



behalf of the District in May, 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”).

**FREMONT UNION HIGH SCHOOL DISTRICT**  
**Amount of Pledge\***

January, 2014	April, 2014	May 2014
\$3,500,000*	\$3,500,000*	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 Second Interim Financial Report with the County Office of Education (the “SCCOE”) with a “positive certification” within the meaning of Section 42133 of the California Education Code. See THE DISTRICT—Significant Accounting Policies and Financial Statements.

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\* Preliminary, subject to change.

## Other District Funds

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

	June 30, 2012 <u>Balance (1)</u>	June 30, 2013 <u>Estimated Balance (2)</u>
<u>Special Revenue Funds</u>		
Cafeteria	\$ 41,335	\$ 41,335
Subtotal for Special Revenue Funds	41,335	41,335
<u>Capital Project Funds</u>		
Building Fund	\$69,144,568	\$86,923,513
Capital Facilities	2,371,106	3,282,670
County School Facilities	584,859	283,432
Subtotal for Capital Project Funds	\$72,100,533	\$90,489,615
Total Other District Funds (3)	\$72,141,868	\$90,530,950

(1) Audited

(2) 2012-13 Second Interim Report.

## 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 \$2,230,641 is anticipated in October, 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.



**Fremont Union High School District  
2013 Tax and Revenue Anticipation Notes**

**GENERAL FUND**

**2012/13 ACTUAL CASH FLOW (Actuals through May 2013, Projected June 2013)**

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<b>Beginning Cash</b>	\$ 21,721,083	\$ 29,634,328	\$ 27,213,859	\$ 18,352,324	\$ 17,780,053	\$ 18,881,154	\$ 33,327,765	\$ 30,794,013	\$ 22,334,236	\$ 20,924,656	\$ 27,896,124	\$ 19,628,523	\$ 21,721,083
<b>Receipts</b>													
Revenue Limit: Property Tax	0	0	0	5,503,092	11,738,224	18,194,369	12,535,082	0	7,347,024	20,775,476	404,635	8,045,470	84,543,372
Revenue Limit: State Aid	0	(2,962)	(18,654)	(7,126)	(13,187)	(12,284)	(26,374)	(6,650)	(2,740)	(3,668)	0	(51,791)	(145,436)
Federal Revenue	326,411	0	(326,411)	49,198	0	26,589	772,385	0	529,774	62,623	43,462	363,837	1,847,868
Other State Revenues	0	(48,561)	107,169	283,919	(135,729)	(199,122)	(7,960)	(1,298)	211,095	625,055	151,677	467,975	1,454,220
Other Local Revenues	238,122	1,341,738	(649,068)	242,076	128,800	368,931	3,475,343	525,980	479,291	215,086	233,755	941,604	7,541,658
Other Receipts	0	0	0	0	0	0	0	0	0	0	0	772,931	772,931
<b>Total Receipts</b>	<b>564,533</b>	<b>1,290,215</b>	<b>(886,964)</b>	<b>6,071,159</b>	<b>11,718,108</b>	<b>18,378,483</b>	<b>16,748,476</b>	<b>518,032</b>	<b>8,564,444</b>	<b>21,674,572</b>	<b>833,529</b>	<b>10,540,026</b>	<b>96,014,613</b>
<b>Disbursements</b>													
Certificated Salaries	770,417	782,552	4,558,943	4,601,369	4,605,311	4,669,131	4,626,909	4,607,758	4,672,987	4,639,572	4,845,772	4,226,192	47,606,913
Classified Salaries	562,688	817,040	1,303,975	1,327,840	1,275,386	1,553,857	1,491,787	1,324,461	1,434,126	1,086,518	1,661,310	1,839,614	15,678,602
Employee Benefits	1,066,364	1,153,305	1,687,594	1,776,082	1,647,168	1,799,078	1,807,099	1,786,813	1,830,732	2,409,096	1,633,414	2,009,819	20,696,564
Other Disbursements	561,950	1,380,333	1,589,903	1,407,971	2,047,029	1,296,417	1,297,983	1,110,542	1,202,276	702,951	1,569,285	869,436	15,036,076
<b>Total Disbursements</b>	<b>2,961,419</b>	<b>4,133,230</b>	<b>9,140,415</b>	<b>9,113,262</b>	<b>9,574,894</b>	<b>9,318,483</b>	<b>9,223,778</b>	<b>8,829,574</b>	<b>9,140,121</b>	<b>8,928,137</b>	<b>9,709,781</b>	<b>8,945,060</b>	<b>99,018,154</b>
<b>Prior Year Transactions</b>													
Prior Year Receipts	1,776,937	917,895	1,639,054	3,293,370	(664,614)	963,493	(267,385)	0	(746)	1,905	(163,904)	(1,071,667)	6,424,338
Prior Year Disbursements	1,966,806	495,349	473,210	823,538	377,499	(4,423,118)	4,541,065	148,235	833,157	526,872	(927,867)	1,760,927	6,595,673
<b>Total Prior Year Transactions</b>	<b>(189,869)</b>	<b>422,546</b>	<b>1,165,844</b>	<b>2,469,832</b>	<b>(1,042,113)</b>	<b>5,386,611</b>	<b>(4,808,450)</b>	<b>(148,235)</b>	<b>(833,903)</b>	<b>(524,967)</b>	<b>763,963</b>	<b>(2,832,594)</b>	<b>(171,335)</b>
<b>Note Related Cash Flows</b>	<b>10,500,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,250,000)</b>	<b>0</b>	<b>0</b>	<b>(5,250,000)</b>	<b>(155,313)</b>	<b>155,313</b>	<b>0</b>
<b>Net Increase/Decrease</b>	<b>7,913,245</b>	<b>(2,420,469)</b>	<b>(8,861,535)</b>	<b>(572,271)</b>	<b>1,101,101</b>	<b>14,446,611</b>	<b>(2,533,752)</b>	<b>(8,459,777)</b>	<b>(1,409,580)</b>	<b>6,971,468</b>	<b>(8,267,602)</b>	<b>(1,082,316)</b>	<b>(3,174,877)</b>
<b>Ending Cash</b>	<b>29,634,328</b>	<b>27,213,859</b>	<b>18,352,324</b>	<b>17,780,053</b>	<b>18,881,154</b>	<b>33,327,765</b>	<b>30,794,013</b>	<b>22,334,236</b>	<b>20,924,656</b>	<b>27,896,124</b>	<b>19,628,523</b>	<b>18,546,206</b>	<b>18,546,206</b>

**2013/14 PROJECTED CASHFLOW**

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<b>Beginning Cash</b>	\$ 18,546,206	\$ 22,024,298	\$ 18,546,945	\$ 7,842,710	\$ 4,769,359	\$ 6,959,135	\$ 16,241,718	\$ 20,335,556	\$ 11,799,724	\$ 11,183,317	\$ 20,869,223	\$ 11,678,048	\$ 18,546,206
<b>Receipts</b>													
Revenue Limit: Property Tax	0	0	0	5,653,060	12,058,110	18,690,195	12,876,683	0	7,547,242	21,341,641	415,662	8,264,722	86,847,316
Revenue Limit: State Aid	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Revenue	296,731	0	(296,731)	44,724	0	24,171	702,153	0	481,602	56,929	39,510	330,754	1,679,844
Other State Revenues	0	(58,528)	129,165	342,193	(163,587)	(239,992)	(9,594)	(1,564)	254,422	753,347	182,809	564,027	1,752,698
Other Local Revenues	239,221	1,347,933	(652,065)	243,194	129,395	370,634	3,491,389	528,408	481,504	216,079	234,834	945,951	7,576,478
Other Receipts	0	0	0	0	0	0	0	0	0	0	0	3,013,096	3,013,096
<b>Total Receipts</b>	<b>535,952</b>	<b>1,289,405</b>	<b>(819,630)</b>	<b>6,283,172</b>	<b>12,023,917</b>	<b>18,845,009</b>	<b>17,060,631</b>	<b>526,844</b>	<b>8,764,771</b>	<b>22,367,997</b>	<b>872,815</b>	<b>13,118,550</b>	<b>100,869,432</b>
<b>Disbursements</b>													
Certificated Salaries	784,710	797,070	4,643,521	4,686,734	4,690,749	4,755,753	4,712,748	4,693,242	4,759,681	4,725,646	4,935,671	4,304,596	48,490,122
Classified Salaries	568,338	825,244	1,317,069	1,341,173	1,288,193	1,569,460	1,506,767	1,337,761	1,448,527	1,097,428	1,677,992	1,858,086	15,836,038
Employee Benefits	1,122,444	1,213,958	1,776,345	1,869,486	1,733,793	1,893,692	1,902,135	1,880,782	1,927,011	2,630,524	1,719,316	2,115,516	21,785,000
Other Disbursements	582,368	1,430,486	1,647,671	1,459,128	2,121,406	1,343,521	1,345,144	1,150,893	1,245,960	728,492	1,626,304	901,026	15,582,398
<b>Total Disbursements</b>	<b>3,057,860</b>	<b>4,266,758</b>	<b>9,384,605</b>	<b>9,356,522</b>	<b>9,834,141</b>	<b>9,562,426</b>	<b>9,466,793</b>	<b>9,062,677</b>	<b>9,381,178</b>	<b>9,182,090</b>	<b>9,959,282</b>	<b>9,179,224</b>	<b>101,693,557</b>
<b>Prior Year Transactions</b>													
Prior Year Receipts	2,250,000	1,125,000	0	0	0	0	0	0	0	0	0	0	4,500,000
Prior Year Disbursements	3,250,000	1,625,000	1,625,000	0	0	0	0	0	0	0	0	0	6,500,000
<b>Total Prior Year Transactions</b>	<b>(1,000,000)</b>	<b>(500,000)</b>	<b>(500,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,000,000)</b>
<b>Note Related Cash Flows</b>	<b>7,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,500,000)</b>	<b>0</b>	<b>0</b>	<b>(3,500,000)</b>	<b>(104,708)</b>	<b>104,708</b>	<b>0</b>
<b>Net Increase/Decrease</b>	<b>3,478,092</b>	<b>(3,477,353)</b>	<b>(10,704,236)</b>	<b>(3,073,351)</b>	<b>2,189,776</b>	<b>9,282,583</b>	<b>4,093,838</b>	<b>(8,535,832)</b>	<b>(616,407)</b>	<b>9,685,907</b>	<b>(9,191,176)</b>	<b>4,044,033</b>	<b>(2,824,125)</b>
<b>Ending Cash</b>	<b>22,024,298</b>	<b>18,546,945</b>	<b>7,842,710</b>	<b>4,769,359</b>	<b>6,959,135</b>	<b>16,241,718</b>	<b>20,335,556</b>	<b>11,799,724</b>	<b>11,183,317</b>	<b>20,869,223</b>	<b>11,678,048</b>	<b>15,722,081</b>	<b>15,722,081</b>

## Note Coverage Ratio

Projected Unrestricted Moneys available for Note repayment on June 30, 2014, provides coverage of 3.48\* times the principal of and interest due on the Notes at maturity. See "THE NOTES—Security for and Sources of Payment."

### FREMONT UNION HIGH SCHOOL DISTRICT Estimated Note Coverage Ratio\*

Projected Beginning Cash Balance 7/1/13	\$ 18,546,206
Plus: Projected 2013-14 Cash Receipts (including Note Proceeds)	107,869,432
Less: Projected 2013-14 Disbursement (excluding Note Repayment)	(101,693,557)
Ending Cash Balance	<u>\$ 24,722,081</u>
Note Repayment*	\$7,104,708
NOTE COVERAGE RATIO*	3.48x

## DISTRICT INFORMATION

### General Information

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

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

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

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

### BOARD OF EDUCATION

Name	Office	Term Expires (November)
Nancy A. Newton	President	2016
Bill Wilson	Vice President	2014
Barbara F. Nunes	Clerk	2014
Jeff Moe	Trustee	2016
Hung Wei	Trustee	2014

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\* 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 2012-13 and 2013-14.

### FREMONT UNION HIGH SCHOOL DISTRICT Average Daily Attendance

Academic Year	Average Daily Attendance at P-2
2008-09	10,000
2009-10	9,928
2010-11	10,051
2011-12	10,130
2012-13(1)	10,283
2013-14 (1)	10,324

Source: Fremont Union High School District  
(1) Projected from Second Interim Report

## District Employees

The District employs approximately 833 full-time equivalent certificated employees, 766 full-time equivalent classified employees and 67 management personnel. There are two formal bargaining organizations that are active in the District.

### FREMONT UNION HIGH SCHOOL DISTRICT Labor Relations

Labor Organization	Number of Employees In Organization	Contract Expiration Date
Fremont Education Association	509	June 30, 2014
California Schools Employees Association	283	June 30, 2014

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

Funding Policy - Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 10.923% of covered payroll.

The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2012, 2011, and 2010, were \$1,988,303, \$2,003,367 and \$1,851,600, respectively, and equal to 100 percent of the required contributions for each year. The payments noted above include employee contribution amounts paid by the district on behalf of their employees.

#### *State Teachers' Retirement System (CalSTRS)*

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

Funding Policy - Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contribution to CalSTRS for fiscal years ending June 30, 2012, 2011, and 2010, were \$3,914,775, \$3,835,533, and \$3,709,847, respectively, and equal 100 percent of the required contributions for each year.

See NOTE 13— EMPLOYEE RETIREMENT PLANS in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

#### **Other Post-Employment Benefits**

Plan Description - The Retiree Health and Welfare Benefit (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the plan consists of 104 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and 882 active plan members. The Plan is presented in the District's financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

Funding Policy - The contribution requirements of plan members and the District are established and may be amended by the District and the Fremont Educators Association ("FEA"), the local California Service Employees Association ("CSEA"), and unrepresented groups. The required contribution is based on a closed 30 year amortization period and the level dollar method for the implementation year, and an open 30 year amortization period and level percentage of payroll method for subsequent years. For fiscal year 2011-12, the District contributed \$1,075,102 to the plan, of which \$1,061,089 was used for current premiums. Plan members receiving benefits contributed approximately 21% of the total premiums. District

contributes \$553, \$500 and \$480 monthly for FEA, CSEA and FMS, respectively. Any premiums over the District's contribution are paid by plan members.

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

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

Annual required contribution	\$ 1,556,417
Interest on net OPEB obligation	158,900
Annual OPEB cost (expense)	<u>1,725,317</u>
Contributions made	<u>(1,075,102)</u>
Increase in net OPEB obligation	650,215
Net OPEB obligation, beginning of year	<u>5,230,593</u>
Net OPEB obligation, end of year	<u>\$5,880,808</u>

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	\$1,726,231	78.81%	\$4,856,441
2011	\$1,736,931	78.46%	\$5,230,593
2012	\$1,726,231	78.81%	\$4,856,441

See NOTE 14—POSTEMPLOYMENT HEALTH CARE PLAN AND OPEB OBLIGATION in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 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	1,117	4,453	3,212
<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	\$ 578,690	\$1,085,874	\$1,044,208
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	\$1,187,776	\$1,155,614	\$1,466,738

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%
LSI 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 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(2)</sup>	2010 <sup>(2)</sup>	2011 <sup>(4)</sup>
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.

<sup>(1)</sup> Based on a 2009 benchmark.

<sup>(2)</sup> Based on a 2010 benchmark.

<sup>(3)</sup> Based on a 2011 benchmark.

<sup>(4)</sup> 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 <sup>(1)</sup>
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.

In connection with its Second Interim Report for 2012-13, the District was certified as “positive,” because, based upon then current projections, the District will meet its financial obligations for the current fiscal year or two subsequent fiscal years.

## General Fund Budget

The District’s general fund actual results for the fiscal years ended June 30, 2011 and 2012, and the proposed general fund budget for the fiscal year ending June 30, 2013 and estimated general fund budget for the fiscal year ending June 30, 2014, are set forth below:

<p style="text-align: center;"><b>FREMONT UNION HIGH SCHOOL DISTRICT</b>  <b>GENERAL FUND BUDGET</b>  <b>Comparison of Actuals for Fiscal Years Ended June 30, 2010, 2011 and 2012,</b>  <b>and Projected for the Fiscal Years Ending June 30, 2013</b></p>				
	Actuals 2010-11 (a)	Actuals 2011-12 (a)	Projected 2012-13 (b)	Estimated 2013-14
<b>Revenues</b>				
Revenue Limit Sources	\$ 78,170,433	\$ 80,177,433	\$ 82,359,075	\$ 86,847,316
Federal Revenue	2,506,249	5,018,133	2,843,594	2,679,844
Other State Revenue	6,423,769	1,535,697	1,480,252	2,002,698
Other Local Revenue	12,113,238	11,308,954	10,977,555	10,576,478
<b>Total Revenues</b>	<u>99,213,689</u>	<u>97,983,217</u>	<u>97,660,476</u>	<u>\$102,106,336</u>
<b>Expenditures</b>				
Certificated Salaries	45,963,555	46,430,103	47,330,041	\$48,490,122
Classified Salaries	15,862,586	15,754,335	15,402,582	15,836,038
Employee Benefits	20,754,016	19,864,404	20,568,159	21,785,000
Books and Supplies	3,787,041	3,690,468	11,375,284	11,809,062
Services, Other Operating Expenses	10,688,620	11,160,773	12,916,475	12,420,000
Capital Outlay	(95,759)	263,783	267,593	246,500
Other Outgo	22,995	(160,862)	(154,229)	144,016
<b>Total Expenditures</b>	<u>96,983,054</u>	<u>97,003,004</u>	<u>107,705,905</u>	<u>\$110,730,738</u>
<b>Other Financing Sources/(Uses)</b>				
Interfund Transfers In / Other Sources	72,000	705,224	1,022,931	3,263,096
Interfund Transfers Out / Other Uses	(907,829)	(4,609,476)	(790,551)	(750,852)
<b>Total Other Financing Sources/(Uses)</b>	<u>(835,829)</u>	<u>(3,904,252)</u>	<u>232,380</u>	<u>2,512,244</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	1,394,806	980,213	(10,045,429)	(8,624,492)
<b>Beginning Fund Balance</b>	19,965,500	24,473,787	21,549,749	13,546,207
<b>Prior Year Adjustments</b>	0	0	0	0
<b>Ending Fund Balance</b>	<u>\$ 21,360,306</u>	<u>\$ 21,549,748</u>	<u>\$ 11,736,700</u>	<u>7,722,082</u>

Source: Fremont Union High School District.

(a) Audited Financial Statements.

(b) 2012/13 Second Interim Report.

## **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, District at 589 West Fremont Avenue, Sunnyvale, CA 94087, Telephone: (408) 522-2201. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. The District's audited financial statements for the year ended June 30, 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 First Interim Financial Report with the SCCOE using financial information available as of October 31, 2012, with a "positive" certification within the meaning of section 42133 of the California Education Code. The District filed its 2012-13 Second Interim Financial Report with the SCCOE using financial information available as of July 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.

**FREMONT UNION HIGH SCHOOL DISTRICT  
GENERAL FUND  
Revenues, Expenditures and Fund Balance  
Fiscal Years 2009-10, 2010-11 and 2011-12**

	Audited 2009-10	Audited 2010-11	Audited 2011-12
<u>Revenues</u>			
Revenue Limit Sources	\$ 79,296,411	\$78,170,433	\$80,120,433
Federal Revenue	5,122,357	2,805,670	5,018,133
Other State Revenue	8,282,529	8,868,860	3,674,604
Other Local Revenue	11,605,809	13,507,459	11,308,954
Total Revenues	<u>104,307,106</u>	<u>103,352,422</u>	<u>100,122,124</u>
<u>Expenditures</u>			
Current:			
Instruction	55,644,381	59,485,772	59,106,777
Instruction-related activities			
Supervision of instruction	4,025,250	4,107,829	4,019,958
Instructional library, media, and technology	1,549,550	1,656,853	1,499,674
School site administration	9,834,026	10,666,665	10,891,463
Pupil services			
Home-to-school transportation	1,555,077	1,720,861	1,797,221
Food services	208	33	242
All other pupil services	6,415,151	6,890,329	7,251,408
General administration			
Data processing	205,593	154,840	166,092
All other general administration	5,414,278	5,707,051	5,259,503
Plant services	9,377,520	9,420,284	8,505,790
Facility acquisition and construction	38,836	16,008	39,054
Ancillary services	152,621	128,109	89,351
Community services	—	4,552	2,253
Other outgo	6,680	84,992	22,120
Debt service			
Interest	261,362	431,350	491,005
Total Expenditures	<u>94,480,533</u>	<u>100,475,528</u>	<u>99,141,911</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,826,573</u>	<u>2,876,894</u>	<u>980,213</u>
<u>Other Financing Sources (Uses):</u>			
Transfers In	101,062	72,000	705,224
Transfers Out	(1,416,682)	(1,181,221)	(4,609,476)
Net Financing Sources (Uses)	<u>(1,315,621)</u>	<u>(1,109,221)</u>	<u>(3,904,252)</u>
Net change in Fund Balance	8,510,952	1,767,673	(2,924,039)
Fund Balances, July 1	11,454,548	22,706,114	24,473,787
Fund Balances, June 30	<u>\$19,965,500</u>	<u>\$24,473,787</u>	<u>\$21,549,748</u>

Source: Fremont Union High School District audited financial statements.

### Debt Structure

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

*Short-Term Obligations.* On July 1, 2012, the District issued \$15,000,000 in tax and revenue anticipation notes which are due on June 28, 2013. Amounts required for the payment of such notes have been set aside as required by the documents authorizing such notes.

*Long-Term Obligations.* Voters of the District previously authorized bonds of the District to be issued in the amount of \$144 million in 1998 and \$198 million in 2008. All or substantially all of the bonds authorized in 1998 have been issued, then later refunded with the issuance of refunding bonds in 2005. In August 2008, the District issued the first series of bonds under the 2008 authorization in the aggregate principal amount of \$80,000,000. In March 2011, the District issued additional bonds under the 2008 authorization in three series in the aggregate principal amount of \$69,995,108.30. In January 2013, the District issued additional bonds under the 2008 authorization in one series in the principal amount of \$48,000,000.00.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Original Issue	Balance January 1, 2013
2005 Refunding	2/93/05	9/1/23	\$143,400,000.00	\$107,560,000.00
2008	8/14/08	8/1/33	80,000,000.00	76,700,000.00
2011 A	3/23/11	8/1/44	28,905,000.00	26,200,000.00
2011 B	3/23/11	8/1/40	16,090,108.30	16,090,108.30
2011 D	3/23/11	2/1/26	25,000,000.00	25,000,000.00
2013	2/12/13	8/1/41	48,000,000.00	48,000,000.00
			<u>\$341,395,108.30</u>	<u>\$274,550,108.30</u>

## 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 scheduled 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](http://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](http://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](http://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](http://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 “situs” 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 XIII C 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.

FREMONT UNION HIGH SCHOOL  
DISTRICT

By \_\_\_\_\_  
Superintendent

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**APPENDIX A**

**FINANCIAL STATEMENTS FOR THE DISTRICT**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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**FREMONT UNION  
HIGH SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2012**



# FREMONT UNION HIGH SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Fremont Union High School District  
Sunnyvale, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont Union High School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof 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 our report dated November 7, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as the management's discussion and analysis, schedule of other post employment benefits and budgetary comparison information 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. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.



Palo Alto, California  
November 7, 2012

# FREMONT UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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This section of Fremont Union High School District's (FUHSD) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section. Comparative analyses are presented in the tables that follow:

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

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

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

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

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

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

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

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

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

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012**

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### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

Fiscal year 2011-12 showed to be another year of tremendous fiscal uncertainty. The State continued to reduce categorical funding to the District in the form of a “fair share”.

The District continues to rely upon the \$5.2 million received annually from the parcel tax that was originally approved by the voters in November 2004. On May 4, 2010, District voters renewed the parcel tax for a period of six years. In accordance with the ballot language, the funds are used to preserve core academic classes and retain experienced teachers. The District has been careful to track the particular programs funded through parcel tax revenues.

The Measure B bond is a \$198 million bond measure approved by the voters on June 3, 2008. The District issued the second series of bonds under this authorization of \$70 million. As part of the Series 2011 bond issuance, the District was able to take advantage of the Qualified School Construction Bond (QSCB) program. The District's QSCBs attracted approximately \$14.6 million in federal subsidy dollars to off-set interest costs over time. The District chose to pass the entire benefit from the federal subsidy to its taxpayers to off-set the taxable interest expense.

The rigorous residency verification program continued in 2011-12, and the District remains committed to this effort.

The relationship with all bargaining units continues to be positive and collaborative. Once again, the running of the Revenue Sharing formula was postponed, in order to allow the District to close the books and review the multi-year projections.

The District's ratings are amongst the highest for California's school districts. Moody's affirmed the District's Aa1 rating and Standard & Poor's affirmed the Districts “AA+” rating.

### **REPORTING THE DISTRICT AS A WHOLE**

#### The Statement of Net Assets and the Statement of Activities

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

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

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

## **FREMONT UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012**

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

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

#### **REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS**

##### Fund Financial Statements

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

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

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

#### **THE DISTRICT AS TRUSTEE**

##### Reporting the District's Fiduciary Responsibilities

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

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### THE DISTRICT AS A WHOLE

#### Net Assets

The District's net assets were \$114.39 million for the fiscal year ended June 30, 2012. Of this amount, \$38.70 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. The analysis below focuses on net assets (Table 1) and the change in net assets (Table 2) of the District's governmental activities.

**TABLE 1**

(Amounts in millions)	2011	2012	CHANGE
Current and other assets	\$ 153.93	\$ 142.62	\$ (11.31)
Capital assets	248.15	281.50	33.35
<b>Total Assets</b>	<b>402.08</b>	<b>424.12</b>	<b>22.04</b>
Current liabilities	22.28	39.94	17.66
Long-term liabilities	274.50	269.78	(4.72)
<b>Total Liabilities</b>	<b>296.78</b>	<b>309.72</b>	<b>12.94</b>
Net assets			
Invested in capital assets, net of related debts	74.10	53.48	(20.62)
Restricted	17.92	22.22	4.30
Unrestricted	13.27	38.70	25.43
<b>Total Net Assets</b>	<b>\$ 105.29</b>	<b>\$ 114.40</b>	<b>\$ 9.11</b>

The \$38.70 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if the District had to pay off all of its bills today including all of its non-capital liabilities (compensated absences as an example), there would be \$38.70 million remaining. Though listed as unrestricted for purposes of this report, the \$38.70 million in net assets are committed or assigned to various programs of the school district.



# FREMONT UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### Changes in Net Assets

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

**TABLE 2**

(Amounts in millions)

<b><u>REVENUES</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>CHANGE</u></b>
Program revenues:			
Charges for services	\$ 0.10	\$ 0.52	\$ 0.42
Operating grants and contributions	7.44	10.84	3.40
Capital grants and contributions	-	0.01	0.01
General revenues:			
Federal and state sources	5.34	2.52	(2.82)
Property taxes	99.98	104.80	4.82
Other general revenue	13.54	15.56	2.02
Total revenues	<u>126.40</u>	<u>134.25</u>	<u>7.85</u>
<b><u>EXPENSES</u></b>			
Instruction	62.47	63.27	0.80
Instruction-related services	17.31	19.08	1.77
Pupil services	11.65	12.10	0.45
General administration	6.20	6.66	0.46
Plant services	9.75	10.78	1.03
Ancillary services	0.13	0.10	(0.03)
Interest on long-term debt	10.21	13.15	2.94
Other outgo	0.08	0.01	(0.07)
Total Expenditures	<u>117.80</u>	<u>125.15</u>	<u>7.35</u>
<b>NET CHANGE IN ASSETS</b>	<u>\$ 8.60</u>	<u>\$ 9.10</u>	<u>\$ 0.50</u>

### Governmental Activities

As reported in the Statement of Activities on page 14 the cost of all governmental activities this year was \$125.15 million. However, the amount that the taxpayers ultimately financed for these activities through local taxes was \$104.80 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions (\$10.85 million). The District paid for the remaining "public benefit" portion of our governmental activities with \$18.60 million in state revenue limit sources, State funds and with other revenues, like interest and general entitlements.

# FREMONT UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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

**TABLE 3**

<b>(Amounts in millions)</b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>CHANGE</u></b>
Instruction	\$ 57.41	\$ 56.83	\$ (0.58)
Instruction-related services:			
Supervision of instruction	3.70	3.82	0.12
Instructional library, media and technology	1.73	1.67	(0.06)
School administration	11.14	12.40	1.26
Pupil Services:			
Home-to-school transportation	1.46	1.55	0.09
Food services	2.07	2.07	-
All other pupil services	6.86	6.63	(0.23)
General administration:			
Data processing	0.16	0.17	0.01
All other general administration	5.59	6.02	0.43
Plant services	9.75	10.74	0.99
Ancillary services	0.14	0.09	(0.05)
Interest on long-term debt	10.25	13.15	2.90
Other outgo	-	(1.35)	(1.35)
<b>TOTAL NET COST</b>	<b><u>\$ 110.26</u></b>	<b><u>\$ 113.79</u></b>	<b><u>\$ 3.53</u></b>

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

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

## **FREMONT UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012**

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#### **THE DISTRICT'S FUNDS**

As the District completed this year, governmental funds had a reported combined fund balance of \$113.22 million, which is a decrease of \$27.88 million from last year.

The primary reasons for these changes are:

- a) The General Fund is the principal operating fund. The fund balance in the General Fund decreased from \$24.5 million to \$21.5 million. This increase was primarily due to the exclusion of the Adult Education and Deferred Maintenance Funds in the General fund.
- b) The Building fund showed a decrease from \$101.58 million to \$68.20 million. This was primarily due to spending down the bond proceeds for modernization projects.
- c) The Bond Interest and Redemption fund increased from \$13.08 million to \$16.64 million. This was primarily due to an increase in funds set aside for future debt redemption associated with the new bond sale.

#### General Fund Budgetary Highlights

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

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 15, 2012. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the annual report on page 53.

Significant revenue and expenditure revisions to the 2011-12 budgets were made. This is primarily due to carryover from 2010-11 and a conservative "fair share" estimate at the time of budget adoption.

#### **CAPITAL ASSET & DEBT ADMINISTRATION**

##### Capital Assets

At June 30, 2012, the District had \$281.50 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and depreciation) of \$33.35 million from last year.

**FREMONT UNION HIGH SCHOOL DISTRICT****MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012****TABLE 4**

(Amounts in millions)	Governmental Activities		
	2011	2012	CHANGE
Land	\$ 1.90	\$ 1.96	\$ 0.06
Construction in progress	40.12	35.14	(4.98)
Buildings and improvements	236.58	278.99	42.41
Furniture and equipment	2.72	3.08	0.36
Total Assets	281.32	319.17	37.85
Less Accumulated Depreciation	(33.17)	(37.67)	(4.50)
Totals	\$ 248.15	\$ 281.50	\$ 33.35

This year's additions included school modernization of \$42.41 million, and deletions to equipment of \$4.62 million. Several capital projects are planned for the 2012-2013 year. More information about our capital assets is presented in Note 4 to the financial statements.

**Long-Term Obligations**

At the end of this year, the District had \$277.98 million in long-term debt outstanding versus \$282.14 million last year, an increase of 1.5 percent. Long-term obligations consisted of:

**TABLE 5**

(Amounts in millions)	Government Activities		
	2011	2012	CHANGE
General obligation bonds and premiums	\$ 276.03	\$ 271.20	\$ (4.83)
Compensated absences	0.88	0.90	0.02
Other postemployment benefits obligations	5.23	5.88	0.65
Totals	\$ 282.14	\$ 277.98	\$ (4.16)

The District's general obligation bond rating is Aa1 (based on Moody's, Insured Bonds). The State limits the amount of general obligation debt that the District can issue. The District's outstanding general obligation bond debt of \$262.17 million is below this limit.

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

The District has an estimated liability of \$5.88 million for OPEB (other post-employment benefits). During fiscal year 2006-2007 the District established an irrevocable trust with American United Life that is administered by MidAmerica to fund this liability. The trust had a restricted fund balance of \$6.10 million at June 30, 2012. The formation of this irrevocable trust protects the funds set aside for retiree benefits and was an important element to the District being an early adopter of GASB 45, implementing the requirements three years ahead of schedule.

## **FREMONT UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012**

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#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

##### The District's 2012-2013 Budget

District Administration is not projecting that its financial position will improve any time soon. Although the state budget language contained "flexibility" for some categorical programs, the District remains committed to maintaining these programs despite significant reductions in state funding. The district is also facing a \$7.3 million ongoing Basic Aid "give back" to the state. This is an increase to the \$6.7 million one-time "give back" for 2011-12. Property tax growth will continue to be slow.

Enrollment is projected to increase by approximately 62 students, but we are uncertain about the economy's impact on long term projections. Current projections show a 10 year period of increasing enrollment. In the area of employee compensation, there is no salary increase anticipated for 2012-13.

Due to the passage of Measure B, facility improvements will continue. Installation of solar has been completed, and the track and field modernization project is approaching completion.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, then contact the office of Christine Mallery, Chief Business Officer/Associate Superintendent, at the Fremont Union High School District, 589 W. Fremont Avenue, Sunnyvale, California, (408) 522-2245.

# FREMONT UNION HIGH SCHOOL DISTRICT

## STATEMENT OF NET ASSETS JUNE 30, 2012

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 133,645,935
Receivables	6,532,963
Prepaid expenses	297,600
Deferred charges	2,099,557
Stores inventories	40,960
Capital assets not depreciated	37,102,299
Capital assets, net of accumulated depreciation	244,398,505
<b>Total Assets</b>	<b>424,117,819</b>
<b>LIABILITIES</b>	
Accounts payable	11,351,779
Interest payable	4,987,793
Deferred revenue	251,873
Claims liabilities	151,148
Current loans	15,000,000
Current portion of long-term obligations	11,300,224
Noncurrent portion of long-term obligations	266,679,665
<b>Total Liabilities</b>	<b>309,722,482</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	53,476,714
Restricted for:	
Debt service	12,097,015
Capital projects	2,955,965
Self insurance	97,555
Legally restricted	7,064,056
Unrestricted	38,704,032
<b>Total Net Assets</b>	<b>\$ 114,395,337</b>

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total
<b>Governmental Activities:</b>					
Instruction	\$ 63,270,297	\$ 33,008	\$ 6,405,999	\$ 5,822	\$ (56,825,468)
Instruction-related activities:					
Supervision of instruction	4,276,974	9,986	449,156	-	(3,817,832)
Instructional library, media, and technology	1,680,033	474	17,513	-	(1,662,046)
School site administration	13,124,895	55	720,267	-	(12,404,573)
Pupil services:					
Home-to-school transportation	1,875,665	-	325,343	-	(1,550,322)
Food services	2,656,026	-	588,608	-	(2,067,418)
All other pupil services	7,567,913	-	942,412	-	(6,625,501)
Administration:					
Data processing	173,341	-	-	-	(173,341)
All other administration	6,486,771	1,696	466,664	-	(6,018,411)
Plant services	10,766,484	2,354	21,751	-	(10,742,379)
Ancillary services	93,251	-	-	-	(93,251)
Community services	2,351	-	-	-	(2,351)
Interest on long-term obligations	13,154,966	-	-	-	(13,154,966)
Other outgo	22,120	469,999	901,495	-	1,349,374
<b>Total Governmental Activities</b>	<b>\$ 125,151,087</b>	<b>\$ 517,572</b>	<b>\$ 10,839,208</b>	<b>\$ 5,822</b>	<b>(113,788,485)</b>
General revenues and subventions:					
Property taxes, levied for general purposes					80,266,532
Property taxes, levied for debt service					19,408,428
Taxes levied for other specific purposes					5,127,764
Federal and State aid not restricted to specific purposes					2,523,190
Interest and investment earnings					394,138
Miscellaneous					15,169,871
					<b>Subtotal, General Revenues</b>
					122,889,923
					<b>Change in Net Assets</b>
					9,101,438
					Net Assets - Beginning
					105,293,899
					Net Assets - Ending
					<b>\$ 114,395,337</b>

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2012

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>ASSETS</b>			
Deposits and investments	\$ 36,721,083	\$ 73,084,665	\$ 16,623,339
Receivables	4,834,701	213,836	13,969
Due from other funds	1,389,592	95,368	-
Prepaid expenditures	200,045	-	-
Stores inventories	-	-	-
<b>Total Assets</b>	<b>\$ 43,145,421</b>	<b>\$ 73,393,869</b>	<b>\$ 16,637,308</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 6,537,800	\$ 5,084,801	\$ -
Due to other funds	-	100	-
Other current liabilities	15,000,000	-	-
Deferred revenue	57,873	106,480	-
<b>Total Liabilities</b>	<b>21,595,673</b>	<b>5,191,381</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	208,620	-	-
Restricted	4,898,328	43,189,246	16,637,308
Committed	-	-	-
Assigned	11,632,189	25,013,242	-
Unassigned	4,810,611	-	-
<b>Total Fund Balances</b>	<b>21,549,748</b>	<b>68,202,488</b>	<b>16,637,308</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 43,145,421</b>	<b>\$ 73,393,869</b>	<b>\$ 16,637,308</b>

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



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<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 6,997,601	\$ 133,426,688
1,469,176	6,531,682
500,000	1,984,960
-	200,045
40,960	40,960
<u>\$ 9,007,737</u>	<u>\$ 142,184,335</u>

\$ 166,163	\$ 11,788,764
1,925,995	1,926,095
-	15,000,000
87,520	251,873
<u>2,179,678</u>	<u>28,966,732</u>
42,085	250,705
609,695	65,334,577
3,805,173	3,805,173
2,371,106	39,016,537
-	4,810,611
<u>6,828,059</u>	<u>113,217,603</u>
<u>\$ 9,007,737</u>	<u>\$ 142,184,335</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

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**Total Fund Balance - Governmental Funds** **\$ 113,217,603**  
**Amounts Reported for Governmental Activities in the Statement of Net**  
**Assets are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 319,174,271	
Accumulated depreciation is	<u>(37,673,467)</u>	
Net Capital Assets		281,500,804

Expenditures relating to issuance of debt were recognized on modified accrual basis, but are not recognized on the accrual basis. 2,099,557

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (4,540,293)

An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 97,555

Long-term obligations at year-end consist of:

Bonds payable	262,169,704	
Bonds premium	9,043,632	
Compensated absences (vacations)	885,745	
Other post employment benefits	<u>5,880,808</u>	
Total Long-Term Obligations		<u>(277,979,889)</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u><u>\$ 114,395,337</u></u></b>

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

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# FREMONT UNION HIGH SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 80,120,433	\$ -	\$ -
Federal sources	5,018,133	-	1,150,722
Other State sources	3,674,604	-	110,865
Other local sources	11,308,954	5,718,617	19,369,626
<b>Total Revenues</b>	<b>100,122,124</b>	<b>5,718,617</b>	<b>20,631,213</b>
<b>EXPENDITURES</b>			
Current			
Instruction	59,106,777	-	-
Instruction-related activities:			
Supervision of instruction	4,019,958	-	-
Instructional library, media and technology	1,499,674	-	-
School site administration	10,891,463	-	-
Pupil services:			
Home-to-school transportation	1,797,221	-	-
Food services	242	-	-
All other pupil services	7,251,408	-	-
Administration:			
Data processing	166,092	-	-
All other administration	5,259,503	-	-
Plant services	8,505,790	498,216	-
Facility acquisition and construction	39,054	39,072,653	-
Ancillary services	89,351	-	-
Community services	2,253	-	-
Other outgo	22,120	-	-
Debt service			
Principal	-	-	5,370,000
Interest and other	491,005	-	11,704,821
<b>Total Expenditures</b>	<b>99,141,911</b>	<b>39,570,869</b>	<b>17,074,821</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>980,213</b>	<b>(33,852,252)</b>	<b>3,556,392</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	705,224	470,327	-
Transfers out	(4,609,476)	-	-
<b>Net Financing Sources (Uses)</b>	<b>(3,904,252)</b>	<b>470,327</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,924,039)</b>	<b>(33,381,925)</b>	<b>3,556,392</b>
<b>Fund Balance - Beginning</b>	<b>24,473,787</b>	<b>101,584,413</b>	<b>13,080,916</b>
<b>Fund Balance - Ending</b>	<b>\$ 21,549,748</b>	<b>\$ 68,202,488</b>	<b>\$ 16,637,308</b>

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

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<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 80,120,433
819,724	6,988,579
3,076,716	6,862,185
3,881,686	40,278,883
<u>7,778,126</u>	<u>134,250,080</u>
1,216,227	60,323,004
78,145	4,098,103
110,097	1,609,771
1,528,768	12,420,231
-	1,797,221
2,544,704	2,544,946
-	7,251,408
-	166,092
182,982	5,442,485
611,724	9,615,730
128,841	39,240,548
-	89,351
-	2,253
-	22,120
-	5,370,000
-	12,195,826
<u>6,401,488</u>	<u>162,189,089</u>
<u>1,376,638</u>	<u>(27,939,009)</u>
4,639,149	5,814,700
(1,143,026)	(5,752,502)
<u>3,496,123</u>	<u>62,198</u>
4,872,761	(27,876,811)
1,955,298	141,094,414
<u>\$ 6,828,059</u>	<u>\$ 113,217,603</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

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**Total Net Change in Fund Balances - Governmental Funds** **\$ (27,876,811)**

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	(4,503,428)
Capital outlays	38,509,495
Net Expense Adjustment	<u>34,006,067</u>

Loss on disposal of capital assets is reported as an expense in the statement of activities, but is not recorded in the governmental funds. (657,901)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used.

(1,357)

Contributions to the retiree benefit trust fund are recorded as an expense in the governmental funds when paid. However, the difference between the annual OPEB costs and the actual contribution made is recorded in the statement of activities. The actual amount of the contribution was less than the annual required contribution in the current year.

(650,215)

Amortization of bond premiums reduce long-term obligations in the statement of net assets and is recorded in the statement of activities as revenue, but does not affect the governmental funds.

678,807

Amortization of costs for the issuance of bonds is an expense in the statement of activities, but is not recorded in the governmental funds.

(125,023)

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities.

5,370,000

Accreted interest is not an expenditure in the governmental funds, but it increases the long-term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities.

(1,238,073)

Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(274,851)

An internal service fund is used by the District's management to charge the costs of the self-insurance program to the individual funds. The net loss of the Internal Service fund is reported with governmental activities.

(129,205)

**Change in Net Assets of Governmental Activities**

**\$ 9,101,438**

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## PROPRIETARY FUND STATEMENT OF NET ASSETS JUNE 30, 2012

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 219,247
Receivables	1,281
Prepaid expenses	97,555
<b>Total Current Assets</b>	<b>318,083</b>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	10,515
Due to other funds	58,865
Claim liabilities	151,148
<b>Total Current Liabilities</b>	<b>220,528</b>
<b>NET ASSETS</b>	
Restricted	97,555
<b>Total Net Assets</b>	<b>\$ 97,555</b>

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



# FREMONT UNION HIGH SCHOOL DISTRICT

## PROPRIETARY FUND

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES

#### IN NET ASSETS

#### FOR THE YEAR ENDED JUNE 30, 2012

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	<b>Governmental Activities - Internal Service Fund</b>
	<hr/>
<b>OPERATING REVENUES</b>	
In-District premium	\$ 1,962,924
<b>OPERATING EXPENSES</b>	
Professional and contract services	2,026,729
Supplies and materials	5,647
<b>Total Operating Expenses</b>	<hr/> 2,032,376
<b>Operating Loss</b>	<hr/> (69,452)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	2,445
Transfers out	(62,198)
<b>Total Nonoperating Revenues (Expenses)</b>	<hr/> (59,753)
<b>Change in Net Assets</b>	(129,205)
<b>Total Net Assets - Beginning</b>	<hr/> 226,760
<b>Total Net Assets - Ending</b>	<hr/> \$ 97,555

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 1,962,485
Cash payments for insurance expenses	(2,667,461)
Net Cash Used for Operating Activities	<u>(704,976)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	2,955
Cash payments for interfund services	(62,198)
Net Cash Provided by Investing Activities	<u>(59,243)</u>
Net Decrease in Cash and Cash Equivalents	(764,219)
Cash and Cash Equivalents - Beginning	983,466
Cash and Cash Equivalents - Ending	<u><u>\$ 219,247</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating loss	\$ (69,452)
Changes in assets and liabilities:	
Receivables	(439)
Inventories	(23,759)
Accrued liabilities	14,809
Due to other fund	(626,135)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u><u>\$ (704,976)</u></u>

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2012

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	<b>Retiree Benefits Trust</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Deposits and investments	\$ 6,108,542	\$ 2,520,682
Receivables	7,148	-
Prepaid expenses	26,176	-
Total Assets	<u>6,141,866</u>	<u>\$ 2,520,682</u>
<b>LIABILITIES</b>		
Accounts payable	93,980	\$ -
Due to student groups	-	2,520,682
Deferred revenue	655	-
Total Liabilities	<u>94,635</u>	<u>\$ 2,520,682</u>
<b>NET ASSETS</b>		
Restricted	<u>\$ 6,047,231</u>	

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## FIDUCIARY FUNDS

### STATEMENT OF CHANGES IN NET ASSETS

#### FOR THE YEAR ENDED JUNE 30, 2012

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	<b>Retiree Benefits Trust</b>
<b>ADDITIONS</b>	
District contributions	\$ 1,075,102
Interest	180,274
Total Additions	1,255,376
<b>DEDUCTIONS</b>	
Benefit expenditures	1,061,089
<b>Change in Net Assets</b>	194,287
<b>Net Assets - Beginning</b>	5,852,944
<b>Net Assets - Ending</b>	<u>\$ 6,047,231</u>

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

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

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

#### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for reported in another fund.

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

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

#### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue Funds are established to account for the proceeds from specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

**Capital Project Funds** The Capital Project funds are used to account for an report resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

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

**County School Facilities Fund** The County School Facilities Fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

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

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

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

### **Basis of Accounting - Measurement Focus**

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

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

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

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

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



# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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### **Cash and Cash Equivalents**

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

### **Investments**

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county are determined by the program sponsor.

### **Prepaid Expenditures**

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

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

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

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

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

### **Interfund Balances**

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### Compensated Absences

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

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Deferred Issuance Costs, Premiums and Discounts

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

### Fund Balances – Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

**Nonspendable** – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** – amounts that can be spent for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws of regulations of other governments.

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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**Committed** – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** – amounts that do not meet the criteria to be classified as restricted or committed by that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purpose.

**Unassigned** – all other spendable amounts.

### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally, unassigned funds as needed, unless, the governing board has provided otherwise in its commitment or assignment actions.

### **Minimum Fund Balance Policy**

In fiscal year 2011-2012, the governing board adopted a minimum fund balance policy for the General Fund in compliance with GASB 54 to establish fund balance policies in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 3 percent of General Fund expenditures and other financing uses. At June 30, 2012, \$4,810,611 of the Fund balance for the General Fund was reported as amounts unassigned and held for economic uncertainties.

### **Net Assets**

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

### **Operating Revenues and Expenses**

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

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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### **Current Loans**

Current loans consist of amounts outstanding at June 30, 2012, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the KNN Public Finance Corp, which have been set aside to repay the notes.

### **Interfund Activity**

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

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

### **Estimates**

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

### **Budgetary Data**

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

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

### **Property Tax**

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

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of Statement No. 27*. 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 is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 133,426,688
Proprietary fund	219,247
Fiduciary funds	8,629,224
Total Deposits and Investments	<u>\$ 142,275,159</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 18,425,358
Investment	117,741,472
Investment in Annuities	6,108,329
Total Deposits and Investments	<u>\$ 142,275,159</u>

#### Policies and Practices

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

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### General Authorizations

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

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

### Interest Rate Risk

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

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

Investment Type	Costs	Fair Value	Average Maturity in Years
Annuity for Retiree Benefit Trust Fund	\$ 6,108,329	\$ 6,108,329	less than 1 year
County Pool	117,741,472	118,190,067	1.29
Total	<u>\$ 123,849,801</u>	<u>\$ 124,298,396</u>	



# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The annuity with ING ReliaStar Group is a fixed investment product with ING that is principal protected and guarantees a 3 percent minimum rate of return. ReliaStar Life Insurance Company has a rating of A+ from Standard and Poor's of AA.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, approximately \$15,356,000 of the District's bank balances of \$18,079,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Fiduciary Funds
Federal Government							
Categorical aid	\$ 1,140,329	\$ -	\$ -	\$ 355,037	\$ 1,495,366	\$ -	\$ -
State Government							
Apportionment	483,769	-	-	1,062,120	1,545,889	-	-
Categorical aid	916,362	-	-	7,695	924,057	-	-
Lottery	600,183	-	-	-	600,183	-	-
Local Government							
Interest	64,532	123,429	13,969	11,268	213,198	842	1,482
Other Local Sources	1,629,526	90,407	-	33,056	1,752,989	439	5,666
Total	<u>\$4,834,701</u>	<u>\$213,836</u>	<u>\$ 13,969</u>	<u>\$ 1,469,176</u>	<u>\$6,531,682</u>	<u>\$ 1,281</u>	<u>\$ 7,148</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions/ Adjustments	Balance June 30, 2012
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,909,025	\$ 49,000	\$ -	\$ 1,958,025
Construction in progress	40,118,170	38,425,492	43,399,388	35,144,274
Total Capital Assets Not Being Depreciated	42,027,195	38,474,492	43,399,388	37,102,299
Capital Assets Being Depreciated:				
Buildings and improvements	236,570,869	43,074,187	657,901	278,987,155
Furniture and equipment	2,724,613	360,204	-	3,084,817
Total Capital Assets Being Depreciated	239,295,482	43,434,391	657,901	282,071,972
Total Capital Assets	281,322,677	81,908,883	44,057,289	319,174,271
Less Accumulated Depreciation:				
Buildings and improvements	30,787,861	4,214,219	-	35,002,080
Furniture and equipment	2,382,178	289,209	-	2,671,387
Total Accumulated Depreciation	33,170,039	4,503,428	-	37,673,467
 Governmental Activities Capital Assets, Net	 \$ 248,152,638	 \$ 77,405,455	 \$ 44,057,289	 \$ 281,500,804

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

<b>Governmental Activities</b>	
Instruction	\$ 2,537,658
Supervision of instruction	178,871
Instructional library, media, and technology	70,262
School site administration	542,110
Home-to-school transportation	78,444
Food services	111,080
All other pupil services	316,505
Anciliary service	3,900
Community services	98
All other general administration	237,550
Data processing	7,249
Plant services	419,701
Total Depreciation Expenses Governmental Activities	<u>\$ 4,503,428</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### NOTE 5 – INTERFUND TRANSACTIONS

#### Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivables and payable balances at June 30, 2012, between major and non-major governmental funds, non-major enterprise funds, and internal service funds are as follows:

Due To	Due From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
Building fund	\$ 100	\$ -	\$ -	\$ 100
Non-Major Governmental funds	1,330,627	95,368	500,000	1,925,995
Proprietary funds	58,865	-	-	58,865
Total	<u>\$ 1,389,592</u>	<u>\$ 95,368</u>	<u>\$ 500,000</u>	<u>\$ 1,984,960</u>

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

#### Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer Out	Transfer In			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General fund	\$ -	\$ 470,327	\$ 4,139,149	\$ 4,609,476
Non-Major Governmental funds	643,026	-	500,000	1,143,026
Internal service funds	62,198	-	-	62,198
Total	<u>\$ 705,224</u>	<u>\$ 470,327</u>	<u>\$ 4,639,149</u>	<u>\$ 5,814,700</u>

The General fund transferred to the Cafeteria fund for support.	\$ 631,899
The General fund transferred to the Adult Education fund for committed adult education programs.	1,380,243
The General fund transferred to the Deferred Maintenance fund for future committed projects.	2,127,007
The General fund transferred to the Building fund for utility-related rebates.	470,327
The Adult Education fund transferred to the General fund for Basic Aid Reduction payments.	643,026
The Adult Education fund transferred to the Deferred Maintenance fund for future projects.	500,000
The Self Insurance fund transferred to the General fund to close remaining fund balance.	62,198
Total	<u>\$ 5,814,700</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	\$ 3,499,642	\$ 4,962,105	\$ 78,422	\$ 8,540,169	\$ 10,515	\$ 93,980
Salaries and benefits	2,590,658	122,696	87,741	2,801,095	-	-
Interest Payable	447,500	-	-	447,500	-	-
Total	<u>\$ 6,537,800</u>	<u>\$ 5,084,801</u>	<u>\$ 166,163</u>	<u>\$ 11,788,764</u>	<u>\$ 10,515</u>	<u>\$ 93,980</u>

In the statement of net assets, the interest payable includes \$4,540,293 bond interest payable and \$447,500 TRANS interest payable that is recorded in General fund.

### NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Other local	<u>\$ 57,873</u>	<u>\$ 106,480</u>	<u>\$ 87,520</u>	<u>\$ 251,873</u>	<u>\$ 655</u>

### NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2011, the District issued \$15,000,000 Tax and Revenue Anticipation Notes bearing interest at three percent. The notes were issued to supplement cash flows. First fifty percent of the principal was deposited in the Santa Clara County (the "County") in January, 2012. Remaining principal was deposited in the County in April, 2012. By May, 2012, the District had placed 100 percent of principal and interest in the County for the sole purpose of satisfying the notes. The District was not required to make any additional payment on the notes. The District has recorded the cash available to make the principal and interest payments as Cash with Fiscal Agent and with the corresponding liability as a current loan.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$ 266,301,631	\$ 1,238,073	\$ 5,370,000	\$ 262,169,704	\$ 9,055,000
Bond premium	9,722,439	-	678,807	9,043,632	678,807
Compensated absences	884,388	1,357	-	885,745	-
OPEB obligation	5,230,593	1,725,317	1,075,102	5,880,808	1,566,417
	<u>\$ 282,139,051</u>	<u>\$ 2,964,747</u>	<u>\$ 7,123,909</u>	<u>\$ 277,979,889</u>	<u>\$ 11,300,224</u>

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

#### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accretion	Redeemed	Bonds Outstanding June 30, 2012
1/20/05	9/1/23	3-5%	\$ 143,400,000	\$ 118,880,000	\$ -	\$ 5,370,000	\$ 113,510,000
8/14/08	8/1/33	4-5%	80,000,000	77,100,000	-	-	77,100,000
3/10/11	8/1/44	2-12%	69,995,108	70,321,631	1,238,073	-	71,559,704
				<u>\$ 266,301,631</u>	<u>\$ 1,238,073</u>	<u>\$ 5,370,000</u>	<u>\$ 262,169,704</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### Debt Service Requirements to Maturity

The bonds mature through 2045 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2013	\$ 9,055,000	\$ 11,852,027	\$ 20,907,027
2014	8,980,000	11,499,029	20,479,029
2015	9,485,000	11,075,225	20,560,225
2016	10,580,000	10,597,964	21,177,964
2017	11,780,000	10,049,320	21,829,320
2018-2022	80,825,000	39,770,115	120,595,115
2023-2027	55,277,976	20,560,221	75,838,197
2028-2032	25,975,652	12,111,530	38,087,182
2033-2037	17,985,441	7,034,280	25,019,721
2038-2042	6,366,039	6,529,280	12,895,319
2043-2045	24,295,000	2,824,700	27,119,700
Total	260,605,108	<u>\$ 143,903,691</u>	<u>\$ 404,508,799</u>
Accreted interest	1,564,596		
	<u>\$ 262,169,704</u>		

### Defeased Debt

On January 20, 2005, the District issued general obligation bonds of \$143,400,000 (par value) with an interest rate ranging from 2.0 percent to 3.4 percent to advance refund the previously issued 1998 Series A, B, and C bonds with an interest rate ranging from 4.1 percent to 7.0 percent and a par value of \$132,080,000. As of June 30, 2012 the balance in the irrevocable trust with an escrow agent to provide for debt service payments on the 1998 Series A, B, and C bonds was \$35,044,859, and will be paid as the defeased debt becomes callable or matures.

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$885,745.

### Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$1,566,417, and contributions made by the District during the year were \$1,075,102. Interest on the net OPEB obligation to the annual required contribution were \$158,900, which resulted in an increase to the net OPEB obligation of \$650,215. As of June 30, 2012, the net OPEB obligation was \$5,880,808. See Note 14 for additional information regarding the OPEB obligation and the postemployment benefits plan.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### NOTE 10 - FUND BALANCES

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

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 1,125	\$ 16,125
Stores inventories	-	-	-	40,960	40,960
Prepaid expenditures	193,620	-	-	-	193,620
Total Nonspendable	208,620	-	-	42,085	250,705
<b>Restricted</b>					
Legally restricted					
programs	4,898,328	-	-	24,836	4,923,164
Capital projects	-	43,189,246	-	2,955,965	46,145,211
Debt services	-	-	16,637,308	-	16,637,308
Total Restricted	4,898,328	43,189,246	16,637,308	2,980,801	67,705,683
<b>Committed</b>					
Maintenance program	-	-	-	2,638,589	2,638,589
Adult education program	-	-	-	1,166,584	1,166,584
Total Committed	-	-	-	3,805,173	3,805,173
<b>Assigned</b>					
School site carryover	4,664,592	-	-	-	4,664,592
Basic aid reduction	6,122,391	-	-	-	6,122,391
Mandated Costs	845,206	-	-	-	845,206
Capital projects	-	25,013,242	-	-	25,013,242
Total Assigned	11,632,189	25,013,242	-	-	36,645,431
<b>Unassigned</b>					
Reserve for economic					
uncertainties	4,810,611	-	-	-	4,810,611
Total Unassigned	4,810,611	-	-	-	4,810,611
<b>Total</b>	<b>\$ 21,549,748</b>	<b>\$ 68,202,488</b>	<b>\$ 16,637,308</b>	<b>\$ 6,828,059</b>	<b>\$113,217,603</b>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### NOTE 11- LEASE REVENUES

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

Year Ending June 30,	Lease Payment
2013	\$ 3,380,941
2014	3,380,941
2015	3,380,941
2016	3,380,941
2017	1,451,818
2018-2022	7,259,090
2023-2027	7,259,090
2028-2032	7,259,090
2033-2034	2,903,636
Total	<u>\$ 39,656,488</u>

### NOTE 12 - RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2012, the District participated in the Northern California Regional Liability Excess Fund (ReLiEF) for excess property and liability coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2012, the District participated in the Santa Clara County Schools Insurance Group for the workers' compensation coverage.

#### Claims Liabilities

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



# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2012:

	Workers' Compensation	Dental	Vision	Property and Liability	Total
Liability Balance, July 1, 2010	\$ 63,000	\$ 35,739	\$ 6,154	\$ -	\$ 104,893
Claims and changes in estimates	8,382	1,168,014	163,483	103,169	1,443,048
Claims payments	(8,382)	(1,156,441)	(162,823)	(74,911)	(1,402,557)
Liability Balance, June 30, 2011	63,000	47,312	6,814	28,258	145,384
Claims and changes in estimates	16,024	1,422,027	260,048	541,027	2,239,126
Claims payments	(16,024)	(1,412,433)	(260,620)	(544,285)	(2,233,362)
Liability Balance, June 30, 2012	63,000	56,906	6,242	25,000	151,148
Assets available to pay claims at June 30, 2012	<u>\$ 63,000</u>	<u>\$ 135,069</u>	<u>\$ 25,156</u>	<u>\$ 25,478</u>	<u>\$ 248,703</u>

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

#### CalSTRS

##### Plan Description

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

##### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$3,914,775, \$3,835,533, and \$3,709,847, respectively, and equal 100 percent of the required contributions for each year.

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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### **CalPERS**

#### **Plan Description**

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

#### **Funding Policy**

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent, of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$1,988,303, \$2,003,367, and \$1,851,600, respectively, and equal 100 percent of the required contributions for each year. The payments noted above include employee contribution amounts paid by the district on behalf of their employees.

#### **Social Security**

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

#### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,183,004, \$1,983,782, and \$1,918,775 for fiscal year ending June 30, 2012, 2011 and 2010 (4.855 percent of 11-12 annual payroll and 4.267 percent of 10-11 annual payroll and 4.517 percent of 09-10 annual payrolls). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### NOTE 14 – POSTEMPLOYMENT HEALTH CARE PLAN AND OPEB OBLIGATION

#### Plan Description

The Retiree Health and Welfare Benefit (the “Plan”) is a single-employer defined benefit healthcare plan administered by the Fremont Union High School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the plan consists of 104 retirees and beneficiaries currently receiving benefits and 882 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the Fremont Educators Association (FEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on a closed 30 year amortization period and the level dollar method for the implementation year, and an open 30 year amortization period and level percentage of payroll method for subsequent years. For fiscal year 2011-12, the District contributed \$1,075,102 to the plan, of which \$1,061,089 was used for current premiums. Plan members receiving benefits contributed approximately 21 percent of the total premiums. District contributes \$553, \$500 and \$480 monthly for FEA, CSEA and FMS, respectively. Any premiums over the District’s contribution are paid by plan members.

#### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,566,417
Interest on net OPEB obligation	158,900
Annual OPEB cost (expense)	<u>1,725,317</u>
Contributions made	<u>(1,075,102)</u>
Increase in net OPEB obligation	650,215
Net OPEB obligation, beginning of year	5,230,593
Net OPEB obligation, end of year	<u><u>\$ 5,880,808</u></u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage Contributed	Net OPEB Obligation
2012	\$ 1,725,317	\$ 1,075,102	62.31%	\$ 5,880,808
2011	1,736,931	1,362,779	78.46%	5,230,593
2010	1,726,231	1,360,432	78.81%	4,856,441

### Funded Status and Funding Progress

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
February 1, 2012	\$ 5,923,968	\$ 9,838,919	\$ 3,914,951	60%	\$ 66,793,472	6%

### Actuarial Methods and Assumptions

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

In the February 1, 2012, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5.5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost trend rate, including Dental and Vision programs, assumed to be 4 percent. The UAAL is being amortized using a level percentage of payroll method. The calculation uses a closed 30 year amortization period for the initial UAAL and an open 30 year amortization period for any residual UAAL. The remaining amortization period at July 1, 2012, was 30 years. At June 30, 2012, the Trust held net assets in the amount of \$6,047,231.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### NOTE 15 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

#### Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

#### Operating Leases

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

Year Ending June 30,	Lease Payment
2013	\$ 233,589
2014	280,522
2015	45,627
2016	45,627
2017	45,627
2018-2019	14,586
Total	<u>\$ 665,578</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Expected Date of Completion	Remaining Construction Commitment
District office remodel special education complex	09/2012	\$ 852,468
Cupertino High School new library/ cafeteria/ guidance building	04/2014	716,138
Cupertino High School building remodels	08/2014	1,004,593
Cupertino High School weight room and PE classroom	06/2013	1,795,103
Fremont High School remodel cafeteria/ kitchen	10/2015	1,261,273
Fremont High School utility infrastructure	12/2012	1,480,794
Fremont High School building remodels	12/2013	36,480
Homestead High School remodel cafeteria/kitchen	08/2015	2,534
Homestead High School new field house	07/2013	299,839
Lynbrook High School utility infrastructure	10/2013	40,560
Lynbrook High School remodel guidance support services building	07/2014	333,873
Lynbrook enclose auditorium lobby	12/2013	99,488
Lynbrook High school track and fields	12/2012	4,898,832
Monta Vista High School remodel cafeteria/kitchen	07/2014	799,924
Monta Vista High School track and fields	12/2012	6,392,018
Total		<u>\$ 20,013,917</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

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

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

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

During the year ended June 30, 2012, the District made payments as follows:

Related Entities	Service Payments	Service provided
SVJPA	\$ 1,429,885	Transportation for special education students
SCCSIG	895,718	Excess workers' compensation insurance
North CalReLiEF	473,311	Property and liability insurance

### NOTE 17 - SUBSEQUENT EVENT

#### Tax and Revenue Anticipation Notes

The District issued \$10,500,000 of Tax and Revenue Anticipation Notes dated July 3, 2012. The notes mature on June 28, 2013, and yield 1.5 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that 50 percent, percentage of principal and interest be deposited with the Fiscal Agent by April 2013, until 100 percent of principal and interest due is on account in May 2013.

#### All Other Subsequent Events

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the statement of net assets dated through November 7, 2012, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# FREMONT UNION HIGH SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$ 78,805,043	\$ 79,080,335	\$ 80,120,433	\$ 1,040,098
Federal sources	4,664,669	4,997,486	5,018,133	20,647
Other State sources	44,315	201,863	1,535,697	1,333,834
Other local sources	10,457,781	11,213,698	11,308,954	95,256
<b>Total Revenues <sup>1</sup></b>	<b>93,971,808</b>	<b>95,493,382</b>	<b>97,983,217</b>	<b>2,489,835</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	46,862,302	46,755,596	46,430,103	325,493
Classified salaries	15,635,949	15,014,558	15,754,335	(739,777)
Employee benefits	20,325,107	20,826,746	19,864,404	962,342
Books and supplies	5,022,892	9,702,775	3,690,468	6,012,307
Services and operating expenditures	10,200,305	11,930,520	11,160,773	769,747
Other outgo	(80,787)	(153,564)	(160,862)	7,298
Capital outlay	-	401,428	263,783	137,645
<b>Total Expenditures <sup>1</sup></b>	<b>97,965,768</b>	<b>104,478,059</b>	<b>97,003,004</b>	<b>7,475,055</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,993,960)</b>	<b>(8,984,677)</b>	<b>980,213</b>	<b>9,964,890</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	3,080,359	845,887	705,224	(140,663)
Transfers out	(3,902,601)	(4,799,280)	(4,609,476)	189,804
<b>Net Financing Sources (Uses)</b>	<b>(822,242)</b>	<b>(3,953,393)</b>	<b>(3,904,252)</b>	<b>49,141</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(4,816,202)</b>	<b>(12,938,070)</b>	<b>(2,924,039)</b>	<b>10,014,031</b>
<b>Fund Balance - Beginning</b>	<b>24,473,787</b>	<b>24,473,787</b>	<b>24,473,787</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 19,657,585</b>	<b>\$ 11,535,717</b>	<b>\$ 21,549,748</b>	<b>\$ 10,014,031</b>

<sup>1</sup> On behalf payments of \$2,138,907 are excluded from this comparison schedule.

# FREMONT UNION HIGH SCHOOL DISTRICT

## SCHEDULE OF OPEB FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
February 1, 2012	\$ 5,923,968	\$ 9,838,919	\$ 3,914,951	60%	\$ 66,793,472	6%
July 1, 2010	5,220,426	12,350,235	7,129,809	42%	60,506,995	12%
July 1, 2009	5,558,257	13,585,150	8,026,893	41%	64,942,111	12%

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***SUPPLEMENTARY INFORMATION***

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# FREMONT UNION HIGH SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Section 132	84.048	14893	\$ 31,433
English as a Second Language (ESL)	84.002A	14508	106,788
Adult Secondary Education	84.002	13978	18,466
English Literacy and Civics Education	84.002A	14109	97,426
No Child Left Behind Act:			
Title II- Part A, Administrator Training	84.367	14344	7,500
Title III-Limited English Proficiency (LEP)	84.365	14346	110,372
Title II-Teacher Quality	84.367	14341	170,555
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement	84.027	13379	1,738,670
ARRA IDEA Part B, Sec 611, Basic Local Assistance	84.027A	14468	225,568
Education Jobs Fund	84.410	25152	2,326,071
Carl D Perkins Act:			
Technology Secondary, Section 131	84.048	14894	111,330
Department of Rehabilitation: Workability II, Transitions Partnership	84.158	10006	328,067
Total U.S. Department of Education			<u>5,272,246</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13524	356,724
National School Breakfast	10.553	13525	43,428
Especially Needy Breakfast	10.553	13526	165,459
Commodity Supplemental Food Program <sup>2</sup>	10.565	<sup>1</sup>	54,963
Total U.S. Department of Agriculture			<u>620,574</u>
Total Expenditures of Federal Awards			<u>\$ 5,892,820</u>

<sup>1</sup> Pass-Through Entity Identifying Number not available

<sup>2</sup> Not recorded in the financial statements

See accompanying note to supplementary information.

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012**

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### **ORGANIZATION**

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

### **GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Hung Wei	President	2014
Nancy Newton	Vice President	2012
Homer Tong	Clerk	2012
Barbara Nunes	Member	2014
Bill Wilson	Member	2014
Hadar Sachs	Student Member	2013

### **ADMINISTRATION**

<u>NAME</u>	<u>TITLE</u>
Polly Bove	Superintendent
Kate Jamentz	Academic Deputy Superintendent
Christine Mallery	Chief Business Officer, Associate Superintendent
Glenn Evans	Chief Operating Officer, Associate Superintendent

See accompanying note to supplementary information.

# FREMONT UNION HIGH SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2012

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	Final Report	
	Second Period Report	Annual Report
SECONDARY		
Regular classes	9,748	9,740
Home and hospital	8	10
Community day school	10	10
Special education	364	363
Total K-12	10,130	10,123

See accompanying note to supplementary information.

## FREMONT UNION HIGH SCHOOL DISTRICT

### SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2012

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Grade Level	1982-83	Reduced	1986-87	Reduced	2011-2012	Number of Days	Status
	Actual	1982-1983	Minutes	1986-87	Actual	Traditional	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	
Grade 9	62,054	60,330	64,800	63,000	65,031	180	Complied
Grade 10	62,054	60,330	64,800	63,000	65,308	180	Complied
Grade 11	62,054	60,330	64,800	63,000	65,156	180	Complied
Grade 12	62,054	60,330	64,800	63,000	64,710	180	Complied

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

See accompanying note to supplementary information.

## **FREMONT UNION HIGH SCHOOL DISTRICT**

### **RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

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

	<u>Building Fund</u>
FUND BALANCE	
Balance, June 30, 2012, Unaudited Actuals	\$ 69,144,567
Increase in accounts payable	(942,079)
Balance, June 30, 2012, Audited Financial Statement	<u>\$ 68,202,488</u>

See accompanying note to supplementary information.



# FREMONT UNION HIGH SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

	(Budget) 2013 <sup>1</sup>	2012	2011	2010
GENERAL FUND <sup>2</sup>				
Revenues	\$ 94,684,066	\$ 97,983,217	\$ 97,339,621	\$ 102,321,221
Other sources	3,366,786	705,224	345,392	101,062
Total Revenues and Other Sources	98,050,852	98,688,441	97,685,013	102,422,283
Expenditures	101,023,113	97,003,004	95,108,986	92,494,648
Other uses and transfers out	782,830	4,609,476	1,181,221	1,416,683
Total Expenditures and Other Uses	101,805,943	101,612,480	96,290,207	93,911,331
INCREASE (DECREASE)				
IN FUND BALANCE	\$ (3,755,091)	\$ (2,924,039)	\$ 1,394,806	\$ 8,510,952
ENDING FUND BALANCE	\$ 17,794,658	\$ 18,436,267	\$ 21,360,306	\$ 19,965,500
AVAILABLE RESERVES	\$ 5,180,353	\$ 4,810,611	\$ 11,208,355	\$ 4,976,198
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	5.09%	4.88%	11.64%	5.30%
LONG-TERM DEBT	\$ 266,679,665	\$ 277,979,889	\$ 282,139,051	\$ 217,135,910
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	10,190	10,130	10,051	9,928

The General Fund balance has increased by \$1,584,248 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$3,755,091 (17 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past year but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$60,843,979 over the past two years due to the issuance of \$71,378,575 in general obligation bonds in fiscal year 2010-2011.

Average daily attendance has increased by 202 over the past two years. Additional increase of 60 ADA is anticipated during fiscal year 2012-2013.

<sup>1</sup> Budget 2013 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> On-behalf payments of \$2,138,907, \$1,874,068, and \$1,985,885 recorded in the general fund have been excluded from this schedule and from the calculation of available reserves for fiscal years ending June 30, 2012, 2011, and 2010, respectively.

<sup>4</sup> Excludes adult ADA.

<sup>5</sup> Transfers of committed fund balances from General fund to Adult Education fund and Deferred Maintenance fund in the amount of \$1,380,243 and \$1,733,237, respectively, while included in the transfers out amount in 2012 column, are excluded from calculation of available reserves.

See accompanying note to supplementary information.

# FREMONT UNION HIGH SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2012

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>ASSETS</b>			
Deposits and investments	\$ 1,642,108	\$ 110,046	\$ 2,135,204
Receivables	1,310,815	140,505	3,385
Due from other funds	-	-	500,000
Stores inventories	-	40,960	-
<b>Total Assets</b>	<b>\$ 2,952,923</b>	<b>\$ 291,511</b>	<b>\$ 2,638,589</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 41,570	\$ 56,974	\$ -
Due to other funds	1,679,831	145,034	-
Deferred revenue	39,352	48,168	-
<b>Total Liabilities</b>	<b>1,760,753</b>	<b>250,176</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	750	41,335	-
Restricted	24,836	-	-
Committed	1,166,584	-	2,638,589
<b>Total Fund Balances</b>	<b>1,192,170</b>	<b>41,335</b>	<b>2,638,589</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,952,923</b>	<b>\$ 291,511</b>	<b>\$ 2,638,589</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 2,371,941	\$ 738,302	\$ 6,997,601
3,013	11,458	1,469,176
-	-	500,000
-	-	40,960
<u>\$ 2,374,954</u>	<u>\$ 749,760</u>	<u>\$ 9,007,737</u>

\$ 3,848	\$ 63,771	\$ 166,163
-	101,130	1,925,995
-	-	87,520
<u>3,848</u>	<u>164,901</u>	<u>2,179,678</u>

-	-	42,085
2,371,106	584,859	2,980,801
-	-	3,805,173
<u>2,371,106</u>	<u>584,859</u>	<u>6,828,059</u>
<u>\$ 2,374,954</u>	<u>\$ 749,760</u>	<u>\$ 9,007,737</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2012

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>REVENUES</b>			
Federal sources	\$ 254,113	\$ 565,611	\$ -
Other State sources	2,633,069	51,249	392,398
Other local sources	1,337,348	1,307,779	13,614
<b>Total Revenues</b>	<b>4,224,530</b>	<b>1,924,639</b>	<b>406,012</b>
<b>EXPENDITURES</b>			
Current			
Instruction	1,216,227	-	-
Instruction-related activities:			
Supervision of instruction	78,145	-	-
Instructional library, media, and technology	110,097	-	-
School site administration	1,528,768	-	-
Pupil services:			
Food services	-	2,544,704	-
Administration:			
All other administration	119,230	63,752	-
Plant services	217,110	-	394,430
Facility acquisition and construction	-	-	-
<b>Total Expenditures</b>	<b>3,269,577</b>	<b>2,608,456</b>	<b>394,430</b>
<b>Excess (Deficiency) of</b>			
<b>    Revenues Over Expenditures</b>	<b>954,953</b>	<b>(683,817)</b>	<b>11,582</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	1,380,243	631,899	2,627,007
Transfers out	(1,143,026)	-	-
<b>Net Financing Sources (Uses)</b>	<b>237,217</b>	<b>631,899</b>	<b>2,627,007</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,192,170</b>	<b>(51,918)</b>	<b>2,638,589</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>93,253</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,192,170</b>	<b>\$ 41,335</b>	<b>\$ 2,638,589</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ 819,724
-	-	3,076,716
1,205,687	17,258	3,881,686
<u>1,205,687</u>	<u>17,258</u>	<u>7,778,126</u>
-	-	1,216,227
-	-	78,145
-	-	110,097
-	-	1,528,768
-	-	2,544,704
-	-	182,982
-	184	611,724
34,387	94,454	128,841
<u>34,387</u>	<u>94,638</u>	<u>6,401,488</u>
<u>1,171,300</u>	<u>(77,380)</u>	<u>1,376,638</u>
-	-	4,639,149
-	-	(1,143,026)
-	-	3,496,123
1,171,300	(77,380)	4,872,761
1,199,806	662,239	1,955,298
<u>\$ 2,371,106</u>	<u>\$ 584,859</u>	<u>\$ 6,828,059</u>

# FREMONT UNION HIGH SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

	CFDA Number	Amount
Federal Revenues report in the Statement of Revenues, Expenditures and Change in Fund Balances		\$ 6,988,579
Federal interest subsidy from Build America Bonds Act	Not Applicable	(1,150,722)
Commodities	10.565	54,963
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,892,820</u>

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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

#### Schedule of Instructional Time

The District does not receive incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

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

# **FREMONT UNION HIGH SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION - CONTINUED JUNE 30, 2012**

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### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Fremont Union High School District  
Sunnyvale, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont Union High School District as of and for the year ended June 30, 2012, which collectively comprise Fremont Union High School District's basic financial statements and have issued our report thereon November 7, 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**

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

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

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

## Compliance and Other Matters

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

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

A handwritten signature in black ink, which appears to read "PwC" or "PwC, LLP". The signature is stylized and cursive.

Palo Alto, California  
November 7, 2012



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

Governing Board  
Fremont Union High School District  
Sunnyvale, California

**Compliance**

We have audited Fremont Union High School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fremont Union High School District's major Federal programs for the year ended June 30, 2012. Fremont Union High School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Fremont Union High School District's management. Our responsibility is to express an opinion on Fremont Union High School District's compliance based on our audit.

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

In our opinion, Fremont Union High School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of Fremont Union High School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Fremont Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine 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 the Fremont Union High School District's internal control over compliance.

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

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

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



Palo Alto, California

November 7, 2012



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Fremont Union High School District  
Sunnyvale, California

We have audited Fremont Union High School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies* applicable to Fremont Union High School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Fremont Union High School District's management. Our responsibility is to express an opinion on Fremont Union High School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Fremont Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Fremont Union High School District's compliance with those requirements.

In our opinion, Fremont Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Teacher certification and missassignments	3	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Not Applicable
Continuation education	10	Not Applicable

	Procedures in Audit Guide	Procedures Performed
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils – Pertussis Immunization	2	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Not Applicable

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

*Wassinek, Trine, Day & Co., LLP*

Palo Alto, California  
November 7, 2012

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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# FREMONT UNION HIGH SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2012

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### FINANCIAL STATEMENTS

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

### FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) of OMB Circular A-133?	
Identification of major programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.810</u>	<u>Education Jobs Fund</u>

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

### STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unqualified</u>
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**FREMONT UNION HIGH SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**FREMONT UNION HIGH SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**FREMONT UNION HIGH SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**FREMONT UNION HIGH SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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There were no audit findings reported in the prior year's schedule of financial statement findings.

## APPENDIX B

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the FREMONT UNION HIGH SCHOOL DISTRICT (the "District") in connection with the issuance by the Board of Supervisors of Santa Clara County (the "Board") in the name of the District of \$7,000,000\* Fremont Union High 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 21, 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](http://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.

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\* 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]

FREMONT UNION HIGH SCHOOL DISTRICT

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**APPENDIX C**  
**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

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

OPINION:     \$7,000,000\* Fremont Union High School District (Santa Clara County, California) 2013 Tax and Revenue Anticipation Notes

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Members of the Board of Trustees:

We have acted as bond counsel to the Fremont Union High School District (the "District") in connection with the issuance by the Board of Supervisors of Santa Clara County (the "Board") of \$7,000,000\* principal amount of Fremont Union High 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 21, 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 to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Notes.

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\* Preliminary, subject to change.

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%
<b>Total</b>	<b>\$4,876,599,538</b>	<b>\$4,898,812,054</b>	<b>\$22,212,516</b>	<b>0.46%</b>

(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%
<b>Weighted Yield</b>	<b>0.68%</b>	<b>0.67%</b>	<b>0.55%</b>
			<b>0.84%</b>

\*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.

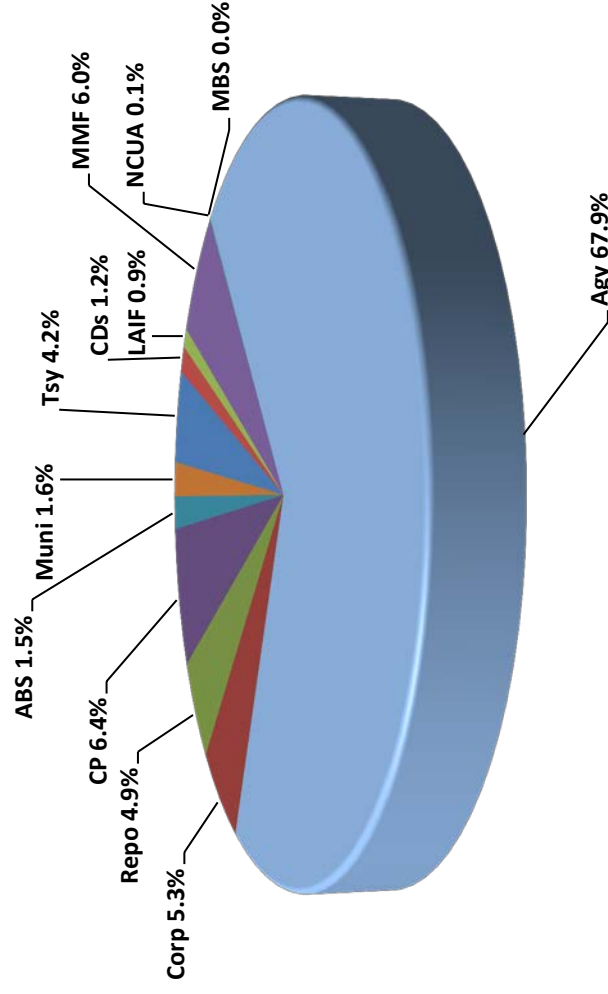
## Santa Clara County Commingled Pool

### 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%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



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
<b>Total</b>	<b>4,606,048,311</b>	<b>4,617,225,963</b>

\* Amounts are in base upon book value

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

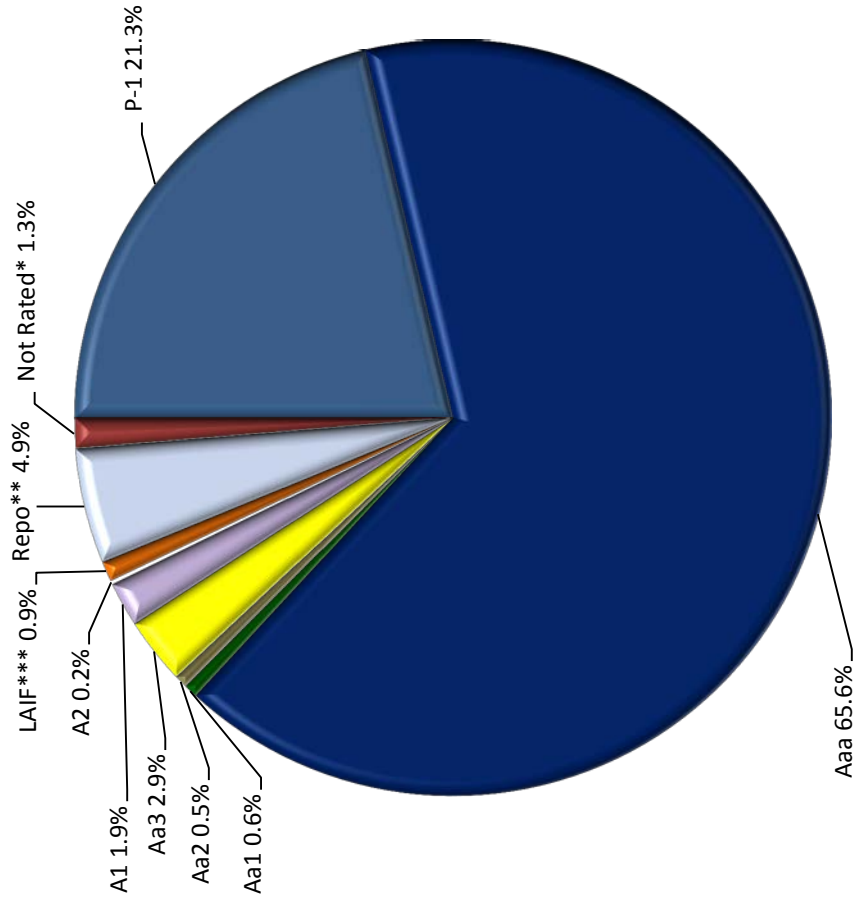
## Santa Clara County Commingled Pool

### 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%
<b>Total</b>	<b>4,606,048,311</b>	<b>100.0%</b>



\*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

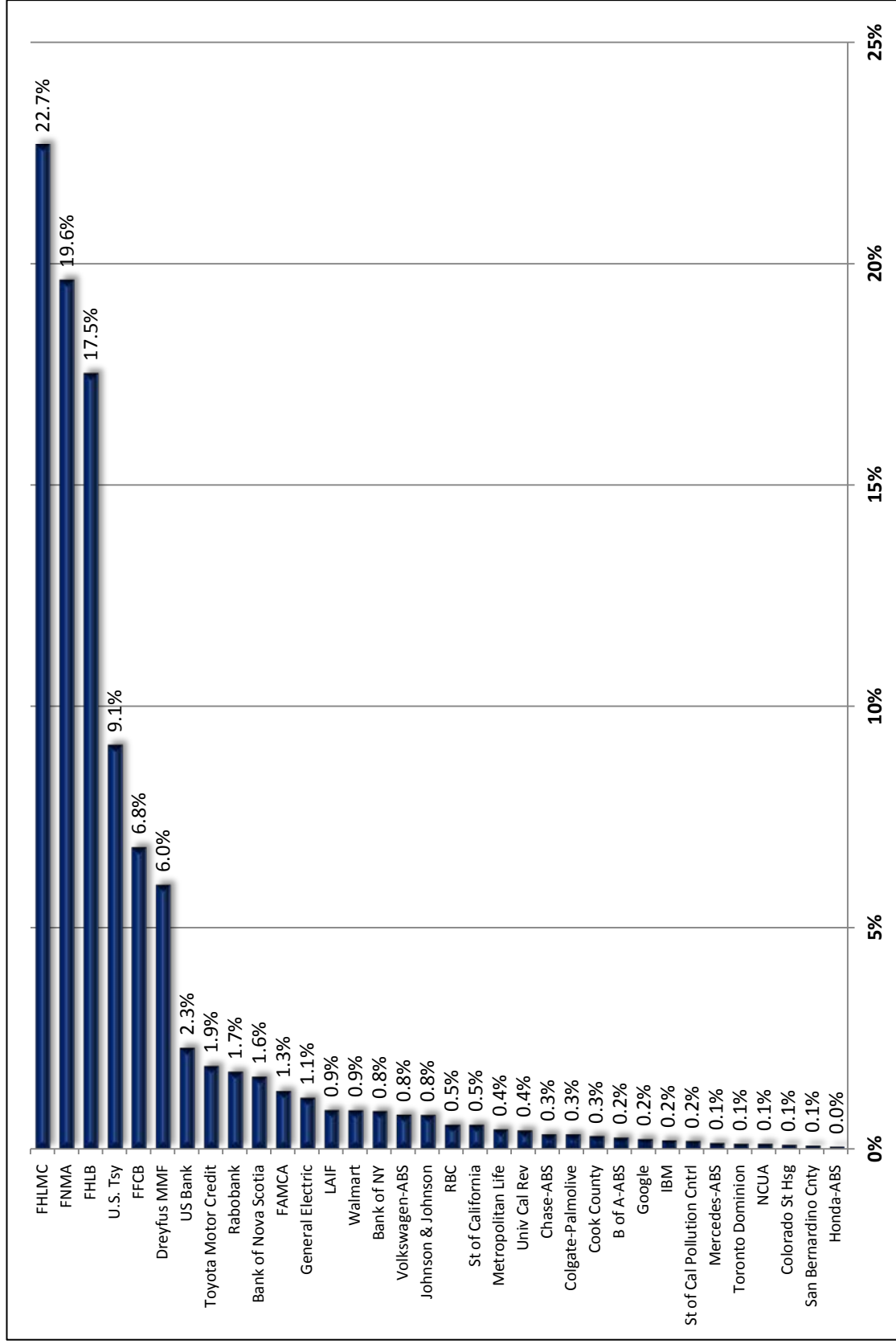
Amounts are based on book values



## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

March 31, 2013



Amounts are based upon book values





