

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 20, 2012

NEW ISSUE—BOOK-ENTRY ONLY

RATING:
S&P: "AAA"
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.



\$26,000,000*
LARKSPUR-CORTE MADERA SCHOOL DISTRICT
(Marin County, California)
General Obligation Bonds, Election of 2011, Series A (2012)

Dated: Date of Delivery

Due: August 1, as shown below

The \$26,000,000* Larkspur-Corte Madera School District (Marin County, California) General Obligation Bonds, Election of 2011, Series A (2012) (the "Bonds"), are being issued by the Larkspur-Corte Madera School District (the "District") pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code, and a resolution of the Board of Trustees of the District authorizing the issuance of the Bonds. The Bonds are being issued by the District to (a) finance capital improvement projects for the District and (b) pay for costs of issuance of the Bonds. The Bonds were authorized at an election of the registered voters of the District held on November 8, 2011, at which the requisite 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of not-to-exceed \$26,000,000 principal amount of general obligation bonds.

The Bonds are subject to redemption prior to maturity as set forth herein.

The Bonds constitute general obligations of the District. The Board of Supervisors of Marin County is empowered and obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of interest on, and principal of, the Bonds upon all property subject to taxation within the District (except certain personal property which is taxable at limited rates), all as more fully described herein under "THE BONDS" and "AD VALOREM PROPERTY TAXATION."

The Bonds are issuable in denominations of \$5,000 and any integral multiple thereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2012. See "THE BONDS" herein. The Bonds will be delivered in fully registered form only, and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of, premium, if any, and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent, to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry Only System" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS*

CUSIP+ Prefix: _____									
Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix	Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix
2013	\$ 10,000				2028	\$ 715,000			
2014	20,000				2029	795,000			
2015	45,000				2030	875,000			
2016	80,000				2031	965,000			
2017	120,000				2032	1,060,000			
2018	160,000				2033	1,160,000			
2019	200,000				2034	1,270,000			
2020	245,000				2035	1,385,000			
2021	290,000				2036	1,510,000			
2022	340,000				2037	1,645,000			
2023	395,000				2038	1,785,000			
2024	450,000				2039	1,935,000			
2025	510,000				2040	2,095,000			
2026	575,000				2041	2,270,000			
2027	640,000				2042	2,455,000			

Bids for the purchase of the Bonds will be received by the District on Wednesday, February 8, 2012, *electronically only*, through the I-Deal LLC BiDCOMP/PARITY® system, until 10:00 A.M., Pacific Standard time. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated January 20, 2012.

The following firm, serving as financial advisor to the City, has structured this issue:

WULFF, HANSEN & CO.

ESTABLISHED 1931
INVESTMENT BANKERS

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

The Bonds will be offered when, as and if issued, and received by the purchaser thereof, subject to the approval as to their legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, Disclosure Counsel. It is anticipated that the Bonds will be available for delivery through DTC in New York, New York, on or about February 23, 2012.

February __, 2012

*Preliminary, subject to change.

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

LARKSPUR-CORTE MADERA SCHOOL DISTRICT

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Larkspur, CA 94939
(415) 927-6960

<http://www.larkspurschools.org>

BOARD OF TRUSTEES

Sheri Mowbray, *President*
Julia Ritter, *Vice President*
Susan Christman, *Clerk*
Sally Relova, *Member*
Phil Wade, *Member*

DISTRICT ADMINISTRATION

Valerie Pitts, Ed.D., *Superintendent*
Becky White, *Business Manager*
Wolf Gutscher, *Director, Operations and Sustainability*

PROFESSIONAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

Quint & Thimmig LLP
San Francisco, California

FINANCIAL ADVISOR

Wulff, Hansen & Co.
San Francisco, California

**PAYING AGENT, TRANSFER AGENT and
AUTHENTICATION AGENT**

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

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the District or the Underwriter named on the cover page of this Official Statement.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Involvement of Underwriter. The Underwriter has provided the following statement 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.

Document Summaries. All summaries of the Resolution or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Estimates and Projections. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

District Website. The District maintains a website. However, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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\$26,000,000*
LARKSPUR-CORTE MADERA SCHOOL DISTRICT
(Marin County, California)
General Obligation Bonds, Election of 2011, Series A (2012)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Larkspur-Corte Madera School District (Marin County, California) General Obligation Bonds, Election of 2011, Series A (2012), in the principal amount of \$26,000,000* (the "Bonds").

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

The District

The Larkspur-Corte Madera School District, formerly known as the Larkspur School District (the "District"), was established in 1895, covers approximately 11.5 square miles in the communities of Larkspur and Corte Madera in Marin County (the "County") and is currently operating two schools (one middle school and one elementary school) serving more than 1,000 students. The District is governed by a five member Board of Trustees, whose members are elected at large to four-year terms. The members of the District Board elect a president each year. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District's other personnel. The District's average daily attendance for fiscal year 2010-11 was 1,288.42 and its projected average daily attendance for fiscal year 2011-12 is 1,311.72. The District has a 2011-12 assessed valuation of \$3,529,622,638. See "THE DISTRICT."

Sources of Payment for the Bonds

The Bonds represent general obligations of the District payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County is empowered and are obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "THE BONDS—Security."

Authority for Issuance; Purpose of Issue

The Bonds are issued pursuant to the Constitution and laws of the State of California (the "State"), including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code. The Bonds are authorized to be issued pursuant to a resolution (the "Resolution"), adopted by the Board on January 18, 2012.

* Preliminary, subject to change.

The proceeds of the Bonds will be used to (a) finance capital improvement projects for the District and (b) pay for costs of issuance of the Bonds approved by the electors of the District on November 8, 2011, which authorized the issuance of general obligation bonds in the maximum aggregate principal amount of \$26,000,000 (the "Authorization"). See "SOURCES AND USES OF FUNDS" and "PLAN OF FINANCING."

Description of the Bonds

The Bonds will be issued as current interest bonds and will mature serially on each August 1, commencing August 1, 2013, in the amounts and years as set forth on the cover page hereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an "Interest Payment Date"), commencing August 1, 2012.

The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS—Book-Entry-Only System" and APPENDIX D—BOOK-ENTRY SYSTEM. In event that the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution described herein. See "THE BONDS—Registration, Transfer and Exchange of Bonds."

Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 principal amount or any integral multiple thereof.

The Bonds are subject to redemption prior to maturity on and after August 1, 2021. See "THE BONDS—Redemption."

Tax Exemption

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Bonds is taken into account, however, 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."

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about February 23, 2012.

Continuing Disclosure

The District will covenant for the benefit of the Bondholders to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-

12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized below under "CONTINUING DISCLOSURE." See APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The District has never failed to comply in all material respects with any previous continuing disclosure undertakings to provide annual reports or notices of material events.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the Superintendent, Larkspur-Corte Madera School District, 230 Doherty Drive, Larkspur, CA 94939, telephone (415) 927-6960. The District may impose a charge for copying, mailing and handling.

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

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State of California (the "State"), including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code. The Bonds are authorized to be issued pursuant to the Resolution.

The proceeds of the Bonds will be used to (a) finance capital improvement projects for the District and (b) pay for costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" and "PLAN OF FINANCING."

The District has authorized and issued certain other general obligation bonds. See "THE DISTRICT FINANCIAL INFORMATION—District Debt—General Obligation Bonds."

Security

The Bonds represent general obligations of the District payable solely from *ad valorem* property taxes levied and collected pursuant to the Authorization. The Board of Supervisors of the County are empowered and is obligated to levy *ad valorem* taxes for the payment of the Bonds, and the interest thereon, upon all property in the District subject to taxation by the

District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited, with respect to the Bonds, into the Larkspur-Corte Madera School District General Obligation Bond, Election of 2011, Debt Service Fund (the "Debt Service Fund"), which will be held and maintained by the County Director of Finance and which is required by the California Education Code to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and the County Director of Finance will maintain the Debt Service Fund, the Bonds are a debt of the District, not the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, will be transferred by the County, through the Director of Finance, to the Paying Agent (as defined herein) which, in turn, will pay such moneys to DTC to pay the principal of and interest on the Bonds. DTC will thereupon make payments of principal and interest on the Bonds to the DTC Participants who will thereupon make payments of principal and interest to the Beneficial Owners (as defined herein) of the Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemption for property owned by the State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF BONDS."

Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds.

Interest with respect to the Bonds accrues from their date of delivery and is payable semiannually on February 1 and August 1 of each year commencing August 1, 2012. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before July 15, 2011, in which event it will bear interest from their date of delivery. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the cover page hereof.

See the maturity schedule on the cover page hereof and “DEBT SERVICE SCHEDULE.”

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX D—BOOK-ENTRY SYSTEM.

Paying Agent

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as the transfer agent, bond registrar, authenticating agent and paying agent for the Bonds (the “Paying Agent”). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the District, the County and the Underwriter (as defined herein) 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 Bonds.

Payment

Payment of interest on any Bond on any Interest Payment Date will be made to the person appearing on the registration books of the Paying Agent as the owner thereof as of the close of business on the 15th day of the month immediately preceding such Interest Payment Date (the “Record Date”), such interest to be paid by check mailed to such owner on the Interest Payment Date at his or her address as it appears on such registration books or at such other address as he or she may have filed with the Paying Agent for that purpose on or before the Record Date. The owner in an aggregate principal amount or maturity value of \$1,000,000 or more may request in writing to the Paying Agent that such owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date.

The principal, and redemption price, if any, payable on the Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal and redemption price, if any, on the Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. The Bonds are general obligations of the District and do not constitute obligations of the County. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

Optional Redemption

The Bonds maturing on or before August 1, 2021, are non-callable. The Bonds maturing on August 1, 2022, or any time thereafter, are callable for redemption prior to their stated maturity date at the option of the District, as a whole, or in part on or after August 1, 2021 (in

such maturities as are designated by the District, or, if the District fails to designate such maturities, on a proportional basis), and may be redeemed prior to the maturity thereof by payment of all principal, plus accrued interest to date of redemption, without premium.

Events of Default and Remedies

The following events (“events of default”) shall be events of default under the Resolution:

(a) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if default shall be made by the District in the observance of any of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof to the District; or

(d) if the District shall file a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, seeking reorganization of the District under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Any Bondowner shall have the right, for the equal benefit and protection of all Bondowners similarly situated:

(a) by mandamus, suit, action or proceeding, to compel the District and its members, officers, agents or employees to perform each and every term, provision and covenant contained in the Resolution and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the District and the fulfillment of all duties imposed upon it;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bondowners’ rights; or

(c) upon the happening of any event of default, by suit, action or proceeding in any court of competent jurisdiction, to require the District and its members and employees to account as if it and they were the trustees of an express trust.

No remedy herein conferred upon the Owners of Bonds shall be exclusive of any other remedy and that each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or thereafter conferred on the Bondowners.

Defeasance

Discharge of Resolution. Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable hereunder by the District:

(i) by paying or causing to be paid the principal or redemption price of and interest on Bonds Outstanding, as and when the same become due and payable;

(ii) by depositing, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem Bonds Outstanding; or

(iii) by delivering to the Paying Agent, for cancellation by it, Bonds Outstanding.

If the District shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable hereunder by the District, then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and other assets made under the Resolution and all covenants, agreements and other obligations of the District under the Resolution shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Resolution. In such event, upon request of the District, the Paying Agent shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then all liability of the District in respect of such Bond shall cease and be completely discharged, except only that thereafter the Owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the District, and the District shall remain liable for such payment, but only out of such money or securities deposited with the Paying Agent as aforesaid for such payment, provided further, however, that the provisions of the Resolution shall apply in all events.

The District may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Paying Agent. Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Resolution and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or provision satisfactory to the Paying Agent shall have been made for the giving of such notice;

provided, in each case, that the Paying Agent shall have been irrevocably instructed (by the terms of the Resolution or by request of the District) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Resolution. Notwithstanding any provisions of the Resolution, any moneys held by the Paying Agent in trust for the payment of the principal or redemption price of, or interest on, any Bonds and remaining unclaimed after the payment is due (whether at maturity or upon call for redemption as provided in the Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the District free from the trusts created by the Resolution, and all liability of the Paying Agent with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the District as aforesaid, the Paying Agent may (at the cost of the District) first mail to the Owners of all Bonds which have not been paid at the addresses shown on the registration books maintained by the Paying Agent a notice in such form as may be deemed appropriate by the Paying Agent, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

Transfer and Exchange of Bonds; Registration

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

No transfers of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption.

Bond Register. The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District upon reasonable notice; and, 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 said books, Bonds as herein before provided.

PLAN OF FINANCING

The Bonds are being issued to (a) finance the acquisition and construction of the following educational facilities and projects described in the Authorization, and (b) pay for costs of issuance of the Bonds. The Bonds are the first bonds issued under the Authorization.

A portion of the proceeds of the Bonds will be transferred to the County Director of Finance for deposit in a building fund and applied to the financing of projects authorized for the Bonds (the "Project"), as follows:

- Accessibility improvements as required by the Division of the State Architect (DSA)
- Improvements to fire safety systems including alarms and sprinklers in buildings where needed
- Essential fire and earthquake safety upgrades to existing facilities
- New construction at San Clemente School site including demolition, site development and field restoration.
- Modernization at Hall and Neil Cummins Schools including renovated and new toilet rooms, classroom upgrades, mechanical and electrical system upgrades, replacement of worn finishes and weather protection including reroofing.
- Replace outdated heating and ventilation systems where required
- Replace old campus plumbing systems for water, gas, sewer systems and storm drainage
- Twenty-first century school improvements including reconfiguring teaching spaces and technology improvements
- Site improvements including outdoor teaching spaces and playground improvement and expansion
- New construction at Hall and Neil Cummins Schools including demolition and site development
- Relocate student services facilities
- Install solar photovoltaic systems
- Remove and dispose of hazardous materials in buildings to be demolished or remodeled
- Update or replace outdated telecommunications systems
- Provide energy efficient lighting systems in buildings where remodeled
- Improvements to clock, bell, security and emergency lighting systems where required

- Replace old deteriorating windows and doors where needed
- Paint exterior of renovated buildings
- Install new sustainable flooring systems, interior finishes, casework and acoustical treatments in buildings to be remodeled
- Resurface, rebuild and re-stripe parking areas, pedestrian walkways and internal fire access roads, as needed
- Improvements to interior courtyard surfaces and landscaping
- Remove old portable classrooms
- Repair covered walkways as needed

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account and used to pay costs associated with the issuance of the Bonds.

Any proceeds of sale of the Bonds not needed to finance the Project or to pay costs of issuance of the Bonds will be transferred to the County Director of Finance for deposit in an interest and sinking fund and applied to pay debt service on the Bonds. Amounts held by the County Director of Finance will be invested on behalf of the District by the pursuant to law and the investment policy of the County. See "MARIN COUNTY INVESTMENT POOL."

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the Bonds are as follows:

Sources of Funds:

Principal Amount of Bonds
 Plus: Original Issue Premium
 Total Sources of Funds

Uses of Funds:

Deposit to Building Fund (1)
 Deposit to Interest and Sinking Fund (2)
 Deposit to Costs of Issuance Fund (3)
 Total Uses of Funds

- (1) Amounts deposited in the Building Fund will be applied to the payment of costs of the Project. See "PLAN OF FINANCING."
- (2) Amounts deposited in the Interest and Sinking Fund will be applied to the payment of debt service on the Bonds.
- (3) Includes Bond Counsel fees, Disclosure Counsel fees, Financial Advisor's fees, printing costs, rating agency fees and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

Bond Year Ending (August 1)	Annual Principal Payment*	Annual Interest Payment (1)	Total Annual Debt Service
2012	—		
2013	\$ 10,000		
2014	20,000		
2015	45,000		
2016	80,000		
2017	120,000		
2018	160,000		
2019	200,000		
2020	245,000		
2021	290,000		
2022	340,000		
2023	395,000		
2024	450,000		
2025	510,000		
2026	575,000		
2027	640,000		
2028	715,000		
2029	795,000		
2030	875,000		
2031	965,000		
2032	1,060,000		
2033	1,160,000		
2034	1,270,000		
2035	1,385,000		
2036	1,510,000		
2037	1,645,000		
2038	1,785,000		
2039	1,935,000		
2040	2,095,000		
2041	2,270,000		
2042	2,455,000		
Totals	\$26,000,000		

*Preliminary, subject to change.

(1) Interest payments on the Bonds will be made semiannually on February 1 and August 1 of each year, commencing August 1, 2012.

MARIN COUNTY INVESTMENT POOL

The County Investment Pool (the "County Pool") represents moneys entrusted to the County Director of Finance by the County and schools and special districts within the County. State law requires that all moneys of the County, school districts and certain special districts be held by the County Director of Finance.

Moneys deposited in the County Pool by the participants represent an individual interest in all assets and investments in the County Pool based upon the amount deposited. All income is distributed to the participants based on the average daily balance.

The County Statement of Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. The Investment Policy is submitted to the County Board of Supervisors (the "County Board") annually.

Funds on deposit with the County Director of Finance are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, no one investment of operating funds can exceed two years and the average maturity of pooled investment cannot exceed one year.

The County Pool has never invested in derivatives or reverse repurchase agreements and such investments are not allowed by the County's Statement of Investment Policy.

As of October 31, 2011, the County Investment Pool had \$735,339,893.14 in assets under management. The portfolio structure of the County Investment Pool as of October 31, 2011, was as follows:

Local Agency Investment Fund	\$ 234,446.15
Money Market Funds	18,022,533.69
Federal Agency Issues – Coupon	235,110,169.44
Federal Agency Issues – Discount	480,422,743.86
Miscellaneous Securities	1,550,000.00
TOTAL	<u>\$735,339,893.14</u>

Source: Office of County Director of Finance.

The average days to maturity as of October 31, 2011, was 275 days.

The County believes that the County Pool is prudently invested and that the investments therein are scheduled to mature at the times and in the amounts that are necessary to meet the County's expenditures and other scheduled withdrawals.

In 1994, the County received its first rating from Fitch Ratings ("Fitch") on the County Investment Pool, which have been reaffirmed periodically by Fitch, most recently in October 2009. The current Fitch rating on the County Pool is "AAA/V1+." The County Pool's "AAA" rating reflects the high credit quality of the portfolio assets, appropriate management oversight and operational capabilities. The pool's "V1+" volatility rating reflects low market risk and a capacity to return stable principal value to participants, as well as to meet anticipated cash flow needs, even in adverse interest rate environments. Portfolio valuation reports are submitted to Fitch on a monthly basis.

Fitch managed fund credit ratings are an assessment of the overall credit quality of a fund's portfolio. Ratings are based on an evaluation of several factors, including credit quality and diversification of assets in the portfolio, management strength, and operational capabilities. Fitch managed fund market risk ratings are an assessment of relative market risks and total return stability in the portfolio. Market risk ratings are based on, but not limited to, analysis of interest rate, derivative, liquidity, spread, and leverage risk. Fitch's managed fund credit and market risk ratings are based on information provided to Fitch by the County. Fitch does not verify the underlying accuracy of this information. These ratings do not constitute recommendations to purchase, sell or hold any security.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE BONDS—Security.") Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 98, 111, 218 and 39, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and of the District to spend tax proceeds and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

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. In 2010-11, the District received \$174,370 in State Lottery aid and has

budgeted \$176,680 for such aid in 2011-12. At this time, the amount of additional 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 Mello-Roos 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.

TAX BASE FOR REPAYMENT OF BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the District. The District's general fund is not a source for the repayment of the Bonds.

Ad valorem Property Taxation

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

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. 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 public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." A supplemental roll is developed when property changes hands or new construction is completed. Each county levies and collects all property taxes for property falling within that county's taxing boundaries.

Property taxes on the secured roll are due in two installments, November 1 and February 1 of the calendar year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment plus a \$10 cost on the second installment. Property on the secured roll with delinquent taxes is sold to the State on or about June 30 of the calendar year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a \$15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and is then subject to sale by the tax-collecting authority of the relevant county.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if they are not paid by August 31. In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien may be recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the assessee; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the assessee; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the assessee; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

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

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

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

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor of the County, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

The table below shows the assessed valuation in the District for fiscal years 2007-08 to 2011-12.

**HISTORIC ASSESSED VALUATIONS
Larkspur-Corte Madera School District**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2007-08	\$3,107,635,178	\$660,450	\$133,466,255	\$3,241,761,883
2008-09	3,298,339,518	916,507	138,017,582	3,437,273,607
2009-10	3,388,983,576	916,507	142,209,431	3,532,109,514
2010-11	3,333,469,742	916,507	144,250,942	3,478,637,191
2011-12	3,387,344,966	916,507	141,361,165	3,529,622,638

Source: California Municipal Statistics, Inc.

Tax Rates

For taxing purposes, the State Board of Equalization has divided the area served by the District into three separate tax rate areas. The largest tax rate area in the District is Tax Rate Area 2-000. The components of the tax rate levied in the Tax Rate Area for the last five fiscal years are set forth in the following table:

TYPICAL TOTAL TAX RATES PER \$100 ASSESSED VALUATION Larkspur-Corte Madera School District

	<u>Marin County (TRA 2-000)</u>				
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General Tax Rate	1.0000	1.0000	1.0000	1.0000	1.0000
Larkspur-Corte Madera School District	.0377	.0371	.0388	.0429	.0385
Tamalpais Union High School District	.0469	.0429	.0425	.0482	.0410
Marin Community College District	.0163	.0042	.0192	.0136	.0175
Total Tax Rate	<u>1.1009</u>	<u>1.0842</u>	<u>1.1005</u>	<u>1.1047</u>	<u>1.0970</u>

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each County.

Under the Teeter Plan, the County funds the District its full tax levy allocation rather than funding only actual collections (levy less delinquencies). In exchange, the County receives the interest and penalties that accrue on delinquent payments, when the late taxes are collected. The County does include the secured, but not the unsecured, *ad valorem* tax levy for the District's general obligation bonds under the Teeter Plan. See "TAX BASE FOR REPAYMENT OF BONDS—Alternative Method of Tax Apportionment" herein.

Alternative Method of Tax Apportionment

The County Board has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code.

Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and related interest and proceeds from the sales of tax-defaulted properties (which can be sold after five years of delinquency). In addition to avoiding a complex tax redemption distribution system for all taxing agencies, the Teeter Plan provides the County with a new income stream generated from the payment of penalties and interest.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal year the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County, may by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any tax levying or assessment levying agency if the rate of the secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for that agency.

In order to finance the outstanding tax receivables at the end of any given year, the County general fund enters into an agreement with the County Treasurer to internally finance the outstanding tax receivables with the overall funds within the County treasury. This is evidenced by a signed note.

Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2011-12, representing 13.08% of the total secured assessed valuation.

FISCAL YEAR 2011-12 LARGEST LOCAL SECURED TAXPAYERS Larkspur-Corte Madera School District

Property Owner	Primary Land Use	2011-12 Assessed Valuation	% of Total (1)
1. Corte Madera Village LLC	Commercial	\$127,256,482	3.76%
2. 770 Tamalpais Dr. Inc.	Commercial	92,723,811	2.74
3. JP Aptos Property LLC	Commercial	20,922,405	0.62
4. City Farm LLC	Residential	20,452,533	0.60
5. Nordstrom Inc.	Commercial	17,714,065	0.52
6. Janet M. and George W. Pasha III, Trust	Commercial	17,447,767	0.52
7. Reis Family LLC	Commercial	16,888,701	0.50
8. Corte Madera LLC	Industrial	16,419,794	0.48
9. Macy's Primary Real Estate Inc.	Commercial	14,093,142	0.42
10. IJ Marketplace LLC	Commercial	13,800,000	0.41
11. Dennis A. Gilardi, Trust	Apartments	13,341,805	0.39
12. L. Frederick Duffin, Trust	Residential	12,937,210	0.38
13. Theodore J. Stevens, Trust	Commercial	9,218,364	0.27
14. Upper Skylark LLC	Apartments	8,866,774	0.26
15. 201 Casa Buena Associates	Commercial	7,473,279	0.22
16. Simvest Real Estate IV LLC	Commercial	7,253,220	0.21
17. Meadowcreek Industrial Associates	Industrial	7,084,886	0.21
18. Corte Bella Associates LP	Apartments	6,609,600	0.20
19. CSS Corte Madera	Commercial	6,401,376	0.19
20. Americana Motels Inc.	Commercial	6,271,931	0.19
		<u>\$443,177,145</u>	<u>13.08%</u>

Source: California Municipal Statistics, Inc.

(1) 2011-12 Local Secured Assessed Valuation: \$3,387,344,966.

THE DISTRICT

General Information

The District, established in 1895, covers approximately 11.5 square miles in the communities of Larkspur and Corte Madera and is currently operating two schools (one middle school and one elementary school) serving more than 1,000 students. The District is governed by a five member Board of Trustees, whose members are elected at large to four-year terms. The members of the District Board elect a president each year. The day-to-day affairs of the District are the responsibility of its Superintendent.

Governing Board

The District is governed by the Board, consisting of five members. Elections for Board positions are held every two years, alternating between two and three available positions.

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
Sheri Mowbray	President	2013
Julia Ritter	Vice President	2015
Susan Christman	Clerk	2013
Sally Relova	Member	2015
Philip Wade	Member	2013

The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for the day to day operation as well as supervision of the District's other key personnel. Dr. Valerie Pitts is the District Superintendent, Becky White is the Business Manager, and Wolf Gutscher is Director, Operations and Sustainability.

Average Daily Attendance and Base Revenue Limit

Between fiscal years 2005-06 and 2010-11, the District's average daily attendance ("ADA") increased by approximately 21%. The ADA and Base Revenue Limit for these years, as well as projections for fiscal year 2011-12, are as follows:

**AVERAGE DAILY ATTENDANCE
FISCAL YEAR 2005-06 THROUGH 2011-12
Larkspur-Corte Madera School District**

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>	<u>Base Revenue Limit</u>
2005-06	1,065.97	\$5,242.60
2006-07	1,111.50	5,537.60
2007-08	1,128.64	5,778.60
2008-09	1,184.54	6,093.60
2009-10	1,219.02	6,343.60
2010-11	1,288.42	6,319.60
<i>Projected</i>		
2011-12	1,311.72	6,456.60

Source: Larkspur-Corte Madera School District

District Employees

The District employs 96 certificated employees in the 2011-12 budget. This includes non-classroom staff of 1 superintendent, 3 principals, 1 assistant principal, 2 directors, 1

librarian, 2 counselors, 1 psychologist, 6 resource/special day teachers, 3 academic support teachers, 2 technology teachers, and 3 music teachers.

The pupil-teach ratio varies by grade level grouping. Because the District participates in Class Size Reduction Program offered by the state, the K-3 average for FY 2011-12 is about 21:1 with some classes exceeding 24:1. For grades 4-5, the ratio is 24:1. For 6-8 the ratio is 28:1.

Regarding classified employees, the District has 58 in the budget for FY 2011-12. This includes classified management consisting of Business Manager, Director of Facilities, IT Coordinator and other district office staff classified as Confidential employees.

Employee Relations

In the fall of 1974, the California State Legislature enacted a public employee collective bargaining law, known as the "Rodda Act," which became effective 1976. This law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The District's collective bargaining units are the Larkspur-Corte Madera School Teachers' Association which represents all certificated personnel and the California School Employees Association which represents maintenance, office and technical support personnel, and classroom assistants. Both of the current agreements expire on June 30, 2013.

Employee Retirement Systems

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

Public Employees' Retirement System (PERS)

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

Funding Policy. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

Fiscal Year	Contribution	Percent of Required Contribution
2010-11	\$187,497	100%
2009-10	\$170,585	100%
2008-09	\$154,666	100%

State Teachers' Retirement System (STRS)

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

Funding Policy. Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

Fiscal Year	Contribution	Percent of Required Contribution
2010-11	\$597,328	100%
2009-10	\$586,780	100%
2008-09	\$549,964	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$309,000 to STRS (4.267% of salaries subject to STRS in 2009-10).

Other Postemployment Benefits

The District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District has elected to early implement Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information. Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	12
Active plan members*	42
Total	<u>54</u>
Number of participating employers	One

* As of June 9, 2009 actuarial valuation

Eligibility. Certificated employees who were hired on or before June 30, 2000, and retire from the District with a STRS pension are eligible to receive District paid retiree health and welfare benefits. Certificated employees who were hired between November 1, 1995, and June 30, 2000 must also have 15 years of service with the District upon retirement to be eligible for District paid benefits. Certificated employees who were hired on or after July 1, 2000, are not eligible for District paid benefits.

Classified, Administrative, and Confidential employees who were hired on or before June 30, 2001, and retire from the District on or after age 55 and 10 years of service with a PERS pension are eligible to receive District paid retiree health and welfare benefits. Classified, Administrative, and Confidential employees who are hired on or after July 1, 2001, are not eligible for District paid benefits.

District Paid Benefits. For Certificated retirees hired on or before October 31, 1979, the District pays \$3,000 per year toward the cost of health coverage for 10 years from the date of retirement. For Certificated retirees hired after October 31, 1979, but on or before October 31, 1989, the District pays \$3,000 per year toward the cost of health coverage for 10 years or until age 65, whichever is earlier. For Certificated retirees hired after October 31, 1989, and before July 1, 2000, the District pays \$3,000 per year toward the cost of health coverage for 5 years or until age 65, whichever is earlier.

For Classified retirees hired before July 1, 2001, the District pays \$3,000 per year toward the cost of health coverage for 10 years or until age 65, whichever is earlier.

Dependent Benefits. Retirees may enroll their dependents in the District's health and welfare plan at the retiree's own expense.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2010-11, the District contributed \$41,101.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost is calculated based on the Annual Required Contribution (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:

	<u>Amount</u>
Annual required contribution (ARC)	\$23,346
Interest on net OPEB obligation	-
Adjustment to ARC	<u>(2,252)</u>
Annual OPEB cost	21,094
Contributions made:	
Contributions from governmental funds	<u>(41,101)</u>
Increase in net OPEB liability (asset)	(20,007)
Net OPEB liability (asset) - July 1, 2008	<u>(25,261)</u>
Net OPEB liability (asset) - June 30, 2009	<u>\$ (45,268)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11 and the preceding two years are as follows:

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2009	\$23,346	180%	\$(18,601)
2010	\$23,346	136%	\$(25,261)
2011	\$23,346	176%	\$(45,268)

Funded Status and Funding Progress - OPEB Plans. As of June 9, 2009, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$188,635 and the unfunded actuarial accrued liability (UAAL) was \$188,635.

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, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 designated 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 9, 2009
Actuarial Cost Method	Projected Unit Benefits Costs
Amortization Method	Level dollar amount
Remaining Amortization Period	13 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	4.5%
Healthcare cost trend	Capped

Risk Management

The District participates in a joint venture under a joint powers agreement (JPA), the Marin Schools Insurance Authority (MSIA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provide workers' compensation, property and liability and health insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed audited financial information for the year ended June 30, 2011 is as follows:

	MSIA (Unaudited)
Total Assets	\$22,440,567
Total Liabilities	13,250,171
Fund Balance	\$ 9,190,396
Total Revenues	\$ 9,424,306
Total Expenditures	9,376,043
Net Increase (Decrease) in Fund Balance	\$ 48,263

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.

The District's First Interim Report for Fiscal Year 2011-12 was certified as "Positive" and the District's 2011-12 budget has been approved by the County Superintendent.

The following table shows the District's audited actual General Fund for fiscal year 2008-09, and the District's adopted General Fund budget for 2009-10. For further information, see also APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011.

LARKSPUR-CORTE MADERA SCHOOL DISTRICT
Comparison of General Fund Budget and
Audited Actuals for Fiscal Years 2009-10 and 2010-11,
General Fund Budget and
Budgeted Amounts for Fiscal Year 2011-12

	Budget 2009-10	Actuals 2009-10	Budget 2010-11	Actuals 2010-11	Budget 2011-12
REVENUES					
Revenue Limit	\$ 7,007,762	\$ 6,996,763	\$ 6,895,048	\$ 6,892,150	\$6,957,240
Federal	409,568	666,606	499,948	290,138	209,983
Other State	841,850	854,162	752,356	711,277	957,023
Other Local	4,691,952	4,833,210	5,345,414	5,391,157	5,100,755
Total Revenues	<u>12,951,132</u>	<u>13,350,741</u>	<u>13,492,766</u>	<u>13,284,722</u>	<u>13,225,001</u>
EXPENDITURES					
Certificated Salaries	7,135,438	7,088,003	7,437,719	7,268,585	7,581,745
Classified Salaries	1,975,784	1,999,958	1,992,627	2,008,756	2,026,319
Employee Benefits	2,239,178	2,196,819	2,285,150	2,251,338	2,471,136
Books and Supplies	353,892	382,703	742,341	829,843	176,847
Services and Operating Expenditures	1,177,559	1,146,953	1,264,410	1,188,374	1,146,275
Direct Support/Indirect Costs	(9,900)	(2,224)	(8,400)	(9,206)	(10,200)
Other Outgo	157,570	164,653	276,639	228,004	163,781
Total Expenditures	<u>13,029,521</u>	<u>12,976,865</u>	<u>13,990,486</u>	<u>13,765,694</u>	<u>13,555,903</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(73,389)</u>	<u>373,876</u>	<u>(497,720)</u>	<u>(480,972)</u>	<u>(330,902)</u>
OTHER FINANCING SOURCES AND USES					
Proceeds from Capital Leases	—	56,460	—	273,491	—
Interfund Transfers Out	(10,893)	—	(114,146)	—	(100,000)
Total Financing Sources and Uses	<u>(10,893)</u>	<u>56,460</u>	<u>(114,146)</u>	<u>273,491</u>	<u>(100,000)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(89,282)	430,336	(611,866)	(207,481)	(430,902)
Fund Balances, July 1	2,648,753	2,648,753	3,079,088	3,079,089	2,467,222
Fund Balances, June 30	<u>\$ 2,559,471</u>	<u>\$ 3,079,089</u>	<u>\$ 2,467,222</u>	<u>\$ 2,871,608</u>	<u>\$2,036,320</u>

Source: The District.

Accounting Practices

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

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the

fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2011, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 230 Doherty Drive, Larkspur, CA 94939, telephone number (415) 927-6960. 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, 2011, are included in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011.

LARKSPUR-CORTE MADERA SCHOOL DISTRICT
General Fund Revenues, Expenditures and changes in Fund Balances
Audited Actuals for Fiscal Years 2006-07 to 2010-11

	2006-07 Audited	2007-08 Audited	2008-09 Audited	2009-10 Audited	2010-11 Audited
REVENUES					
Revenue Limit Sources	\$ 6,207,060	\$ 6,548,641	\$ 6,842,545	\$ 6,996,763	\$ 6,892,150
Federal Revenue Sources	235,309	212,276	268,759	666,606	290,138
Other State Revenues	1,469,847	1,195,113	1,159,523	854,162	711,277
Other Local Revenues	3,702,378	4,016,681	4,121,946	4,833,210	5,391,157
Total Revenues	<u>11,614,594</u>	<u>11,972,711</u>	<u>12,392,773</u>	<u>13,350,741</u>	<u>13,284,722</u>
EXPENDITURES					
Salaries:					
Certificated Salaries	5,743,677	6,347,088	6,613,524	7,088,003	7,268,585
Classified Salaries	1,438,165	1,682,471	1,902,761	1,999,958	2,008,756
Employee Benefits	1,904,739	2,137,864	2,099,277	2,196,819	2,251,338
Books and Supplies	675,837	541,989	422,869	382,703	829,843
Services and Other Operating Expenditures	1,303,293	1,239,108	1,084,431	1,146,953	1,188,374
Direct Support/Indirect Costs	26,054	60,120	—	(2,224)	(9,206)
Other Outgo	209,904	140,545	146,744	162,339	228,004
Total Expenditures	<u>11,301,669</u>	<u>12,149,185</u>	<u>12,269,606</u>	<u>12,976,865</u>	<u>13,765,694</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>312,925</u>	<u>(176,474)</u>	<u>123,167</u>	<u>373,876</u>	<u>(480,972)</u>
Other Financing Sources (Uses):					
Transfers in	55,196	—	—	—	273,491
Transfers out	(83,101)	—	—	—	—
Other Sources	49,545	—	—	—	—
Net Financing Sources (Uses)	<u>21,640</u>	<u>(71,552)</u>	<u>1,340</u>	<u>56,460</u>	<u>273,491</u>
NET CHANGE IN FUND BALANCE	<u>334,565</u>	<u>(248,026)</u>	<u>124,507</u>	<u>430,336</u>	<u>(207,481)</u>
Beginning Fund Balance	<u>2,437,706</u>	<u>2,772,271</u>	<u>2,524,245</u>	<u>2,648,753</u>	<u>3,079,089</u>
Ending Fund Balance	<u>\$2,772,271</u>	<u>\$2,524,245</u>	<u>\$ 2,648,752</u>	<u>\$ 3,079,089</u>	<u>\$ 2,871,608</u>

Source: The District.

Audit

Basic Financial Statements with Management's Discussion and Analysis and Independent Auditors Report and certain Supplementary Information for the year ended June 30, 2011, are included in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2011. The District considers its audited

financial statements to be documents of public record. The District has not requested its auditors, Nigro & Nigro, PC, to review this Official Statement, nor have they done so.

Revenue Sources

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

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

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

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

The revenue limit sources comprised approximately 52% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 53% of such revenues in fiscal year 2011-12.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools and Education for Economic Security. The federal revenues, most of which are restricted, comprised approximately 2% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 2% of such revenues in fiscal year 2011-12.

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

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, School Improvement Program, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation and instructional materials. Other State revenues comprised approximately 5% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 6% of such revenues in fiscal year 2011-12.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised approximately 1% of general fund revenues in fiscal

year 2010-11 and are estimated to equal approximately 1% of such revenues in fiscal year 2011-12.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, transportation fees, leases and rentals, special education support and other local sources. Other local revenues comprised approximately 41% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 39% of such revenues in fiscal year 2011-12.

District Debt

General Obligation Bonds. The following table reflects the District's outstanding general obligation bonds as of December 31, 2011:

LARKSPUR-CORTE MADERA SCHOOL DISTRICT
Outstanding General Obligation Bonds
As of December 31, 2011 (1)

Date Issued	Series	Original Amount Issued	Outstanding Amount
9/13/00	General Obligation Bonds, 2000 Election, Series A (CABs)	\$5,350,000.00	\$ 9,516,025.10 (2)
9/1/05	General Obligation Bonds, 2000 Election, Series B (CIBs)	700,000.00	80,000.00
9/1/05	General Obligation Bonds, 2000 Election, Series B (CABs)	2,999,815.05	4,103,240.68 (2)
1/27/11	2011 General Obligation Refunding Bonds	8,135,000.00	7,675,000.00
TOTALS		\$17,184,815.05	\$21,374,265.78

Source: The District.

(1) Does not include the Bonds.

(2) Accreted value as of February 1, 2012.

The annual requirements to amortize all outstanding general obligation bonds, including the bonds of this issue, are as follows:

LARKSPUR-CORTE MADERA SCHOOL DISTRICT
General Obligation Bonds – Debt Service

Maturity (8/1)	2000 GO CABs	2005 GO CIBs	2005 GO CABs	2011 Bonds	2012 Bonds	Total
2012	\$ 700,000	\$27,855	—	\$ 783,438		
2013	740,000	56,980	—	758,038		
2014	900,000	—	—	762,938		
2015	930,000	—	—	762,538		
2016	975,000	—	—	736,938		
2017	1,005,000	—	—	711,488		
2018	1,035,000	—	—	711,288		
2019	1,070,000	—	—	700,288		
2020	1,105,000	—	—	693,888		
2021	1,145,000	—	—	681,888		
2022	1,185,000	—	—	679,488		
2023	1,190,000	—	—	671,288		
2024	1,220,000	—	—	662,488		
2025	1,255,000	—	—	651,563		
2026	—	—	\$1,830,000	—		
2027	—	—	1,830,000	—		
2028	—	—	1,835,000	—		
2029	—	—	1,835,000	—		
2030	—	—	1,835,000	—		
2031	—	—	—	—		
2032	—	—	—	—		
2033	—	—	—	—		
2034	—	—	—	—		
2035	—	—	—	—		
2036	—	—	—	—		
2037	—	—	—	—		
2038	—	—	—	—		
2039	—	—	—	—		
2040	—	—	—	—		
2041	—	—	—	—		
2042	—	—	—	—		
Total	\$14,455,000	\$87,690	\$9,165,000	\$9,967,557		

Source: The District.

All debt service payments on the bonds, including refunding bonds, are payable from an *ad valorem* tax levied and collected by the County on assessed property in the District.

Capital Leases. The District leases equipment and relocatable classrooms under capital lease agreements. Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payments
2012	\$186,268
2013	151,059
2014	11,292
Total payments	<u>\$348,619</u>

Source: The District.

Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective January 1, 2012. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Larkspur-Corte Madera School District**

2011-12 Assessed Valuation: \$3,529,622,638

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 1/1/12</u>
Marin Community College District	6.709%	\$12,005,756
Tamalpais Union High School District	10.943	17,659,813
Larkspur-Corte Madera School District	100.	15,729,675 (2)
Community Facilities Districts	0.238-100.	13,862,927
City 1915 Act Bonds	100.	<u>825,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$60,083,171

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Marin County General Fund Obligations	6.697%	\$ 5,159,524
Marin County Pension Obligations	6.697	7,379,089
Marin County Transit District General Fund Obligations	6.697	13,731
Marin Municipal Water District General Fund Obligations	8.561	14,280
Marin Community College District General Fund Obligations	6.709	191,598
City of Corte Madera General Fund Obligations	88.229	9,034,231
Other City General Fund Obligations	Various	224,811
Kentfield and Tiburon Fire Protection District General Fund Obligations	0.750 & 0.001	26,611
Twin Cities Police Authority General Fund Obligations	66.516	<u>436,860</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$22,480,735

COMBINED TOTAL DEBT **\$82,563,906 (3)**

- (1) Based on 2010-11 ratios.
- (2) Excludes refunding general obligation bonds to be sold.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Direct Debt (\$15,729,675)	0.45%
Total Direct and Overlapping Tax and Assessment Debt.....	1.70%
Combined Total Debt.....	2.34%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics, Inc.

GENERAL SCHOOL DISTRICT FINANCIAL 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 Budget

The District's principal funding formulas and revenue sources are derived from the budget of the State of California. **The following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, the State has not entered into any contractual**

commitment with the District, the Underwriter, Bond and Disclosure Counsel or the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, none of the District, Bond and Disclosure Counsel or the Underwriter assume any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including www.dof.ca.gov, which website is not incorporated herein by reference.

2011-12 State Budget. On June 30, 2011, the State budget for fiscal year 2011-12 (the "2011-12 Budget") was enacted, closing a \$26.6 billion budget gap by reducing expenditures by \$15 billion, targeting revenue increases of \$0.9 billion and additional solutions of \$2.9 billion. The remaining \$8.3 billion in changes stem from the improvement in the State's revenue outlook. \$27.2 billion in changes balances the 2011- 12 Budget and leaves the State with a reserve of \$543 million. General fund spending totals \$85.9 billion, a 6.1% reduction from 2010-11. The 2011-12 Budget includes a major realignment of public safety programs from the State to local governments. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services and adult protective services.

The 2011-12 Budget includes \$15 billion in spending reductions by: maintaining K-12 education funding at a similar level as 2010-11, reducing State Supplementary Payment grants, reducing CalWORKS grants, reducing California Department of Corrections and Rehabilitation's inmate population by 25% once realignment is fully implemented, requiring recipients of Medi-Cal health benefits to pay a share of the cost for doctor visits and other services, reducing the State's support for the University of California and California State University by 22% and 25%, respectively, requiring community college students to pay \$10 more per class unit, delaying the court system's construction program for one year, eliminating the Adult Day Health Care program, Williamson Act subventions, and the refundable child care and dependent tax credit, reducing the State's workforce by 5,500 positions; and eliminating 20 boards, commissions, task forces, offices and departments, including the California Medical Assistance Commission and the Office of Insurance Advisor.

The May Revision reflected \$6.6 billion in higher tax receipts compared to the Governor's proposed 2011-12 Budget. Since the May Revision, tax receipts were higher than expected by an estimated \$1.2 billion in May and June. With the improved revenue receipts, the 2011-12 Budget projects an additional \$4 billion in estimated 2011-12 revenues. In order to mitigate the risk if higher revenues do not materialize, if projected revenues fall short of expectations by more than \$1 billion, an additional \$600 million in cuts to higher education, health and human services and public safety would be implemented beginning in January 2012. If projected revenues fall short by more than \$2 billion, an additional \$1.9 billion in education reductions would be implemented – shortening the school year by seven days, eliminating the home-to-school transportation program and reducing community college apportionments.

With respect to K-12 education, the 2011-12 Budget includes total funding of \$64.1 billion (\$34.7 billion general fund and \$29.4 billion other funds) for all K-12 education programs. For 2011-12, the Proposition 98 Guarantee (the "Guarantee") is \$48.7 billion, of which \$32.9 billion is general fund. This Guarantee level reflects an increase in general fund revenues in 2011-12, the expiration of a variety of short-term tax increases and the rebenching or adjustment of the Guarantee for revenue and program shifts. In 2011-12, there are four new rebenching impacts: (1) an increase of \$578.1 million to ensure that the Guarantee does not decrease with the shift in motor vehicle fuel revenues, (2) an increase of \$221.8 million to reflect

the inclusion of mental health and out-of-home care services within the Guarantee, (3) a decrease of \$1.134 billion to reflect the exclusion of child care programs, with the exception of partial day preschool programs, from Proposition 98, and (4) a decrease of \$1.7 billion to ensure that the total Guarantee is not changed due to new local revenue related to redevelopment agencies. In addition to the above adjustments, Proposition 98 is decreased \$2.1 billion as a result of the reduction in general fund sales tax revenue related to the realignment of public safety programs to counties.

The 2011-12 Budget includes the following adopted solutions:

- Defer \$2.1 billion in K-12 Education spending – this additional deferral maintains funding for K-12 education programs at the 2010-11 funding level.

The 2011-12 Budget includes the following Proposition 98 general fund policy and workload adjustments:

- *Shift In Mental Health Services from Counties to Schools* – The 2011-12 Budget rebenchs the Proposition 98 guarantee and provides an increase of \$221.8 million Proposition 98 general fund revenues to shift the responsibility for providing mental health services, including out of home residential services, required under federal law from county mental health departments and county welfare departments to school districts. School districts can contract with counties to provide services using Proposition 63 funds, but schools would be responsible for any excess costs over a given amount. In total, the 2011-12 Budget provides \$389.4 million from all fund sources, including \$69 million in federal funds currently budgeted for mental health services.

Fiscal Outlook Report. On November 16, 2011, the LAO released a report entitled “The 2012- 13 Budget: California’s Fiscal Outlook” (the “Fiscal Outlook Report”), which includes updated expenditure and revenue projections for fiscal year 2011-12. The following information has been adapted 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 2011-12 through 2016-17 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 currently forecasts total State revenues of \$84.8 billion, approximately \$3.7 billion less than the \$88.5 billion figure included in the 2011-12 Budget. The LAO also forecasts total expenditures of \$85.3 billion, slightly below the \$85.9 billion included in the 2011-12 Budget. Absent corrective action, the State faces a projected year-end deficit of approximately \$3 billion, as compared to the \$543 million year-end surplus assumed by the 2011-12 Budget.

The LAO’s estimates with respect to fiscal year 2011-12 are informed in part by the following:

- As a result of the revised revenue forecast, the LAO assumes the implementation of \$2 billion in midyear “trigger” reductions required by the 2011-12 Budget. This includes the implementation of all first tier trigger reductions, totaling \$600 million. The LAO also assumes the implementation of approximately \$1.4 billion

of second tier trigger reductions, including a \$248 million reduction in home-to-school transportation funding, a \$72 million reduction to community college apportionments, and a \$1.1 billion reduction to K-12 revenue limit funding. The reduction to revenue limit funding reflects a pro-rated implementation of the second tier trigger reductions, based on the LAO's revenue forecast. The final extent of the reductions will be determined by the State Department of Finance, once it releases its December 2011 revenue forecast.

- The LAO's forecast generally assumes that the State will prevail in current, ongoing litigation regarding certain provisions of the 2011-12 Budget. See "— Litigation Challenging State Funding of Education" below. However, the LAO assumes that the State will only realize \$1.4 billion of additional general fund revenues from the elimination of redevelopment agencies, rather than the \$1.7 billion figure included in the 2011-12 Budget.
- The Fiscal Outlook Report does not assume the passage of the Governor's proposed tax extensions at the November 2012 election. The LAO notes that, under the provisions of the 2011-12 Budget, if no such ballot measure is passed, the State would be required to provide an additional \$2 billion of settle-up payments to K-12 education, reflecting a like increase to the Proposition 98 minimum funding guarantee for fiscal year 2011-12.
- The LAO also assumes (i) higher Medi-Cal costs of approximately \$400 million, and (ii) that the State will be unable to reduce departmental costs by \$250 million, as projected by the 2011-12 Budget.

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

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

Cash Management Legislation. On February 1, 2010, Governor Schwarzenegger signed into law ABX8 5, effective immediately, which included several measures meant to allow the State to effectively manage its cash resources in fiscal years 2009-10 and 2010-11. For fiscal year 2009-10, ABX8 5 authorized the deferral of general payments to be made to trial court operations, the California University system, the University of California system, and community college districts in March 2010 to no sooner than April 15, 2010, but no later than May 1, 2010. Prior to such deferrals, the State Controller, State Treasurer, and State Director of

Finance was required to review the actual cash situation to determine if the deferrals are in-fact necessary. Further, if such deferrals were implemented, the State Controller, State Treasurer and State Director of Finance, after April 1, were required to review daily the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. To address the cash management issues in fiscal year 2010- 11, ABX8 5 authorized specific deferrals to K-12 apportionments, Supplemental Security Income/State Supplementary Payments, local government social services and transportation payments and trial court operations. These deferrals were allowed only in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 30 days. Prior to the implementation of such deferrals, the State Controller, State Treasurer, and State Director of Finance were required to review the actual cash receipts and disbursements to determine if they were in-fact necessary. Further, if such deferrals were implemented, the State Controller, State Treasurer, and State Director of Finance, after July 1, 2010, were required to conduct a daily review of the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. In addition, such deferrals may be moved forward or backward one month from the dates specified if all three of the State Controller, State Treasurer, and State Director of Finance determined that a move was necessary. ABX8 5 limited the K-12 deferrals to \$2.5 billion at any given time during the fiscal year 2010-11 and sets a maximum of three K-12 deferrals during the fiscal year. ABX8 5 provided a hardship exemption for County Offices of Education, Local Education Agencies and Charter Schools. ABX8 5 further authorized the deferral of \$200 million from July 2010 to October 2010 and \$100 million from March 2011 to May 2011 for community college districts. ABX8 5 also provided for a hardship exemption for community college districts.

On March 22, 2010, the Governor signed into law, effective immediately, ABX8 14 which amended the cash management provisions for 2009-10 and 2010-11 enacted into law pursuant to ABX8 5. With regard to the 2009-10 cash management issues, ABX8 14 provided a hardship exemption process for the current year deferrals for community college districts and makes them the first entity to have deferrals paid as soon as funds are available. As to the 2010-11 cash issues, ABX8 14 clarified the hardship exemption process for school districts, county offices of education and charter schools and provided certain other changes pertaining to those provisions. In addition, ABX8 14 required the State Controller, State Treasurer, and State Director of Finance to jointly provide a written declaration of the intended payment deferrals for the 2010-11 fiscal year, allowed in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 30 days, as well as requiring approval by the State Director of Finance for hardship exemptions; and stated the intent of the legislature that July 2010 deferrals shall first be made from the advance principal apportionment payment. The legislation also delayed the date by which hardship exemption requests must be submitted (including with respect to 2010-11 community college district deferrals) and provided a second hardship waiver opportunity for the March 2011 deferral for those District's that did not receive an initial hardship waiver in June 2010.

In addition, the State adopted AB 1610 which directed warrants for the principal apportionments for the month of February 2011 in the amount of \$2 billion be drawn in July 2011, warrants for the principal apportionments for the month of April 2011 in the amount of \$679 million and for the month of May 2011 in the amount of \$1 billion be drawn in August 2011, warrants for the principal apportionments for the month of April 2011 in the amount of \$420 million and for the month of May 2011 in the amount of \$800 million be drawn in July 2011. AB 1610 also approved a waiver provision relation to an amount up to \$100 million for June of each year to July of such year subject to a demonstration of financial hardship by the requesting school district.

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

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

Future State Budgets. Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30. With the aid of Proposition 25 (budget passage with a simple majority and legislature forfeiture of daily salary until the budget bill passes), the Governor signed the 2011-12 Budget on June 30, 2011. However, the State Legislature failed to pass a State budget for fiscal year 2010-11 until October 8, 2010, the latest budget in the State's history. The District cannot fully anticipate the impact of future delays in State budget adoption. The events leading to the inability of the State Legislature to pass a budget in a timely fashion are not unique, and the District cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of the District's budget, it will be necessary for the District's staff to review the consequences of the changes, if any, at the State level from the proposals in the Governor's May Revision for that year, and determine whether the District's budget will have to be revised.

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions.

The District cannot predict whether the State will continue to encounter budgetary difficulties in the current or future fiscal years. The District also cannot predict the impact future State Budgets will have on District finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the District cannot control.

In addition, the District cannot predict the effect that the general economic conditions within the State and the State's budgetary problems may have in the future on the District budget or operations.

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 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.

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. Christy White, A Professional Accountancy Corporation, San Diego, California, serve as independent auditors to the District and excerpts of their report for the fiscal year ended June 30, 2011, are attached hereto as APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011. The District’s auditors have not specifically approved the inclusion of such excerpts herewith.

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. For the District’s most recent available audited financial statements, see APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011.

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 XIII D. 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.

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 the State of California Teachers Retirement System ("STRS"). STRS covers all full-time and most part-time employees with teaching certificates. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. School districts also participate in the State of California Public Employees Retirement System ("PERS"). PERS covers all classified personnel, generally those employees without teaching must be at least 50 years old and have had five years of covered PERS service as a public employee.

Contribution rates to PERS 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 PERS. The contribution rates are set by statute for STRS at a constant 8.25% of salary. STRS 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 "MARIN COUNTY INVESTMENT POOL."

THE ECONOMY OF THE COUNTY

The following economic data for the County are presented for information purposes only. The Bonds are not a debt or obligation of the County.

Population

The table below shows the recent population growth for the County.

POPULATION OF MARIN COUNTY 2000-2011

<u>Year</u>	<u>Marin County</u>
2000	247,289
2001	248,903
2002	249,813
2003	250,453
2004	250,840
2005	251,820
2006	253,818
2007	255,982
2008	256,511
2009	258,618
2010	260,651
2011	254,692

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Benchmark. Sacramento, California, January 1, 2010 and E-1 City/County Population Estimates, Benchmark January 1, 2011.

Employment

The following table summarizes wage and salary employment in the County from 2005 to 2010.

ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT BY INDUSTRY Marin County

	2005	2006	2007	2008	2009	2010(1)
Total, All Industries	108,800	108,700	109,000	109,300	102,400	101,000
Total Farm	600	700	500	500	500	500
Total Nonfarm	108,200	108,000	108,500	108,800	101,900	100,500
Goods Producing	11,000	10,400	10,500	10,100	8,200	7,800
Manufacturing	2,500	2,400	2,100	2,100	2,000	2,100
Durable Goods	1,200	1,200	900	900	800	800
Nondurable Goods	1,300	1,200	1,200	1,200	1,200	1,300
Service Providing	97,200	97,600	97,900	98,700	93,700	92,700
Trade, Transportation & Utilities	18,800	18,300	18,500	18,200	16,500	16,800
Wholesale Trade	2,600	2,700	2,700	2,700	2,300	2,400
Retail Trade	14,900	14,300	14,600	14,400	13,100	13,200
Transportation, Warehousing & Utilities	1,400	1,300	1,200	1,200	1,100	1,200
Information	3,100	2,200	2,400	2,200	2,000	1,900
Financial Activities	9,300	9,200	8,800	8,200	7,500	6,800
Finance & Insurance	6,500	6,400	6,100	5,500	5,000	4,700
Real Estate & Rental & Leasing	2,800	2,800	2,600	2,700	2,500	2,100
Professional & Business Services	18,500	19,600	19,500	20,300	18,500	18,900
Professional, Scientific & Technical Services	10,700	11,200	11,100	11,700	10,700	10,900
Management of Companies & Enterprises	2,200	2,300	2,200	2,100	1,900	1,900
Administrative & Support & Waste Services	5,600	6,100	6,300	6,500	5,800	6,100
Educational & Health Services	15,600	15,800	15,700	16,100	16,900	16,300
Educational Services	3,200	3,100	3,300	3,400	3,400	3,300
Health Care & Social Assistance	12,400	12,600	12,400	12,800	13,400	13,000
Leisure & Hospitality	12,600	12,700	13,000	13,400	12,700	12,100
Arts, Entertainment & Recreation	2,600	2,500	2,800	2,900	2,800	2,500
Accommodation & Food Services	10,000	10,200	10,300	10,500	9,900	9,600
Other Services	4,600	4,800	5,000	4,900	4,700	5,000
Government	14,700	15,000	15,100	15,500	15,000	14,900
Federal Government	900	900	700	900	1,000	1,000
State Government	1,800	1,800	1,900	2,100	2,200	2,100
Local Government	12,000	12,300	12,400	12,500	11,900	11,800

Source: California Employment Development Department.
(1) Most recent annual data available. March 2010 Benchmark.

The following table summarizes civilian labor force, employment, and unemployment in the County from 2005 to 2010. The unemployment rate in the County in October, 2011 was 7.2%. In contrast, the average unemployment rate in California for the same period was 11.2%.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Marin County
Annual Averages, 2005-2010**

Year	Civilian Labor Force	Employed Labor Force (1)	Unemployed Labor Force (2)	Unemployment Rate (3)
2005	129,300	124,300	5,000	3.9%
2006	131,300	126,700	4,600	3.5%
2007	132,700	127,900	4,800	3.6%
2008	133,000	126,800	6,200	4.7%
2009	132,100	121,700	10,300	7.8%
2010	131,400	120,600	10,800	8.3%

Source: California Employment Development Department.

- (1) Includes persons involved in labor-management trade disputes.
- (2) Includes all persons without jobs who are actively seeking work.
- (3) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures in this table.

Major Employers

The largest employers in the County as reported by the State's employment Development Department are as follows:

LARGEST EMPLOYERS Marin County

Entity	Location	Type of Business
Autodesk Inc.	San Rafael	Computer Software-Manufacturers
Bay Area Sea Kayakers	San Rafael	Membership Sports & Recreation Clubs
Cagwin & Dorward Landscape	Novato	Landscape Contractors
California Alpine Club	Mill Valley	Wedding Chapels
College of Marin	Kentfield	Schools-Universities & Colleges Academic
Corrections Dept	San Quentin	State Govt-Correctional Institutions
Dominican University of California	San Rafael	Schools-Universities & Colleges Academic
Fireman's Fund Insurance Co	Novato	Insurance
Kaiser Permanente Medical Ctr	San Rafael	Hospitals
Leon's Bar B'Q Inc	Mill Valley	Food Products-Retail
Macy's	Corte Madera	Department Stores
Marin Community College	Kentfield	Schools-Universities & Colleges Academic
Marin County Health & Human	San Rafael	County Government-Social/Human Resources
Marin General Hospital	Greenbrae	Hospitals
Marin Group	Sausalito	Product Development & Marketing
MHN Inc	San Rafael	Health Plans
Nordstrom	Corte Madera	Department Stores
Novato Community Hospital	Novato	Hospitals
Renewal by Andersen	San Rafael	Windows
San Rafael Human Resources	San Rafael	Government Offices-City, Village & Twp
Sonnen Motorcars-Audi-VW	San Rafael	Automobile Dealers-New Cars
Township Building Svc Co	Novato	Janitor Service
Westamerica Bancorporation	San Rafael	Holding Companies (Bank)
Westamerica Bank	San Rafael	Banks
YMCA	San Rafael	Youth Organizations & Centers

Source: State of California Employment Development Department; America's Labor Market Information System (ALMIS) Employer Database, 2011 1st Edition.

Commercial Activity

Taxable sales in the County are shown below.

TAXABLE TRANSACTIONS BY SECTOR County of Marin (Amount in Thousands)

	2005	2006	2007	2008
Apparel Stores	\$ 155,305	\$ 156,944	\$ 163,447	\$ 201,280
General Merchandise Stores	446,920	461,184	460,821	402,168
Specialty Stores	479,661	490,874	— (1)	— (1)
Food Stores	195,817	201,870	209,609	213,437
Eating and Drinking Places	395,421	409,938	435,046	442,979
Home Furnishings and Appliances	209,690	202,529	199,860	206,525
Building Materials	337,508	338,773	329,500	277,548
Automotive	864,068	896,243	608,934	486,808
Service Stations	— (2)	— (2)	308,446	337,412
Other Retail Stores	81,353	86,441	585,804	505,997
Total Retail Stores	<u>\$3,165,743</u>	<u>\$3,244,796</u>	<u>\$3,301,467</u>	<u>\$3,074,694</u>
Business and Personal Services	191,287	180,523	184,488	199,636
All Other Outlets	814,414	859,945	911,226	884,569
Total All Outlets (4)	<u>\$4,171,444</u>	<u>\$4,285,264</u>	<u>\$4,397,181</u>	<u>\$4,158,899</u>
				<u>2009 (3)</u>
Retail Store and Food Services				
Motor Vehicle and Parts Dealers				\$ 434,910
Furniture and Home Furnishings				106,960
Electronic and Appliance				129,928
Bldg. Matrl. and Garden Equip. and Supplies				246,690
Food and Beverage				246,161
Health and Personal Care				109,301
Gasoline Stations				258,624
Clothing and Clothing Accessories				243,655
Sporting Goods, Hobby, Book and Music				128,490
General Merchandise				261,529
Miscellaneous Store Retailers				157,795
Nonstore Retailers				26,001
Food Service and Drinking Places				418,831
Retail and Food Services Totals				<u>2,768,875</u>
All Other Outlets				891,160
Total All Outlets (4)				<u>\$3,660,036</u>

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Starting 2007, Specialty Stores Group is included in All Other Retail Stores Group;

(2) Starting 2007, Service Stations are reported separately from "Automotive".

(3) Starting in 2009, categories were revised from prior years. Most recent annual data available.

(4) Totals may not add up due to independent rounding.

FINANCIAL ADVISOR

The District has retained Wulff, Hansen & Co., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. The fees of the Financial Advisor are contingent upon the sale and delivery of the Bonds.

LEGAL OPINION

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond Counsel for the District. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond. Certain legal matters will also be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Bonds.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, 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 Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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 Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Bonds 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 their respective 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 Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, 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 generally include certain tax-exempt interest, but not interest on the Bonds.

Ownership of the Bonds 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 Bonds should consult their tax advisors as to applicability of any such collateral consequences.

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

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

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity (the "Reduced Issue Price"), the purchaser will be treated as having purchased a Bond 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 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases a Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond 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 Bond 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 Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

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 Bonds. 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 Bonds 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 "IRS") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the IRS, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures the IRS may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds 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 Bonds, are in certain cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any Bond 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 Bond owner who is notified by the IRS 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 Bonds is exempt from California personal income taxes.

Ownership of the Bonds 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 Bonds is set forth in APPENDIX B—FORM OF OPINION OF BOND COUNSEL.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than 270 days following the end of the District’s fiscal year (which date would be March 31 following the current end of the District’s fiscal year on June 30), commencing with the report for the 2011-12 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board (the “MSRB”). The notices of material events will be filed by the District with the MSRB. The specific nature of the information to be made available and to be contained in the notices of material events 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) (the “Rule”). 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 material events.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

ABSENCE OF MATERIAL LITIGATION

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

RATING

Standard & Poor's Ratings Services ("S&P") has assigned its rating of "AAA" to the Bonds. Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from it as follows: Standard & Poor's Ratings Services, 55 Water Street, New York, NY 10004, (212) 438-2124. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by _____ (the "Underwriter"). The Underwriters have agreed to purchase the Bonds at a price of \$_____ (being equal to the aggregate principal amount of the Bonds (\$_____), plus net original issue premium (\$_____), less the amount retained by the Underwriters to pay the Underwriter's discount (\$_____)). The Underwriter has agreed to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Resolution, the Continuing Disclosure Certificate of the District, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

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

LARKSPUR-CORTE MADERA SCHOOL
DISTRICT

By _____
Superintendent

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APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2011**

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**LARKSPUR
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2011**



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LARKSPUR SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2011
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For the Fiscal Year Ended June 30, 2011
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Larkspur School District
Larkspur, California

We have audited the accompanying financial statements of the governmental activities, discretely presented component units, each major fund, and the aggregate remaining fund information of Larkspur School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Larkspur School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component units, each major fund, and the aggregate remaining fund information of Larkspur School District as of June 30, 2011 and the respective changes in financial position 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 28, 2011 on our consideration of Larkspur School 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.

The management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 42 and 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Larkspur School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nigro & Nigro, PC

November 28, 2011

LARKSPUR SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2011

This discussion and analysis of Larkspur School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

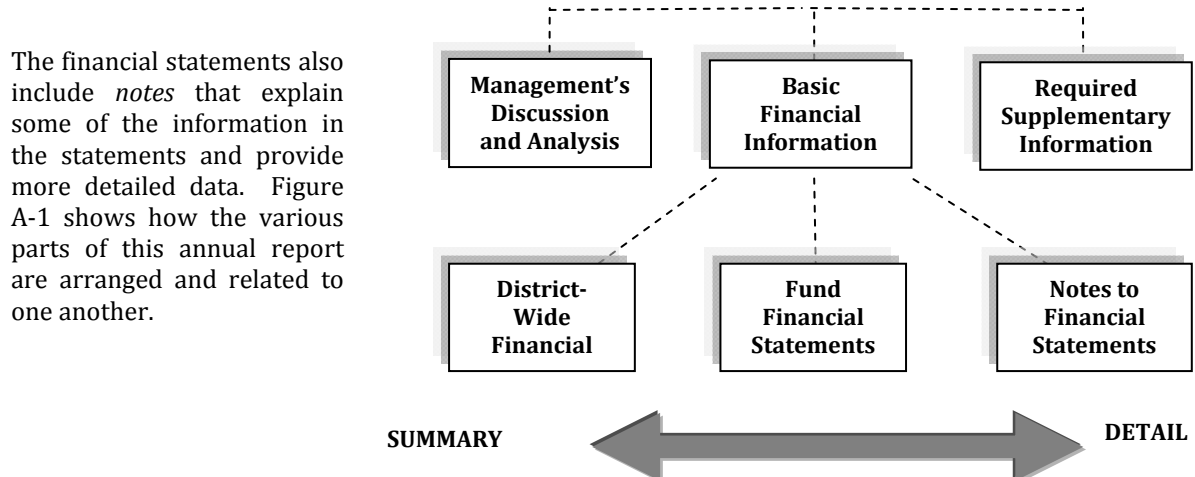
- Overall revenues were \$15.7 million, and overall expenditures were \$16.5 million.
- The District's net assets decreased by approximately \$0.8 million or 37.7%.
- The total cost of the basic programs was \$16.5 million. Because a portion of these costs were paid for with charges, fees and intergovernmental aid, the net cost that required taxpayer funding was \$14.7 million.
- The District increased its outstanding long-term debt by roughly \$200,000.
- Average daily attendance (ADA) in grades K-8 grew by 55, or 4.5%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

Figure A-1. Organization of Larkspur School District's Annual Financial Report



LARKSPUR SCHOOL DISTRICT

*Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011*

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District’s funds do not currently contain non-financial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

LARKSPUR SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-wide Statements (continued)

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

LARKSPUR SCHOOL DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2011*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were lower on June 30, 2011, than they were the year before – decreasing 37.7% to \$1,321,023. (See Table A-1.)

Table A-1: Comparative Statement of Net Assets

	Governmental Activities		Variance
	2011	2010	Increase (Decrease)
Assets			
Deposits and investments	\$ 4,518,906	\$ 4,305,686	\$ 213,220
Receivables	934,298	1,122,922	(188,624)
Prepaid expenses	182,578	8,133	174,445
OPEB assets	45,268	25,261	20,007
Capital assets, net of depreciation	18,677,273	19,585,078	(907,805)
Total assets	24,358,323	25,047,080	(688,757)
Liabilities			
Current liabilities	821,909	504,524	317,385
Long term liabilities	22,215,391	22,422,182	(206,791)
Total liabilities	23,037,300	22,926,706	110,594
Net assets			
Invested in capital assets, net of related debt	1,566,592	2,158,678	(592,086)
Restricted	1,852,090	1,859,660	(7,570)
Unrestricted	(2,097,659)	(1,897,964)	(199,695)
Total net assets	\$ 1,321,023	\$ 2,120,374	\$ (799,351)

LARKSPUR SCHOOL DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2011***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)****Changes in net assets, governmental activities**

The District's total revenues were \$15.7 million (see Table A-2.). This is an increase of about 2.5%, which is due to a decrease of federal and state categorical funding.

The total cost of all programs and services was \$16.5 million. The District's expenses are predominantly related to educating and caring for students, 69.6%. The purely administrative activities of the District accounted for just 7.6% of total costs.

Table A-2: Comparative Statement of Changes in Net Assets

	Governmental Activities		Variance
	2011	2010	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 507,448	\$ 479,528	\$ 27,920
Operating Grants & Contributions	1,325,848	1,513,864	(188,016)
General Revenues:			
Taxes	10,624,534	9,947,911	676,623
Federal & State Aid	698,125	780,652	(82,527)
Interest & Investment Earnings	19,036	43,732	(24,696)
Miscellaneous	2,541,684	2,567,636	(25,952)
Total Revenues	<u>15,716,675</u>	<u>15,333,323</u>	<u>383,352</u>
Expenses:			
Instruction	9,076,446	8,451,041	625,405
Instruction Related Services	1,468,399	1,455,839	12,560
Pupil Services	946,321	1,047,867	(101,546)
General Administration	1,252,305	1,328,461	(76,156)
Plant Services	1,309,937	1,074,558	235,379
Ancillary Services	10,580	10,745	(165)
Interest on Long Term Debt	1,266,575	480,024	786,551
Other Outgo	277,658	816,937	(539,279)
Depreciation (unallocated)	907,805	1,062,515	(154,710)
Total Expenses	<u>16,516,026</u>	<u>15,727,987</u>	<u>788,039</u>
Change in net assets	<u>\$ (799,351)</u>	<u>\$ (394,664)</u>	<u>\$ (404,687)</u>

LARKSPUR SCHOOL DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2011***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)****Changes in net assets, governmental activities (continued)****Table A-3: Comparative Schedule of Costs of Services**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$ 9,076,446	\$ 8,451,041	\$ 8,179,208	\$ 7,294,049
Instruction Related Services	1,468,399	1,455,839	1,389,471	1,417,384
Pupil Services	946,321	1,047,867	332,440	363,824
General Administration	1,252,305	1,328,461	1,223,175	1,256,603
Plant Services	1,309,937	1,074,558	1,309,937	1,074,558
Ancillary Services	10,580	10,745	5,592	5,871
Interest on Long Term Debt	1,266,575	480,024	1,057,444	480,024
Other Outgo	277,658	816,937	277,658	779,767
Depreciation (Unallocated)	907,805	1,062,515	907,805	1,062,515
Total	\$ 16,516,026	\$ 15,727,987	\$ 14,682,730	\$ 13,734,595

Table A-4: Summary of Revenues for Governmental Functions

	FYE 2011 Amount	Percent of Total	FYE 2010 Amount	Percent of Total
Program Revenues				
Charges for Services	\$ 507,448	3.23%	\$ 479,528	3.13%
Operating Grants & Contribution	1,325,848	8.44%	1,513,864	9.87%
General Revenues:				
Taxes				
Property taxes, general purposes	6,905,194	43.94%	6,996,381	45.63%
Property taxes, debt service	1,560,482	9.93%	1,409,284	9.19%
Parcel taxes	2,158,858	13.74%	1,542,246	10.06%
Federal & State Aid	698,125	4.44%	780,652	5.09%
Interest & Investment Earnings	19,036	0.12%	43,732	0.29%
Miscellaneous				
Foundation Contributions	1,068,369	6.80%	951,594	6.21%
Lease and rent	889,651	5.66%	897,442	5.85%
Other	583,664	3.71%	718,600	4.69%
Total Revenues	\$ 15,716,675	100.00%	\$ 15,333,323	100.00%

LARKSPUR SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities (continued)

Table A-5: Schedule of Expenses for Governmental Functions

	FYE 2011 Amount	Percent of Total	FYE 2010 Amount	Percent of Total
Instruction	\$ 9,076,446	54.96%	\$ 8,451,041	53.73%
Instruction Related Services	1,468,399	8.89%	1,455,839	9.26%
Pupil Services	946,321	5.73%	1,047,867	6.66%
General Administration	1,252,305	7.58%	1,328,461	8.45%
Plant Services	1,309,937	7.93%	1,074,558	6.83%
Ancillary Services	10,580	0.06%	10,745	0.07%
Interest on Long Term Debt	1,266,575	7.67%	480,024	3.05%
Other Outgo	277,658	1.68%	816,937	5.19%
Depreciation (Unallocated)	907,805	5.50%	1,062,515	6.76%
Total Expenses	<u>\$ 16,516,026</u>	<u>100.00%</u>	<u>\$ 15,727,987</u>	<u>100.00%</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$4.9 million, which is slightly below last year's ending fund balance of \$5.1 million. The decrease is primarily due to spending down one-time American Recovery and Reinvestment Act (ARRA) revenues.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$1.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$380,000 with increased salaries and benefits costs.
- Other non-capital expenses – increased \$1.1 million to allocate resources for the schools.

While the District's final budget for the General Fund anticipated revenues would fall short of expenditures by about \$498,000, the actual results for the year show that expenditures exceeded revenues by roughly \$481,000. Actual revenues were roughly \$208,000 less than anticipated, but expenditures were \$225,000 less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2011 that will be carried over into the 2011-12 budget.

LARKSPUR SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011*

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)**General Fund Budgetary Highlights (continued)****Table A-6: Comparative Schedule of Fund Balances**

	Fund Balances June 30, 2011	Fund Balances June 30, 2010	Increase (Decrease)
General	\$ 2,871,608	\$ 3,079,089	\$ (207,481)
Cafeteria	100	3,432	(3,332)
Deferred Maintenance	189,204	185,791	3,413
Building	196,038	292,363	(96,325)
Capital Facilities	279,456	303,300	(23,844)
Bond Interest and Redemption	1,405,933	1,263,785	142,148
Totals	\$ 4,942,339	\$ 5,127,760	\$ (185,421)

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

By the end of 2010-11 the District had withheld from investing in new capital assets. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$900,000.

Table A-7: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2011	2010	
Land	\$ 279,448	\$ 279,448	\$ -
Improvement of sites	687,350	793,171	(105,821)
Buildings and improvements	17,600,540	18,372,610	(772,070)
Equipment and vehicles	109,935	139,849	(29,914)
Total	\$ 18,677,273	\$ 19,585,078	\$ (907,805)

LARKSPUR SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011*

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$22.2 million in general obligation bonds, capital leases and employment benefits – a decrease of \$206,791 from last year – as shown in Table A-8. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.)

Table A-8: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance
	2011	2010	Increase (Decrease)
General obligation bonds	\$ 21,759,352	\$ 21,974,623	\$ (215,271)
Capital lease obligations	328,659	213,948	114,711
Compensated absences	31,796	26,166	5,630
Early retirement incentives	95,584	207,445	(111,861)
Total	<u>\$ 22,215,391</u>	<u>\$ 22,422,182</u>	<u>\$ (206,791)</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the *2011-12 Budget Act* on June 30, 2011. The Legislature passed three iterations of the budget bill—one in March and two in June— all using the new majority-vote provision contained in Proposition 25 (an initiative adopted by voters in November 2010). The March version was not sent to the Governor, the first June version was vetoed, and the third budget bill was eventually signed. The Legislature also sent a number of budget related trailer bills to the Governor in both March and June.

Proposition 98

Proposition 98 funding constitutes about 70 percent of total funding for K-12 education. Since the adoption of the *2010-11 Budget Act*, Proposition 98 spending for 2010-11 increased by a net of \$129 million. The cut to basic aid school districts, adopted in March 2011, reduced categorical funding for basic aid districts by an amount equivalent to an 8.9 percent revenue limit reduction. This reduction is equivalent to the base revenue limit reductions that apply to non-basic aid school districts. The reduction (for both basic aid and non-basic aid districts) is maintained in 2011-12. Total K-12 education funding remains relatively flat from 2010-11 to 2011-12. The share covered by local property taxes, however, is significantly higher (largely due to estimated redevelopment agency remittance payments) whereas the share covered by the General Fund is lower.

The 2011-12 budget package includes various “trigger” reductions that would be implemented if estimates of state revenues as of December 2011 are more than \$1 billion lower than budget assumptions, with additional reductions triggered if revenues fall more than \$2 billion below budget assumptions.

If Revenues Fall Somewhat Short of Projections, Certain Community College and Child Care Cuts Triggered. If revenue estimates are \$1 billion to \$2 billion below budget assumptions, the state would reduce community college apportionments by \$30 million and implement a 4 percent across-the-board reduction to child care programs, for savings of \$23 million. If the reductions were triggered, the state also would implement a \$10 per-unit increase on community college fees. The additional revenues from the fee increase would offset the effects of the apportionment reduction on community colleges.

LARKSPUR SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

If Revenues Fall Further Below Projections, Certain K-12 Cuts and Additional CCC Cuts Also Triggered. If revised revenue estimates are more than \$2 billion below budget assumptions, up to \$1.9 billion in additional K-12 and community college reductions would be triggered. The K-12 revenue limits would be reduced based on a sliding scale, in proportion to the size of the General Fund shortfall. The revenue limit reductions would be capped at \$1.5 billion—associated with revenue estimates falling \$4 billion or more below budget assumptions. Funding for the Home-to-School Transportation program also would be eliminated effective January 2012 (for half-year savings of \$248 million), and community college apportionments would be further reduced by \$72 million.

K-12 Trigger Also Includes Shorter School Year Provisions. If revised revenue estimates fall \$2 billion below budget estimates, the state also would allow K-12 schools to reduce the school year by an additional seven days in 2011-12. Any reductions in instructional time and accompanying reductions in salaries or benefits, however, would need to be achieved by school districts through the collective bargaining process.

The budget package continues the state's reliance on payment deferrals to achieve budget solution, deferring an additional \$2.1 billion in K-12 payments and \$129 million in CCC payments from 2011-12 to 2012-13. Proposition 98 payment deferrals now total \$10.4 billion. As a result of these deferrals, 20 percent of funding for Proposition 98-supported programs in 2011-12 will not be paid until 2012-13. In essence, the first \$10 billion in Proposition 98 funding for 2012-13 will pay for services that schools and community colleges will have already provided in 2011-12.

Revenue Limit "Deficit Factor" Still Growing. The state's existing obligation for K-12 revenue limits is also growing. When the state has made a base reduction to K-12 revenue limits and/or has not provided an annual cost-of-living adjustment (COLA), it has chosen to create a deficit factor. In essence, the deficit factor reflects a statutory commitment to use Proposition 98 funds at some point in the future to raise revenue limits to the level they would have been absent the base reductions and foregone COLAs that have occurred over the last four years. Cumulative base revenue limit reductions and foregone revenue limit COLAs total \$8 billion in 2011-12—\$7.9 billion for school districts (resulting in a deficit factor of 19.8 percent) and \$144 million for county offices of education (resulting in a deficit factor of 20 percent).

Mandate Backlog Still Growing. The state's existing backlog of K-14 mandate claims also continues to increase. Although the budget provides \$90 million for the ongoing cost of K-14 mandates, 2011-12 costs are projected to be \$180 million. This underfunding, when coupled with an already large backlog, leaves the state at the end of 2011-12 with \$3.8 billion in unpaid claims.

K-12 Education

Per-pupil programmatic funding decreased by \$117 from 2010-11 to 2011-12, reflecting a 1.5 percent year-over-year reduction. School districts will receive \$522 less per pupil in 2011-12 than in 2007-08. The year-to-year reduction in K-12 programmatic funding is primarily due to the loss of one-time federal funds. Schools in California received \$6 billion in American Recovery and Reinvestment Act (ARRA) funding that could be spent in 2008-09, 2009-10, and 2010-11. School districts will have exhausted these revenues, however, by 2011-12. Many school districts will still have funding available from the federal Education Jobs and Medicaid Assistance Act of 2010, which provided California schools with \$1.2 billion in one-time federal funding to retain school staff and reduce teacher layoffs. These funds, however, are not sufficient to entirely offset the loss of ARRA funding.

LARKSPUR SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011*

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The budget package also includes several budget provisions that affect school district financial management and administration.

State Prohibits Districts From Using Summer Layoff Window. The budget package suspends existing law that allows school districts to lay off teachers during the period between five days after the budget is enacted and August 15 if school district revenue limits in the enacted budget do not increase by at least 2 percent. Given that the budget package includes no increases to K-12 revenue limits, the law would have been operative in 2011.

State Requires Districts to Build Budgets Assuming Flat Year-Over-Year Revenues. The budget package also requires school districts to project the same level of per-pupil funding in 2011-12 as they received in 2010-11 and to maintain staffing and program levels commensurate with those funding levels. The Governor's signing message for the education trailer bill, however, emphasizes that school districts might still need to make reductions due to cost increases, the loss of federal funds, declining enrollment, or other factors. The signing message also states that the law was not intended to interfere with these local school board decisions.

State Suspends Requirement for Districts to Demonstrate Multiyear Solvency. The budget package also temporarily modifies the approval process for school district budgets. Under current law, the county superintendent is required to review and approve a school district's budget to ensure the district can meet its financial obligations in that fiscal year and has a financial plan to satisfy its obligations for the two subsequent years. In 2011-12, a county superintendent would be unable to disapprove a school district's budget based on the district's inability to meet its financial obligations in 2012-13 and 2013-14.

Governor Vetoes Funding for Longitudinal Teacher Data System. The Governor vetoed \$2.1 million in federal funds and \$84,000 in special funds for the California Longitudinal Teacher Integrated Education Data System. Authorized by 2006 legislation, this information system was intended to help the state identify teacher workforce trends; assess future teacher workforce needs; analyze the effectiveness of teacher recruitment, retention, and support programs; and develop related state policies. The Governor's veto leaves no funding for the project in 2011-12 and ends further development of the system.

State Grants Flexibility for Two Additional Years. The March 2011 education trailer bill extends by two additional years most of the flexibility options that the state originally granted to school districts in the February 2009 budget package (including options related to K-3 Class Size Reduction, other categorical programs, and shortened school year).

All of these factors were considered in preparing the Larkspur School District budget for the 2011-12 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (415) 927-6960.

LARKSPUR SCHOOL DISTRICT*Statement of Net Assets**June 30, 2011*

		Component Unit
	Governmental Activities	Larkspur Community Partnership Authority
ASSETS		
Current assets:		
Cash	\$ 4,518,906	\$ -
Accounts receivable	934,298	221,164
Prepaid expenses	182,578	-
Total current assets	<u>5,635,782</u>	<u>221,164</u>
Non-current assets:		
OPEB asset	45,268	-
Total non-current assets	<u>45,268</u>	<u>-</u>
Capital assets:		
Land	279,448	-
Improvement of sites	3,235,196	-
Buildings and improvements	28,507,680	-
Equipment and vehicles	257,702	-
Less accumulated depreciation	<u>(13,602,753)</u>	<u>-</u>
Total capital assets, net of depreciation	<u>18,677,273</u>	<u>-</u>
Total assets	<u>24,358,323</u>	<u>221,164</u>
LIABILITIES		
Current liabilities:		
Accounts payable	632,529	-
Deferred revenues	189,380	-
Total current liabilities	<u>821,909</u>	<u>-</u>
Long-term liabilities:		
Due within one year	1,320,958	146,069
Due after one year	20,894,433	75,095
Total long-term liabilities	<u>22,215,391</u>	<u>221,164</u>
Total liabilities	<u>23,037,300</u>	<u>221,164</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,566,592	-
Restricted for:		
Capital projects	279,446	-
Debt service	1,405,933	-
Categorical programs	166,711	-
Unrestricted	<u>(2,097,659)</u>	<u>-</u>
Total net assets	<u>\$ 1,321,023</u>	<u>\$ -</u>

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

LARKSPUR SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense)	Component Unit
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets	
				Governmental Activities	Larkspur Community Partnership Authority
Governmental Activities					
Instructional Services:					
Instruction	\$ 9,076,446	\$ -	\$ 897,238	\$ (8,179,208)	\$ -
Instruction-Related Services:					
Supervision of instruction	236,239	-	55,838	(180,401)	-
Instructional library, media and technology	263,868	-	23,090	(240,778)	-
School site administration	968,292	-	-	(968,292)	-
Pupil Support Services:					
Home-to-school transportation	26,250	-	34	(26,216)	-
Food services	562,156	507,448	59,606	4,898	-
All other pupil services	357,915	-	46,793	(311,122)	-
General Administration Services:					
Data processing services	40,365	-	-	(40,365)	-
Other general administration	1,211,940	-	29,130	(1,182,810)	-
Plant services	1,309,937	-	-	(1,309,937)	-
Ancillary services	10,580	-	4,988	(5,592)	-
Interest on long-term debt	1,266,575	-	209,131	(1,057,444)	(12,265)
Other outgo	277,658	-	-	(277,658)	(140,743)
Depreciation (unallocated)	907,805	-	-	(907,805)	-
Total Governmental Activities	\$ 16,516,026	\$ 507,448	\$ 1,325,848	(14,682,730)	(153,008)
General Revenues:					
Property taxes				10,624,534	-
Federal and state aid not restricted to specific purposes				698,125	-
Interest and investment earnings				19,036	12,265
Miscellaneous				2,541,684	140,743
Total general revenues				13,883,379	153,008
Change in net assets				(799,351)	-
Net assets - July 1, 2010				2,120,374	-
Net assets - June 30, 2011				\$ 1,321,023	\$ -

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

LARKSPUR SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2011

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Larkspur Community Partnership Authority
ASSETS					
Cash	\$ 2,478,869	\$ 1,405,933	\$ 634,104	\$ 4,518,906	\$ -
Accounts receivable	923,465	-	10,833	934,298	221,164
Due from other funds	11,430	-	40,558	51,988	-
Prepaid expenditures	16,138	-	-	16,138	-
Total Assets	<u>\$ 3,429,902</u>	<u>\$ 1,405,933</u>	<u>\$ 685,495</u>	<u>\$ 5,521,330</u>	<u>\$ 221,164</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 328,356	\$ -	\$ 9,267	\$ 337,623	\$ -
Due to other funds	40,558	-	11,430	51,988	-
Deferred revenue	189,380	-	-	189,380	221,164
Total Liabilities	<u>558,294</u>	<u>-</u>	<u>20,697</u>	<u>578,991</u>	<u>221,164</u>
Fund Balances					
Nonspendable	17,138	-	-	17,138	-
Restricted	166,711	1,405,933	475,494	2,048,138	-
Committed	-	-	189,204	189,204	-
Assigned	405,000	-	100	405,100	-
Unassigned	2,282,759	-	-	2,282,759	-
Total Fund Balances	<u>2,871,608</u>	<u>1,405,933</u>	<u>664,798</u>	<u>4,942,339</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 3,429,902</u>	<u>\$ 1,405,933</u>	<u>\$ 685,495</u>	<u>\$ 5,521,330</u>	<u>\$ 221,164</u>

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

LARKSPUR SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2011

Total fund balances - governmental funds \$ 4,942,339

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities:	32,280,026	
Accumulated depreciation:	<u>(13,602,753)</u>	
Net:		18,677,273

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:

166,440

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:

(294,906)

In governmental funds, other postemployment benefit (OPEB) costs are recognized as expenditures in the period they are paid. In the government-wide statements, OPEB costs are recognized in the period that they are incurred. The net OPEB asset at the end of the period was:

45,268

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligation bonds payable	21,759,352	
Capital leases	328,659	
Compensated absences (accrued vacation)	31,796	
Early retirement incentives	<u>95,584</u>	<u>(22,215,391)</u>

Total net assets - governmental activities

\$ 1,321,023

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

LARKSPUR SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2011

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Larkspur Community Partnership Authority
REVENUES					
General Revenues:					
Property taxes	\$ 9,064,052	\$ 1,560,482	\$ -	\$ 10,624,534	\$ -
Federal and state aid not restricted to specific purpose	657,567	-	40,558	698,125	-
Earnings on investments	12,520	3,042	3,474	19,036	12,265
Miscellaneous	2,494,448	-	47,236	2,541,684	140,743
Program Revenues:					
Charges for services	-	-	507,448	507,448	-
Operating grants and contributions	1,056,135	-	269,713	1,325,848	-
Total Revenues	13,284,722	1,563,524	868,429	15,716,675	153,008
EXPENDITURES					
Instructional Services:					
Instruction	9,191,560	-	-	9,191,560	-
Instruction-Related Services:					
Supervision of instruction	236,239	-	-	236,239	-
Instructional library, media and technology	263,868	-	-	263,868	-
School site administration	978,256	-	-	978,256	-
Pupil Support Services:					
Home-to-school transportation	26,250	-	-	26,250	-
Food services	-	-	562,156	562,156	-
All other pupil services	357,915	-	-	357,915	-
Ancillary services	10,580	-	-	10,580	-
General Administration Services:					
Data processing services	40,365	-	-	40,365	-
Other general administration	1,197,103	-	9,206	1,206,309	-
Plant services	1,160,201	-	321,914	1,482,115	-
Other outgo:					
Transfers between agencies	198,193	-	-	198,193	-
Debt service - principal	105,164	975,000	53,616	1,133,780	140,743
Debt service - interest	-	446,376	4,672	451,048	12,265
Total Expenditures	13,765,694	1,421,376	951,564	16,138,634	153,008
Excess (Deficiency) of Revenues Over (Under) Expenditures	(480,972)	142,148	(83,135)	(421,959)	-
OTHER FINANCING SOURCES (USES)					
Proceeds from long term debt	273,491	-	8,135,000	8,408,491	-
Premium on refunding bond	-	-	218,178	218,178	-
Transfer to escrow agent for defeased debt	-	-	(8,390,131)	(8,390,131)	-
Total Other Financing Sources and Uses	273,491	-	(36,953)	236,538	-
Net Change in Fund Balances	(207,481)	142,148	(120,088)	(185,421)	-
Fund Balances, July 1, 2010	3,079,089	1,263,785	784,886	5,127,760	-
Fund Balances, June 30, 2011	\$ 2,871,608	\$ 1,405,933	\$ 664,798	\$ 4,942,339	\$ -

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

LARKSPUR SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2011

Total net change in fund balances - governmental funds \$ (185,421)

Amounts reported for governmental *activities* in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	-	
Depreciation expense:	<u>(907,805)</u>	
Net:		(907,805)

Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 9,233,780

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized as proceeds from debt were: (8,408,491)

Accreted interest on capital appreciation bonds is not recognized as an expenditure in the fund financial statements. However, it is accrued as an expense in the government-wide financial statements in the period that the interest accretes. (716,164)

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. The difference between premiums recognized in the current period and premiums amortized for the period is: (210,905)

The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on the refunding and are amortized to interest expense over the life of the liability. 202,340

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period, but owing from the prior period, is: (99,363)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between the issuance costs recognized in the current period and issue costs amortized for the period is: 166,440

In the statement of activities, certain operating expenses - compensated absences, and early retirement incentives, for example, 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). This year, early retirement incentives paid were \$111,861. The liability for compensated absences (accrued vacation) increased during the year by \$5,630 from the prior year's ending balance. 106,231

In governmental funds, other post employment benefits (OPEB) costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. The increase in the OPEB asset at the end of the period was: 20,007

Change in net assets of governmental activities \$ (799,351)

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

LARKSPUR SCHOOL DISTRICT
Statement of Net Assets - Fiduciary Funds
June 30, 2011

	<u>Agency Funds</u> <u>Student Body Funds</u>
ASSETS	
Cash	<u>\$ 11,187</u>
Total assets	<u><u>\$ 11,187</u></u>
LIABILITIES	
Due to student groups	<u>\$ 11,187</u>
Total liabilities	<u><u>\$ 11,187</u></u>

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

LARKSPUR SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State. 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, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements as if it were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District.

The District has determined that the Larkspur Community Partnership Authority (the "Authority") has a financial and operational relationship with the Larkspur School District, which meets the reporting entity definition criteria of GASB Statement No. 14 The Financial Reporting Entity, for inclusion of the financial activities of the Authority as a component unit of the District. Accordingly, the financial activities of the Authority have been included in the financial statements of the District.

The Authority was formed under the "Joint Powers Law" pursuant to a Joint Powers Agreement, dated June 11, 2004, for purposes of assisting its members in financial capital improvements. The members of the Authority are the City of Larkspur (the "City") and the Larkspur School District.

Following are those aspects of the relationship between the District and the Authority, which satisfy GASB Statement No. 14 criteria.

Manifestations of Oversight

The Governing Board of the Authority shall always consist of the Superintendent, Director of Fiscal Services, and Business Manager of the District, and the City Manager, Director of Recreation, and Finance Director of the City.

The Superintendent of the District shall always be the Chair of the Authority, and the Director of Fiscal Services, or designee, shall always be the Secretary of the Board, and the Controller of the Authority. The Business Manager, or designee, shall always be the Treasurer of the Authority.

The members of the Authority exercise significant influence over operations of the Authority.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Accountability for Fiscal Matters

It is anticipated that the lease payments made by the members of the Authority will be the sole revenue source of the Authority. Any deficits incurred by the Authority, on behalf of its members, will be reflected in the lease payments of the member. Any surpluses of the Authority revert to the members at the end of the lease periods.

The District has assumed a "moral obligation" and potentially a legal obligation, for any debt incurred by the Authority.

Scope of Public Service

The Authority was created for the sole purpose of financially assisting the members of the Authority.

Financial Presentation

For financial presentation purposes, the financial information of the Authority is presented in the far right column of the Statement of Net Assets; Statement of Activities, and Governmental Funds – Balance Sheet, and Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.

Other

The following potential component units were not included as part of the District's reporting entity because the resources provided to the District did not meet the criteria of being considered "significant" to the District's operations.

1. Larkspur Schools Foundation (SPARK)
2. Marin Community Foundation

C. Basis of Presentation

Government-wide Financial Statements

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

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

LARKSPUR SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

D. Basis of Accounting

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

Revenues - exchange and non-exchange transactions

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions (continued)

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

Deferred revenue

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

Expenses/expenditures

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

E. Fund Accounting

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

Governmental Fund Type Definitions

Governmental fund types include the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds.

General Fund: This fund is used to account for and report all financial resources not accounted for and reported in another fund.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. The restricted or committed proceeds of specific revenue sources are expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specific purpose of the fund.

Capital Projects Funds: These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Funds: These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term debt.

Permanent Funds: These funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Bond Interest and Redemption Fund: This 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

The District maintains the following non-major governmental funds:

Special Revenue Fund:

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Deferred Maintenance Fund: This fund is used for the purpose of major repair or replacement of District property.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-Major Governmental Funds (continued)

Capital Projects Funds:

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary fund:

- **Agency Funds:** The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not. The District maintains one agency fund for the student body funds at Neil Cummins Elementary and Hall Middle School.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the required supplementary information section.

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

G. Encumbrances

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash

The District's cash consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. 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.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	20-40 years
Sites and Improvements	14-20 years
Furniture and Equipment	6-15 years

3. Deferred Revenue

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

4. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Long-Term Obligations

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

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

6. Fund Balance Classifications

Fund balance reporting for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie these fund balance classifications and therefore would not report amounts in all possible fund balance classifications.

Nonspendable: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, revolving cash, inventories, and prepaid amounts.

Restricted: Fund balances should be reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned: Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Under the District’s policy, only the governing board, the superintendent, or the chief business official may assign amounts for a specific purpose.

Unassigned: Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. This classification also includes the Reserve for Economic Uncertainties (REU).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

7. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. New GASB Pronouncements

During the 2010-11 fiscal year, the following GASB Pronouncements became effective for the District:

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*: The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. More information about this Statement is reported in Note 1.H.7.

GASB Statement No.59, *Financial Instruments Omnibus*: The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is not expected to significantly impact the District.

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 2 - CASH

Cash at June 30, 2011 is reported at fair value and consists of the following:

	Governmental Activities/ Funds	Fiduciary Funds
	<u> </u>	<u> </u>
Pooled Funds:		
Cash in County Treasury	\$ 4,517,906	\$ -
Total Pooled Funds	<u>4,517,906</u>	<u>-</u>
Deposits:		
Cash on hand and in banks	-	11,187
Cash in revolving fund	<u>1,000</u>	<u>-</u>
Total Deposits	<u>1,000</u>	<u>11,187</u>
Total Cash	<u>\$ 4,518,906</u>	<u>\$ 11,187</u>

Pooled Funds

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

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2011, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, cash balances held in banks and revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, none of the District's bank balance was exposed to custodial credit risk because it was FDIC insured.

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 consist of the following:

	General Fund	Non-Major Governmental Funds	Totals	Larkspur Community Partnership
Federal Government:				
Categorical aid programs	\$ 160,733	\$ 9,104	\$ 169,837	\$ -
State Government:				
Lottery	84,898	-	84,898	-
Categorical aid programs	290,336	506	290,842	-
Local:				
SPARK	240,242	-	240,242	-
Other	147,256	1,223	148,479	221,164
Total	<u>\$ 923,465</u>	<u>\$ 10,833</u>	<u>\$ 934,298</u>	<u>\$ 221,164</u>

NOTE 4 - INTERFUND TRANSACTIONS

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

Due From/Due to Other Funds

Individual interfund receivable and payable balances as of June 30, 2011 are as follows:

Cafeteria Fund due to General Fund for administrative costs	\$ 11,430
General Fund due to Deferred Maintenance Fund for commitment of ending fund balance	<u>40,558</u>
	<u>\$ 51,988</u>

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 5 – FUND BALANCES

Minimum Fund Balance Policy

During the 2010-11 fiscal year, pursuant to GASB Statement No.54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties that meets or exceeds double the requirements of 5 CCR 15443, which require no less than three percent of total General Fund expenditures and other financing uses.

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.

At June 30, 2011, fund balances of the District’s governmental funds are classified as follows:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 1,000	\$ -	\$ -	\$ 1,000
Prepaid expenditures	16,138	-	-	16,138
Total Nonspendable	17,138	-	-	17,138
Restricted:				
Categorical programs	166,711	-	-	166,711
Capital projects	-	-	475,494	475,494
Debt service	-	1,405,933	-	1,405,933
Total Restricted	166,711	1,405,933	475,494	2,048,138
Committed:				
Deferred maintenance program	-	-	189,204	189,204
Total Committed	-	-	189,204	189,204
Assigned:				
Other board designations for economic uncertainties	370,000	-	-	370,000
Changes in AB3632 funding	35,000	-	-	35,000
Food service	-	-	100	100
Total Assigned	405,000	-	100	405,100
Unassigned:				
Reserve for economic uncertainties	404,766	-	-	404,766
Remaining unassigned balances	1,877,993	-	-	1,877,993
Total Unassigned	2,282,759	-	-	2,282,759
Total	\$ 2,871,608	\$ 1,405,933	\$ 664,798	\$ 4,942,339

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011 is shown below:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 279,448	\$ -	\$ -	\$ 279,448
Total capital assets not being depreciated	<u>279,448</u>	<u>-</u>	<u>-</u>	<u>279,448</u>
Capital assets being depreciated:				
Building & improvements	28,507,680	-	-	28,507,680
Improvement of sites	3,235,196	-	-	3,235,196
Equipment & vehicles	257,702	-	-	257,702
Total capital assets being depreciated	<u>32,000,578</u>	<u>-</u>	<u>-</u>	<u>32,000,578</u>
Less accumulated depreciation:				
Buildings & improvements	(10,135,070)	(772,070)	-	(10,907,140)
Improvement of sites	(2,442,025)	(105,821)	-	(2,547,846)
Equipment & vehicles	(117,853)	(29,914)	-	(147,767)
Total accumulated depreciation	<u>(12,694,948)</u>	<u>(907,805)</u>	<u>-</u>	<u>(13,602,753)</u>
Total capital assets being depreciated, net	<u>19,305,630</u>	<u>(907,805)</u>	<u>-</u>	<u>18,397,825</u>
Governmental activities capital assets, net	<u>\$ 19,585,078</u>	<u>\$ (907,805)</u>	<u>\$ -</u>	<u>\$ 18,677,273</u>

NOTE 7 – COUNTY BORROWING

The District borrowed \$5,067,473 from the funds in the custody of the Treasurer of the County of Marin for meeting the obligations incurred for maintenance purposes for the 2010-11 fiscal year. There was no net cost to the County of Marin since the District paid interest on the amount borrowed. The cash was borrowed by the District to supplement its cash flow.

NOTE 8 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below.

	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 17,504,815	\$ 8,135,000	\$ 9,075,000	\$ 16,564,815	\$ 835,140
Accreted interest	4,469,808	716,164	-	5,185,972	280,756
Premium	-	218,178	7,273	210,905	14,545
Deferred amount on refunding	-	(209,131)	(6,791)	(202,340)	(13,942)
Total - Bonds	<u>21,974,623</u>	<u>8,860,211</u>	<u>9,075,482</u>	<u>21,759,352</u>	<u>1,116,499</u>
Capital lease obligations	213,948	273,491	158,780	328,659	172,598
Compensated absences	26,166	5,630	-	31,796	-
Early retirement incentives	207,445	-	111,861	95,584	31,861
Total	<u>\$ 22,422,182</u>	<u>\$ 9,139,332</u>	<u>\$ 9,346,123</u>	<u>\$ 22,215,391</u>	<u>\$ 1,320,958</u>

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2011

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

Election of 2000

An election was held on June 6, 2000, at which more than two-thirds of the voters in the District authorized the issuance and sale of \$21.7 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of, the interest on, and the principal of the bonds. Bond proceeds were used to finance the construction and acquisition of certain real property and improvements for the District.

2011 General Obligation Refunding Bonds

On January 27, 2011, the District issued \$8,135,000 of 2011 General Obligation Refunding Bonds. The bonds consist of \$6,900,000 of serial bonds bearing fixed rates ranging from 0.50% to 4.10% with annual maturities from August 2011 through August 2023 and \$1,235,000 of term bonds bearing fixed rates ranging from 4.25% to 4.30%. The net proceeds of \$8,390,131 (after issuance costs of \$172,178, plus premium of \$218,178 and a \$209,131 credit for funds already held by the trustee) were used to advance refund \$8,100,000 of the District's outstanding Election of 2000, Series A General Obligation Bonds in addition to paying the costs of issuance associated with the bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$202,340 remain to be amortized. The principal balance on the defeased debt was paid in full in February 2011.

The refunding decreased the District's total debt service payments by \$1,141,447. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$916,400.

A summary of outstanding general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
2000A	9/13/2000	8/1/2025	4.5%-5.8%	\$ 18,000,000	\$ 14,225,000	\$ -	\$ 8,875,000	\$ 5,350,000
2000B	9/1/2005	8/1/2030	3.5%-4.8%	3,699,815	3,279,815	-	200,000	3,079,815
2011R	1/27/2011	8/1/2025	2.0%-4.0%	8,135,000	-	8,135,000	-	8,135,000
				<u>\$ 29,834,815</u>	<u>\$ 17,504,815</u>	<u>\$ 8,135,000</u>	<u>\$ 9,075,000</u>	<u>\$ 16,564,815</u>
<u>Accreted Interest</u>								
				2000A	\$ 3,748,001	\$ 530,008	\$ -	\$ 4,278,009
				2000B	721,807	186,156	-	907,963
				Total	<u>\$ 4,469,808</u>	<u>\$ 716,164</u>	<u>\$ -</u>	<u>\$ 5,185,972</u>
<u>Premium</u>								
				2011R	\$ -	\$ 218,178	\$ 7,273	\$ 210,905
					<u>\$ -</u>	<u>\$ 218,178</u>	<u>\$ 7,273</u>	<u>\$ 210,905</u>

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2011

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2011 are as follows:

Fiscal Year	Current Interest Bonds		Capital Appreciation Bonds		Total Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011-12	\$ 460,000	\$ 142,203	\$ 375,140	\$ 280,756	\$ 835,140	\$ 422,959	\$ 1,258,099
2012-13	545,000	265,855	375,949	324,051	920,949	589,906	1,510,855
2013-14	560,000	254,028	372,472	367,528	932,472	621,556	1,554,028
2014-15	520,000	242,937	423,738	476,262	943,738	719,199	1,662,937
2015-16	530,000	232,538	408,772	521,228	938,772	753,766	1,692,538
2016-21	2,630,000	923,887	1,842,653	3,347,347	4,472,653	4,271,234	8,743,887
2021-26	2,970,000	376,713	1,551,276	4,443,723	4,521,276	4,820,436	9,341,712
2026-31	-	-	2,999,815	6,165,185	2,999,815	6,165,185	9,165,000
Total	<u>\$ 8,215,000</u>	<u>\$ 2,438,161</u>	<u>\$ 8,349,815</u>	<u>\$ 15,926,080</u>	<u>\$ 16,564,815</u>	<u>\$ 18,364,241</u>	<u>\$ 34,929,056</u>

B. Capital Leases

The District leases equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal Year	Principal	Interest	Total
2011 - 2012	\$ 172,598	\$ 13,670	\$ 186,268
2012 - 2013	144,769	6,290	151,059
2013 - 2014	11,292	-	11,292
Total	<u>\$ 328,659</u>	<u>\$ 19,960</u>	<u>\$ 348,619</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

C. Early Retirement Incentives

STRS Golden Handshake

At the end of the 2004-05 fiscal year, the District offered an early retirement incentive to certificated employees pursuant to Election Code Sections 22714 and 44929, also known as STRS Golden Handshake. Under the agreement, the District is obligated to make future payments on behalf of the five retirees as follows:

Fiscal Year	Payment
2011 - 2012	\$ 36,123
2012 - 2013	34,702
2013 - 2014	<u>33,282</u>
Total Principal	104,107
Less: Interest	<u>(8,523)</u>
Net Value of Payments	<u>\$ 95,584</u>

LARKSPUR SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 9 - JOINT VENTURES

The Larkspur School District participates in a joint venture under a joint powers agreement (JPA), the Marin Schools Insurance Authority (MSIA). The relationship between the Larkspur School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provide workers' compensation, property and liability and health insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed audited financial information for the year ended June 30, 2011 is as follows:

	MSIA (Unaudited) June 30, 2011
Total Assets	\$ 22,440,567
Total Liabilities	13,250,171
Fund Balance	\$ 9,190,396
Operating Revenues	\$ 9,424,306
Operating Expenses	9,376,043
Net Increase in Fund Balance	\$ 48,263

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2011.

C. Construction Commitments

As of June 30, 2011, the District had commitments with respect to unfinished capital projects of approximately \$320,000 to be paid from a combination of state and local funds.

LARKSPUR SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 11 - 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, 2011, the District participated in the MSIA public entity risk pool for property and liability insurance 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 2011, the District participated in the MSIA JPA workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District provides employee medical, dental and basic life insurance benefits through the MSIA public entity risk pool.

NOTE 12 - EMPLOYEE RETIREMENT PLANS

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

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2010-11 was 10.707%. The contribution requirements of the plan members are established by State statute.

The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2010-11	\$ 187,497	100%
2009-10	\$ 170,585	100%
2008-09	\$ 154,666	100%

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 12 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 597,328	100%
2009-10	\$ 586,780	100%
2008-09	\$ 549,964	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$309,000 to STRS (4.267% of salaries subject to STRS in 2010-11).

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

Larkspur School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District has elected to early implement Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	12
Active plan members*	<u>42</u>
Total	<u><u>54</u></u>
Number of participating employers	One

* As of June 30, 2009 actuarial valuation

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions and Contribution Information (continued)

A. Eligibility

Certificated employees who were hired on or before June 30, 2000, and retire from the District with a STRS pension are eligible to receive District paid retiree health and welfare benefits. Certificated employees who were hired between November 1, 1995, and June 30, 2000 must also have 15 years of service with the District upon retirement to be eligible for District paid benefits. Certificated employees who were hired on or after July 1, 2000, are not eligible for District paid benefits.

Classified, Administrative, and Confidential employees who were hired on or before June 30, 2001, and retire from the District on or after age 55 and 10 years of service with a PERS pension are eligible to receive District paid retiree health and welfare benefits. Classified, Administrative, and Confidential employees who are hired on or after July 1, 2001, are not eligible for District paid benefits.

B. District Paid Benefits

For Certificated retirees hired on or before October 31, 1979, the District pays \$3,000 per year toward the cost of health coverage for 10 years from the date of retirement. For Certificated retirees hired after October 31, 1979, but on or before October 31, 1989, the District pays \$3,000 per year toward the cost of health coverage for 10 years or until age 65, whichever is earlier. For Certificated retirees hired after October 31, 1989, and before July 1, 2000, the District pays \$3,000 per year toward the cost of health coverage for 5 years or until age 65, whichever is earlier.

For Classified retirees hired before July 1, 2001, the District pays \$3,000 per year toward the cost of health coverage for 10 years or until age 65, whichever is earlier.

C. Dependent Benefits

Retirees may enroll their dependents in the District's health and welfare plan at the retiree's own expense.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2010-11, the District contributed \$41,101.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (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.

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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:

Annual required contribution (ARC)	\$ 23,346
Interest on net OPEB obligation	-
Adjustment to ARC	<u>(2,252)</u>
Annual OPEB cost	21,094
Contributions made:	
Contributions from governmental funds	<u>(41,101)</u>
Increase in net OPEB liability (asset)	<u>(20,007)</u>
Net OPEB liability (asset) - July 1, 2010	<u>(25,261)</u>
Net OPEB liability (asset) - June 30, 2011	<u><u>\$ (45,268)</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11 and the preceding two years are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
2009	\$ 23,346	180%	\$ (18,601)
2010	25,003	127%	\$ (25,261)
2011	21,094	195%	\$ (45,268)

Funded Status and Funding Progress – OPEB Plans

As of June 30, 2009 the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$188,635 and the unfunded actuarial accrued liability (UAAL) was \$188,635.

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, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 designated 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.

LARKSPUR SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions (continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2009
Actuarial Cost Method	Projected Unit Benefits Costs
Amortization Method	Level dollar amount
Remaining Amortization Period	13 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	4.5%
Healthcare cost trend	Capped

NOTE 14 - SUBSEQUENT EVENTS

County Borrowing

In September 2011, the District borrowed \$5,070,997 from the funds in the custody of the Treasurer at the County of Marin for meeting the obligations incurred for maintenance purposes for the 2011-12 fiscal year. There is no net cost to the County of Marin since the District is paying interest on the amount borrowed. The cash was borrowed by the District to supplement its cash flow.

District's Name

On July 8, 2011, the Governing Board approved a District name change to Larkspur-Corte Madera School District. The name change became effective on July 1, 2011.

General Obligation Bond

On November 8, 2011, voters approved Proposition 39, Measure A General Obligation Bond in the amount of \$26 million. As of the date of this report, no bonds have been issued pursuant to this election.

Required Supplementary Information

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LARKSPUR SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 6,952,590	\$ 6,895,048	\$ 6,892,150	\$ (2,898)
Federal	219,087	499,948	290,138	(209,810)
Other State	409,466	752,356	711,277	(41,079)
Other Local	4,802,784	5,345,414	5,391,157	45,743
Total Revenues	12,383,927	13,492,766	13,284,722	(208,044)
Expenditures				
Certificated Salaries	7,164,219	7,437,719	7,268,585	169,134
Classified Salaries	1,902,732	1,992,627	2,008,756	(16,129)
Employee Benefits	2,268,115	2,285,150	2,251,338	33,812
Books and Supplies	117,678	742,341	829,843	(87,502)
Services and Other Operating Expenditures	811,395	1,264,410	1,188,374	76,036
Direct Support/Indirect Costs	(8,400)	(8,400)	(9,206)	806
Other Outgo	235,971	276,639	228,004	48,635
Total Expenditures	12,491,710	13,990,486	13,765,694	224,792
Excess (Deficiency) of Revenues Over (Under) Expenditures	(107,783)	(497,720)	(480,972)	16,748
Other Financing Sources and Uses				
Proceeds from Capital Leases	-	-	273,491	273,491
Interfund Transfers Out	(107,328)	(114,146)	-	114,146
Total Other Financing Sources and Uses	(107,328)	(114,146)	273,491	387,637
Net Change in Fund Balances	(215,111)	(611,866)	(207,481)	404,385
Fund Balances, July 1, 2010	3,079,088	3,079,088	3,079,089	1
Fund Balances, June 30, 2011	\$ 2,863,977	\$ 2,467,222	\$ 2,871,608	\$ 404,386

See accompanying note to required supplementary information.

LARKSPUR SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2011

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2009	\$ -	\$ 188,635	\$ 188,635	0.0%	\$ 2,544,905	7.4%

See accompanying note to required supplementary information.

LARKSPUR SCHOOL DISTRICT

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2011*

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No.34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No.45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2011, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code:

Appropriations Category	Excess Expenditures
Classified Salaries	\$ 16,129
Books and Supplies	87,502

Supplementary Information

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LARKSPUR SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2011

The Larkspur School District was established in 1895. The District operates one elementary and one middle school, and serves the Corte Madera and Larkspur communities in Marin County, California. There were no changes to the District's boundaries during the year.

GOVERNING BOARD		
Member	Office	Term Expires
Kevin W. Mangan	President	December 2011
Sheri Mowbray	Vice President	December 2011
Julia Ritter	Clerk	December 2011
Susan Christman	Member	December 2013
Philip Wade	Member	December 2013

DISTRICT ADMINISTRATORS

Valerie Pitts,
Superintendent

Becky White,
Business Manager

LARKSPUR SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2011

	Second Period Report <u>(Certificate No.</u> 2231322F) <u>)</u>	Annual Report <u>(Certificate No.</u> A46A6BB1) <u>)</u>
Elementary:		
Kindergarten	166	166
Grades 1 through 3, regular classes	424	424
Grades 4 through 6, regular classes	432	435
Grades 7 and 8, regular classes	258	260
Extended year special education	<u>1</u>	<u>1</u>
 Total Average Daily Attendance	 <u><u>1,281</u></u>	 <u><u>1,286</u></u>

See accompanying note to supplementary information.

LARKSPUR SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2011

Grade Level	1982-83 Minutes		1986-87 Minutes		2010-2011 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	38,620	37,547	36,000	35,000	40,560	180	Complied
Grade 1	46,020	44,742	50,400	49,000	52,550	180	Complied
Grade 2	46,020	44,742	50,400	49,000	52,550	180	Complied
Grade 3	46,020	44,742	50,400	49,000	57,680	180	Complied
Grade 4	50,365	48,966	54,000	52,500	57,680	180	Complied
Grade 5	50,365	48,966	54,000	52,500	58,500	180	Complied
Grade 6	50,365	48,966	54,000	52,500	58,500	180	Complied
Grade 7	50,365	48,966	54,000	52,500	58,500	180	Complied
Grade 8	50,365	48,966	54,000	52,500	58,500	180	Complied

* Amounts reduced as permitted by Education Code Section 46201.2 (a).

See accompanying note to supplementary information.

LARKSPUR SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2011

General Fund	(Budget) 2012 ²	2011	2010	2009
Revenues and other financing sources	\$ 13,225,001	\$ 13,558,213	\$ 13,407,201	\$ 12,394,113
Expenditures	13,555,903	13,765,694	12,976,864	12,269,606
Other uses and transfers out	100,000	-	-	-
Total outgo	<u>13,655,903</u>	<u>13,765,694</u>	<u>12,976,864</u>	<u>12,269,606</u>
Change in fund balance (deficit)	<u>(430,902)</u>	<u>(207,481)</u>	<u>430,337</u>	<u>124,507</u>
Ending fund balance	<u>\$ 2,440,706</u>	<u>\$ 2,871,608</u>	<u>\$ 3,079,089</u>	<u>\$ 2,648,752</u>
Available reserves ¹	<u>\$ 1,902,995</u>	<u>\$ 2,282,759</u>	<u>\$ 2,777,381</u>	<u>\$ 2,179,937</u>
Available reserves as a percentage of total outgo	<u>13.9%</u>	<u>16.6%</u>	<u>21.4%</u>	<u>17.8%</u>
Total long-term debt	<u>\$ 21,455,945</u>	<u>\$ 22,215,391</u>	<u>\$ 22,422,182</u>	<u>\$ 22,637,187</u>
Average daily attendance at P-2	<u>1,309</u>	<u>1,281</u>	<u>1,226</u>	<u>1,186</u>

The General Fund balance has increased by \$222,856 over the past two years. The fiscal year 2011-12 adopted budget projects a decrease of \$430,902. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in only one of the past three years, but anticipates incurring an operating deficit in the 2011-12 fiscal year. Long-term debt has decreased by \$421,796 over the past two years.

ADA increased by 55 from the previous year, and increased by 95 over the past two years. The District anticipates an increase of 28 ADA in the 2011-12 fiscal year.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Revised Budget September 2011.

LARKSPUR SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch Program	10.555	13524	\$ 57,291
Total U.S. Department of Agriculture			57,291
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Grants to Local Agencies	84.010	13797	36,532
Title II, Part A, Improving Teacher Quality	84.367	14341	23,015
Title III, Immigrant Education	84.365	14346	4,122
Title III, Limited English Proficiency	84.365	10084	4,617
ARRA State Fiscal Stabilization Funds	84.394	25008	152,211
Education Jobs	84.410	25152	23,090
Individuals with Disabilities Education Act (IDEA):			
IDEA, Part B, Basic Local Assistance	84.027	13379	152,054
ARRA IDEA, Part B, Basic Local Assistance	84.391	15003	32,745
Total U.S. Department of Education			428,386
Total Expenditures of Federal Awards			\$ 485,677

See accompanying note to supplementary information.

LARKSPUR SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
June 30, 2011*

There were no adjustments to the Unaudited Actuals Financial Report which required reconciliation to the adjusted financial statements at June 30, 2011.

See accompanying note to supplementary information.

LARKSPUR SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2011

NOTE 1 – PURPOSE OF SCHEDULES

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code section 46201.2(a).

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.

Schedule of Expenditures of Federal Awards

The 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 of America 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.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

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.

Other Independent Auditors' Reports

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

Board of Trustees
Larkspur School District
Larkspur, California

We have audited the financial statements of the governmental activities, discretely presented component units, each major fund, and the aggregate remaining fund information of Larkspur School District as of and for the year ended June 30, 2011, which collectively comprise Larkspur School District's basic financial statements and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Larkspur 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 Larkspur School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Larkspur 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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

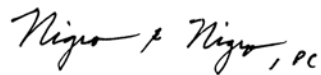
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larkspur 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*.

We noted certain matters that we reported to management of Larkspur School District in a separate letter dated November 28, 2011.

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

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

A handwritten signature in cursive script that reads "Nigro & Nigro, PC".

November 28, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Larkspur School District
Larkspur, California

We have audited Larkspur School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11, published by the Education Audit Appeals Panel, for the year ended June 30, 2011. The District's State programs are identified in the schedule below. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the District's management. Our responsibility is to express an opinion on Larkspur 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 Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Larkspur 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 the District's compliance with those requirements.

Table with 3 columns: Description, Procedures in Audit Guide, and Procedures Performed. Rows include Attendance Reporting, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time (School Districts, County Offices of Education), Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, Early Retirement Incentive, Gann Limit Calculation, School Accountability Report Card, Public Hearing Requirement - Receipt of Funds, Class Size Reduction (General Requirements, Option One, Option Two, Districts with Only One School Serving K-3).

Description	Procedures in Audit Guide	Procedures Performed
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	4	Not applicable
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

In our opinion, Larkspur School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2011.

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

Nigro & Nigro, PC

November 28, 2011

Findings and Recommendations

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LARKSPUR SCHOOL DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

The District spent less than \$500,000 in federal awards in 2010-11; therefore, a Single Audit pursuant to OMB Circular A-133 was not performed.

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

LARKSPUR SCHOOL DISTRICT

Schedule of Audit Findings and Recommendations For the Fiscal Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2011-1: Equipment Inventory (20000)

Condition & Criteria: Education Code section 35168 requires that LEAs maintain a detailed inventory of District-owned equipment having a fair value of more than \$500. The District does not maintain such a listing. An inventory detail was previously maintained by an outside firm, but it was not kept current.

Recommendation: The District should have an employee in the maintenance department conduct a detailed physical inventory of all District-owned equipment. Then an employee in the Business Office should be assigned the task of entering all additions and disposals of equipment to the listing. Performing these functions improves the District's internal controls over equipment, which in turn, will help to prevent possible loss or theft of equipment.

District Response: The District recognizes the importance of maintaining internal controls over equipment as a key component to maintaining fiscal integrity. The contract with the outside firm previously used by the district was terminated two years ago because of many inefficiencies in their system, however, a technology equipment inventory has been maintained on a regular basis by the district IT Coordinator. We agree with the auditor's recommendation and are implementing steps to conduct a current physical inventory of all District-owned equipment. In addition, we will be updating our processes for all areas of inventory control including purchasing, record-keeping and discarding of obsolete equipment.

LARKSPUR SCHOOL DISTRICT

Schedule of Audit Findings and Recommendations

For the Fiscal Year Ended June 30, 2011

SECTION III - FEDERAL AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

The District spent less than \$500,000 in federal awards in 2010-11; therefore a Single Audit pursuant to OMB Circular A-133 was not performed.

LARKSPUR SCHOOL DISTRICT

Schedule of Audit Findings and Recommendations

For the Fiscal Year Ended June 30, 2011

SECTION IV - STATE AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no state award findings or recommendations in 2010-11.

LARKSPUR SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2011

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2010-1: Bank Accounts</i>	The District did not reconcile the revolving cash bank account at June 30, 2010, nor did it reconcile to the \$1,000 imprest balance. The District also did not reconcile two checking accounts at Neil Cummins Elementary School. Regular bank reconciliations are an important internal control to safeguard against misuse of funds or accounting errors.	30000	We recommend that the District prepare bank reconciliations in a timely manner and reconcile the revolving cash bank account to the \$1,000 imprest balance. This will allow the District to identify any irregularities or errors on a more timely basis.	Implemented.



To the Board of Trustees of
Larkspur School District
Larkspur, California

Our audit of the financial statements of Larkspur School District as of and for the year ended June 30, 2011 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the District's internal control.

As our consideration on internal control was for the limited purpose of expressing our opinion on the financial statement described in this letter, we would not necessarily identify all deficiencies in internal control that might be *significant deficiencies* or *material weaknesses* as those terms are defined by professional standards. Also, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by these controls.

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

During the course of performing our procedures, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 28, 2011, on the financial statements of Larkspur School District.

To the Board of Trustees of
Larkspur School District

Observation During our testing of the associated student body activity at Neil Cummins Elementary School, we noted that the ASB bookkeeper is a signer on the bank account. This represents a lack of segregation of duties.

Recommendation

Good internal controls include segregating duties so that one person is not handling a transaction from beginning to end. This separation is a critical part of a system of checks and balances. Those who record the transaction should be separate from those who authorize the transaction. We recommend that the bookkeeper be removed as a signer.

Observation

During our testing of the associated student body activity at Hall Middle School, we found one deposit out of three that was not deposited in a timely manner. The deposit was for a magazine drive in the amount of \$269.40 and was not deposited for approximately three months after the cash was collected. In addition, we determined, through inquiry, that financial statements are not submitted to the District for review.

Recommendation

At a minimum, deposits to the ASB bank account should be made weekly, though within two to three school days is preferable. This will reduce the chance of funds being lost or stolen. Money should never be left at a school over the weekend or holidays because many thefts occur during those times. We recommend the District oversee the activity in the ASB to ensure that all activities promote the general welfare of the student body.

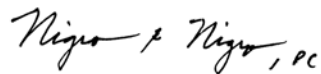
Observation

During our test of expenditures, we found three of five travel and conference disbursements that did not have prior approval and one of the three that lacked supporting documentation for reimbursement to the conference.

Recommendation

The District should create an audit trail by ensuring all disbursements are approved prior to being incurred and all documentation is maintained on file and available for audit.

This communication is intended solely for the information and use of the Board of Trustees of Larkspur School District and management of Larkspur School District and is not intended to be and should not be used by anyone other than these specified parties.



November 28, 2011

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees of the
Larkspur-Corte Madera School District
230 Doherty Drive
Larkspur, California 94939

OPINION: \$26,000,000* Larkspur-Corte Madera School District (Marin County, California) General Obligation Bonds, Election of 2011, Series A (2012)

Members of the Board of Trustees:

We have acted as bond counsel to the Larkspur-Corte Madera School District (the "District") in connection with the issuance by the District of \$26,000,000* principal amount of Larkspur-Corte Madera School District (Marin County, California) General Obligation Bonds, Election of 2011, Series A (2012) (the "Bonds"), pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code (the "Act"), a resolution adopted by the Board of Trustees of the District on January 18, 2012 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the 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 cause the Board to issue the Bonds in its name and to perform its obligations under the Resolutions and the Bonds.

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

3. The Bonds have been duly authorized, executed and delivered by the Board and the Bonds are valid and binding general obligations of the District. The Board is required under the Act to levy a tax upon all taxable property in the District for the interest and redemption of all outstanding bonds of the District, including the Bonds. The Bonds are payable from an *ad valorem* tax levied without limitation as to rate or amount.

4. Subject to the District's compliance 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 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 covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

* Preliminary, subject to change.

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

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution 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 C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the LARKSPUR-CORTE MADERA SCHOOL DISTRICT (the "District") in connection with the issuance by the District of \$26,000,000* Larkspur-Corte Madera School District (Marin County, California) General Obligation Bonds, Election of 2011, Series A (2012) (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on January 18, 2012 (the "Resolution"). Pursuant to Section 5.07 of the Resolution, the District covenants and agree 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 when used in this Disclosure Certificate:

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

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds 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 for documents to be filed with the MSRB, 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 5(a) or 5(b) 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 any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2011-12 Fiscal Year, which is due not later than March 31, 2013, file with EMMA, in a

* Preliminary, subject to change.

readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance.* If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the District shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the District for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the District, the Annual Report shall also include financial and operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds, as follows:

- (i) Outstanding indebtedness and lease obligations;
- (ii) General fund budget and actual results for the then current fiscal year;
- (iii) Attendance and revenue limit information or equivalent information, as may be readily available;
- (iv) Assessed valuations; and
- (v) Largest local secured taxpayers.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on EMMA. The District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

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

Section 5. 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 Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (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.

(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 Bonds, 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.* Whenever the District obtains knowledge of the occurrence of a Listed Event, 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 after the occurrence of the 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 Bonds under the Resolution.

Section 6. 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 7. 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 Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. 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. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from 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 expenses 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, owners 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. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3.

Section 9. 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 all of 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) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

(b) *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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder 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 12. 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 no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, 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 and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Paying Agent under the Resolution. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

LARKSPUR-CORTE MADERA SCHOOL
DISTRICT

By _____
Name _____
Title _____

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Larkspur-Corte Madera School District
Name of Issue: Larkspur-Corte Madera School District (Marin County, California) General
Obligation Bonds, Election of 2011, Series A (2012)
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by _____.

Dated: _____

LARKSPUR-CORTE MADERA SCHOOL
DISTRICT, as Dissemination Agent

By _____
Title _____

cc: Paying Agent

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APPENDIX D

BOOK-ENTRY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, 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, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) payment of principal of and interest on the Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the Bonds will be transferable and exchangeable as provided in the Resolution.

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the Bonds or the Resolution. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

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