PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 21, 2013

The Information contained in this PRELIMINARY OFFICIAL STATEMENT has been deemed by the District to be final as of the date hereof; however, the information contained herein is 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 the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

NEW ISSUE
DTC BOOK-ENTRY ONLY

S&P Rating: "AA-"
See "RATING" herein

In the opinion of Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, Bond Counsel, based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS - Tax Matters" herein.

$12,190,000*
CAMBRIAN SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
2013 GENERAL OBLIGATION REFUNDING BONDS

DATED: Date of Delivery **DUE: July 1, as shown below**

The Cambrian School District (Santa Clara County, California) 2013 General Obligation Refunding Bonds (the "Bonds") are issued by the Cambrian School District (the "District") to (i) refund certain outstanding general obligation bonds of District, and (ii) pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" herein.

The Bonds are payable from the proceeds of ad valorem property taxes which the Board of Supervisors of Santa Clara County are obligated to levy and collect on behalf of the District without limitation as to rate or amount on all taxable property in the District (except for certain personal property which is taxable at limited rates) for the payment of the Bonds. See "SECURITY AND SOURCE OF PAYMENT " herein.

The Bonds are being issued as fully registered bonds, without coupons, 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 for the Bonds. Individual purchases of the Bonds will be made in book-entry-only form and only in authorized denominations, as described in this Official Statement. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS—DTC Book-Entry Only" herein.

Interest on the Bonds is first payable on January 1, 2014, and semiannually thereafter on January 1 and July 1 of each year. The Bonds are subject to redemption prior to maturity. See "THE BONDS—Redemption Provisions."

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL INFORMATION RELEVANT TO AN INVESTMENT IN THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED WILL HAVE THE MEANINGS SET FORTH HEREIN.

MATURITY SCHEDULE

Maturity Date July 1	Principal Amount*	Interest Rate	Yield	Maturity Date July 1	Principal Amount*	Interest Rate	Yield
2014	$ 610,000	_.___ %	_.___ %	--	--	--	--
2015	655,000	_.___	_.___	2021	$ 975,000	_.___ %	_.___ %
2016	700,000	_.___	_.___	2022	1,040,000	_.___	_.___
2017	740,000	_.___	_.___	2023	1,105,000	_.___	_.___
2018	795,000	_.___	_.___	2024	1,185,000	_.___	_.___
2019	850,000	_.___	_.___	2025	1,265,000	_.___	_.___
2020	910,000	_.___	_.___	2026	1,360,000	_.___	_.___

The Bonds will be offered when, as and if executed and delivered and received by ____________, as underwriter for the Bonds, subject to the approval as to their legality by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, Bond Counsel. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about September 17, 2013.

This Official Statement is dated _______, 2013

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* Preliminary, subject to adjustment.

THIS OFFICIAL STATEMENT IS SUBMITTED WITH RESPECT TO 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 TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS.

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 LAW OF ANY STATE.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL NOR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE BONDS BY A PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE AN OFFER, SOLICITATION OR SALE.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE DISTRICT TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED HEREIN, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DISTRICT.

THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE DISTRICT AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DISTRICT SINCE THE DATE HEREOF.

ALL SUMMARIES OF THE DOCUMENTS REFERRED TO IN THIS OFFICIAL STATEMENT ARE QUALIFIED BY THE PROVISIONS OF THE RESPECTIVE DOCUMENTS SUMMARIZED AND DO NOT PURPORT TO BE COMPLETE STATEMENTS OF ANY OR ALL OF SUCH PROVISIONS.

THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES UNDER 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.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY TERMINOLOGY USED SUCH AS "PLAN," EXPECT," "ESTIMATE," "PROJECT," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE DISTRICT MAINTAINS AN INTERNET WEBSITE, BUT THE INFORMATION ON THE WEBSITE IS NOT INCORPORATED IN THIS OFFICIAL STATEMENT.

CUSIP* Numbers

Maturity Date July 1	CUSIP Number	Maturity Date July 1	CUSIP Number
2014		--	
2015		2021	
2016		2022	
2017		2023	
2018		2024	
2019		2025	
2020		2026	

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The District and the Underwriter make no representation as to the accuracy or completeness of such information.

$12,190,000*
CAMBRIAN SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
2013 GENERAL OBLIGATION REFUNDING BONDS

ADMINISTRATION

Dr. Deborah Blow, Superintendent
Jason Vann, Chief Financial Officer
Lani Potts, Assistant Superintendent of Education Services

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BOND COUNSEL

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(916) 321-4500

PAYING AGENT / ESCROW AGENT

U.S. Bank National Association
60 Livingston Avenue
Minneapolis, Minnesota 55107
(651) 466-6302

VERIFICATION AGENT

AMTEC
90 Avon Meadow Lane, 2nd Floor
Avon, Connecticut 06001
(860) 321-7521

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* Preliminary, subject to adjustment

$12,190,000*
CAMBRIAN SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
2013 GENERAL OBLIGATION REFUNDING BONDS

TABLE OF CONTENTS

* Preliminary, subject to adjustment

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OFFICIAL STATEMENT

$12,190,000*
CAMBRIAN SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
2013 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTORY STATEMENT

General

The purpose of this Official Statement is to provide certain information concerning the sale and delivery of an issue of bonds designated as the Cambrian School District (Santa Clara County, California) 2013 General Obligation Refunding Bonds (the "Bonds").

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

The District

Cambrian School District (the "District"), a political subdivision of the State of California (the "State"), occupies approximately eight square miles in Santa Clara County (the "County"). The District educates approximately 3,300 kindergarten though eighth grade students at four elementary schools, three of which are charter schools, and one charter middle school. The District is governed by a five-member Board of Trustees (the "Board"). See "THE DISTRICT" and "DISTRICT FINANCIAL INFORMATION" herein.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the State Government Code and applicable provisions of the State Education Code. The Bonds are authorized to be issued pursuant to that certain resolution (the "Resolution") adopted by the Board on August 15, 2013, and pursuant to that certain paying agent agreement (the "Paying Agent Agreement") dated as of September 1, 2013, between the District and U.S. Bank National Association as initial paying agent (the "Paying Agent") on the Bonds. The State Government Code permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds which were originally approved by such a vote, provided that the total debt service to maturity on the refunding bonds not exceed the total debt service to maturity on the bonds being refunded.

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* Preliminary, subject to adjustment

The bonds to be refunded were authorized at an election held on November 5, 2002 (the "2002 Election") by more than 55% of the votes cast by eligible voters within the District. The 2002 Election authorized the issuance of bonds in an aggregate principal amount not to exceed $20.975 million for school purposes.

Purpose of Issue

Proceeds of the Bonds will be applied (i) to refund the current interest bond component of the Cambrian School District (Santa Clara County, California) Election of 2002 General Obligation Bonds, Series A maturing July 1, 2014 through July 1, 2026, inclusive, and the current interest bond component of the Cambrian School District (Santa Clara County, California) Election of 2002 General Obligation Bonds, Series B maturing July 1, 2016 through July 1, 2025, inclusive (the "Prior Bonds"), and (ii) to pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" herein.

Source of Payment for the Bonds

The Board of Supervisors of the County is empowered and obligated to annually levy and collect *ad valorem* property taxes, without limitation as to rate or amount, on all taxable property in the District (except for certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.

Description of the Bonds

The Bonds will be dated their date of delivery and will be issued as fully registered bonds, without coupons, in denominations of $5,000 principal amount or any integral multiple thereof. 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 of The Depository Trust Company, New York, New York ("DTC").

The Bonds mature on July 1 in each of the years and in the amounts set forth on the cover hereof. Interest with respect to the Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2014. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. See "THE BONDS" herein.

Payments of the principal of and interest on the Bonds will be made by the Paying Agent to DTC for subsequent disbursement to the beneficial owners of the Bonds (the "Beneficial Owners"). See "THE BONDS – Book-Entry-Only System" herein.

Bond Insurance

The decision as to whether or not payment of debt service on the Bonds will be insured will be determined by the Underwriter of the Bonds at the time of the sale of the Bonds.

Continuing Disclosure

The District will covenant for the benefit of holders and Beneficial Owners to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events 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 are set forth in "APPENDIX B – FORM OF CONTINUING DISCLOSURE CERTIFICATE." See also "CONTINUING DISCLOSURE" herein.

Professionals Involved

Government Financial Strategies inc., Sacramento, California has acted as financial advisor (the "Financial Advisor") with respect to the issuance, sale and delivery of the Bonds. See "FINANCIAL ADVISOR" herein. All proceedings in connection with the issuance of the Bonds are subject to the approving legal opinion of Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California ("Bond Counsel"). U.S. Bank National Association is acting as Paying Agent for the Bonds and escrow agent ("Escrow Agent") with respect to the Prior Bonds. Bond Counsel, Paying Agent and Escrow Agent will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement may be considered current only as of its date on the cover page hereof, and the information contained herein is subject to change. Descriptions of the Bonds and the District, together with descriptions of certain provisions of the Resolution and Paying Agent Agreement, are included in this Official Statement. The descriptions herein do not purport to be comprehensive or definitive. All references herein to the Bonds, the Resolution and the Paying Agent Agreement are qualified in their entirety by reference to the complete texts of such documents.

Interested parties may obtain copies of the Resolution, the Paying Agent Agreement, audited financial statements, annual budgets, or any other information which is generally made available to the public by contacting the District through the Chief Financial Officer, or by contacting Government Financial Strategies inc., Financial Advisor, at the respective address and telephone number set forth on page "iii" of this Official Statement. Charges may be made for the duplication and mailing of documents.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the State Government Code, and applicable provisions of the State Education Code, the Resolution and the Paying Agent Agreement. The State Government Code permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds which were originally approved by such a vote, provided that the total debt service to maturity on the refunding bonds does not exceed the total debt service to maturity on the bonds being refunded.

The bonds to be refunded were authorized at the 2002 Election by more than 55% of the votes cast by eligible voters within the District. The 2002 Election authorized the issuance of bonds in an aggregate principal amount not to exceed $20.975 million for school purposes. On July 9, 2004, the County issued, on behalf of the District, $15,524,912.20 principal amount of Cambrian School District (Santa Clara County, California) Election of 2002 General Obligation Bonds, Series A (the "Series A Bonds") consisting of $11,195,000.00 of current interest bonds and $419,912.20 of capital appreciation bonds. On April 27, 2005, the District issued $5,450,031.80 principal amount of Cambrian School District (Santa Clara County, California) Election of 2002 General Obligation Bonds, Series B (the "Series B Bonds") consisting of $1,275,000.00 of current interest bonds and $3,235,031.81 of capital appreciation bonds. $56 of authorization remains under the 2002 Election.

Form and Registration

The Bonds will be dated their date of delivery and will be issued as fully registered bonds, without coupons, in book-entry form only. Pursuant to the Paying Agent Agreement, the Paying Agent will keep and maintain for and on behalf of the District at the Paying Agent's corporate trust office, books (the "Bond Register") for recording the owners of the Bonds (the "Registered Owners"), the transfer, exchange, and replacement of the Bonds, and the payment of the principal of and interest on the Bonds to the Registered Owners. All transfers, exchanges, and replacement of the Bonds will be noted in the Bond Register.

The Bonds will be initially issued and registered in the name of Cede & Co. as nominee of DTC. Purchases of Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, Beneficial Owners will not receive physical certificates representing their ownership interests in the Bonds. See "THE BONDS—DTC Book-Entry Only" herein.

So long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, references in this Official Statement to the Registered Owners shall mean Cede & Co., and shall not mean the purchasers or beneficial owners of the Refunding Bonds.

Payment of Principal and Interest

The Bonds are issued as current interest bonds in denominations of $5,000 principal amount, or any integral multiple thereof, and mature on July 1 in each of the years and in the amounts set forth on the cover page hereof. No Bonds shall have principal maturing on more than one date. Interest on the Bonds is payable on January 1 and July 1 of each year (each, an "Interest Payment Date"), commencing January 1, 2014. Interest on the Bonds is computed on the basis of a 360-day year comprised of twelve 30-day months.

The principal of the Bonds shall be payable in lawful money of the United States of America by wire transfer on each principal and redemption payment date to Cede & Co., so long as Cede & Co. is the sole Registered Owner, or if the book-entry system is no longer in use, to the Registered Owner thereof upon surrender thereof at the office of the Paying Agent.

Interest on the Bonds shall be payable in lawful money of the United States of America by wire transfer to Cede & Co., or if the book-entry system is no longer in use, by check mailed by first class mail, and by wire transfer upon the written request of any Registered Owner of $1,000,000 or more in aggregate principal amount of Bonds who has provided the Paying Agent with wire transfer instructions on or before the 15th day of the month preceding any Interest Payment Date (each a "Record Date").

Redemption Provisions

Optional Redemption. The Bonds maturing on or before July 1, 2022, are not subject to redemption prior to their respective stated maturity dates. The Bonds maturing on and after July 1, 2023 are subject to redemption prior to their respective stated maturity dates, at the option of the District (by such maturities as may be specified by the District and by lot within a maturity), from any source of available funds, as a whole or in part on any date on or after July 1, 2022, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with accrued interest to the date fixed for redemption.

[*Mandatory Sinking Fund Redemption:* The Bonds maturing by their terms on July 1, ____, (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their maturity, in part by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, if any, without premium, solely from mandatory sinking fund payments as provided in the Paying Agent Agreement, on each July 1 specified in the table below, but which amounts will be reduced proportionately by the principal amount of all such Term Bonds optionally redeemed.

Mandatory Sinking Fund Redemption Schedule
Cambrian School District

Year Ending July 1	Sinking Fund Amount

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Selection of Bonds for Redemption. If less than all the outstanding Bonds are to be redeemed, the District may specify the maturities to be redeemed. If the District does not specify the maturities to be redeemed, then, not more than 45 days prior to the redemption date, the Paying Agent shall select the particular Bonds to be redeemed that have not previously been called for redemption, in minimum denominations of $5,000, by lot in any manner that the Paying Agent in its sole discretion shall deem appropriate and fair.

Notice of Redemption. Pursuant to the Resolution, notice of any redemption of the Bonds will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, by first class mail to the respective Registered Owners thereof at the addresses appearing on the bond registration books. Provision of such notice to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system shall fulfill the provision requirements summarized in this section. Each notice of redemption will contain:

- the date of such notice;
- the name of the Bonds;
- the date of issue of the Bonds;
- the redemption date;
- the redemption price;
- the dates of maturity of the Bonds to be redeemed;

- if less than all of the Bonds of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity to be redeemed;
- in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed;
- the CUSIP number, if any, of each maturity of Bonds to be redeemed;
- a statement that such Bonds must be surrendered by the Registered Owners at the office of the Paying Agent, or at such other place or places designated by the Paying Agent; and
- notice that further interest on such Bonds will not accrue after the designated redemption date.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds.

Effect of Redemption. Failure of any Registered Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption, nor the cessation of interest on the date fixed for redemption

When notice of redemption has been given substantially as provided for herein, and when the redemption price of the Bonds called for redemption is on deposit with the Paying Agent, the Bonds designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefore.

Right to Rescind Notice. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption monies are not available in a redemption fund established with the Paying Agent, or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

DTC Book-Entry Only

The information below has been provided by DTC for use in securities offering documents, and the District does not take responsibility for the accuracy or completeness thereof. The District can not and does not give any assurances that DTC, DTC Participants or DTC Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds, or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do in a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

The following description is of DTC, its procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, other payments with respect to the Bonds registered in the name of DTC to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds, notices to Beneficial Owners and other related transactions by and between DTC, the participants, and the Beneficial Owners. However, DTC, the participants, and the Beneficial Owners should not rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.

Neither the District nor the Paying Agent takes any responsibility for the information contained in this section.

DTC, New York, NY, 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 the Bonds, in the aggregate principal amount of such issue, 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained on this Internet site is not incorporated herein by reference.

Purchases of the 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 the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 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 and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 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 redemptions, tenders, defaults, and proposed amendments to the Bond 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 registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any 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).

Redemption proceeds, distributions, and dividend payments 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 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, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 services as depository with respect to the Bonds at any time by giving reasonable notice to the District or 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, 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.

Registration, Transfer and Exchange

If the book-entry system as described above is no longer used with respect to the Bonds, the provisions in the Paying Agent Agreement summarized below will govern the registration, transfer, and exchange of the Bonds.

The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which will at all times be open to inspection by the District upon reasonable notice.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Paying Agent Agreement by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Paying Agent.

Whenever any Bond or Bonds shall be surrendered for transfer, the designated District officials and the Paying Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount and bearing the same rate of interest. The Paying Agent will require the payment by the Registered Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

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

No transfer or exchange of Bonds shall be required to be made by the Paying Agent during the period from the close of business on the Record Date next preceding any Interest Payment Date to such Interest Payment Date.

Defeasance

If at any time the District pays or causes to be paid or there shall otherwise be paid to the Registered Owners of any or all outstanding Bonds all of the principal of and interest on the Bonds at the times and in the manner provided herein and in the Bonds, or as provided in the following paragraph, or as otherwise provided by law consistent herewith, then such Registered Owners will cease to be entitled to the obligation to levy taxes for payment of the Bonds, and such obligation and all agreements and covenants of the District to such Registered Owners hereunder and under the Bonds will thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal of and interest on the Bonds, but only out of monies on deposit in the debt service fund maintained by the County on behalf of the District (the "Debt Service Fund") or otherwise held in trust for such payment.

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

Unclaimed Moneys

Any money held in any fund created pursuant to the Paying Agent Agreement, or held by the Paying Agent in trust, for the payment of the principal of or interest on the Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable upon maturity will be transferred to the Debt Service Fund. If no such bonds of the District are at such time outstanding, the Paying Agent shall transfer said unclaimed monies to the District's general fund (the "General Fund") as provided and permitted by law.

PLAN OF REFUNDING

Application and Investment of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be irrevocably deposited into an escrow fund (the "Escrow Fund") to be created and maintained by the Escrow Agent under that certain escrow agreement (the " Escrow Agreement") by and between the District and the Escrow Agent dated as of September 1, 2013. A portion of the moneys in the Escrow Fund will be held in cash, uninvested, and a portion of the moneys in the Escrow Fund will be invested in non-callable direct obligations of the United States Treasury or other non-callable obligations, the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America.

AMTEC Corporation of Avon, Connecticut and Ross & Company, PLLC (a Certified Public Accountant) of Louisville, Kentucky, together acting as verification agent with respect to the Escrow Fund, will certify in writing that moneys irrevocably deposited in the Escrow Fund, together with earnings thereon, will be sufficient for the payment of interest coming due and payable to the date fixed for redemption plus the redemption amount of (i) the current interest bond portion of the Series A Bonds maturing July 1, 2014 through July 1, 2026, inclusive, redeemable on September 30, 2013, at a price of 100% of par, and (ii) the current interest bond portion of the Series B Bonds maturing July 1, 2016 through July 1, 2025, inclusive, redeemable on July 1, 2015, their first optional redemption date, at a price of 100% of par. Upon such irrevocable deposit, the Prior Bonds will be deemed paid and no longer outstanding.

The Prior Bonds and refunding details are identified in the following table.

Prior Bonds
Cambrian School District

Series	Type of Bonds Refunded	Maturities To Be Refunded	Principal Amount To Be Refunded	Redemption Date	Redemption Price
Series A	Current Interest Bonds	July 1, 2014 - 2026	$11,855,000	September 30, 2013	100%
Series B	Current Interest Bonds	July 1, 2016 - 2025	$1,560,000	July 1, 2015	100%

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance fund (the "Costs of Issuance Fund") and used to pay costs associated with the issuance of the Bonds. Any proceeds of the sale of the Bonds not needed to redeem the Prior Bonds or to pay costs of issuance of the Bonds will be transferred by the Paying Agent to the Santa Clara County Director of Finance (the "Director of Finance") for deposit in the Debt Service Fund. Amounts deposited by the Paying Agent into the Debt Service Fund, as well as proceeds of taxes held therein for payment of the Bonds, will be invested on behalf of the District by the Director of Finance pursuant to law and the investment policy of Santa Clara County. See "SANTA CLARA COUNTY TREASURY POOL" and "APPENDIX D — SANTA CLARA COUNTY INVESTMENT POLICY" herein.

Sources and Uses of Funds

The sources and uses of funds in connection with the sale and delivery of the Bonds are set forth in the following table.

Sources and Uses of Funds
Cambrian School District
2013 General Obligation Refunding Bonds

SOURCES OF FUNDS	
Par Amount of Bonds*	$12,190,000.00
Original Issue Premium / (Discount)	
TOTAL SOURCES OF FUNDS	
USES OF FUNDS	
Escrow Fund	
Cost of Issuance Fund [1]	
Underwriter's Discount	
TOTAL USES OF FUNDS	

[1] The Costs of Issuance Fund will be used to pay costs of issuance including fees and expenses of Bond Counsel, the Financial Advisor, the Paying Agent, the Escrow Agent, the ratings fee and all other expenses related to the issuance of the Bonds.

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* Preliminary; subject to adjustment

Debt Service Schedules

Scheduled debt service on the Bonds (without regard to optional redemption) is set forth on the following table.

Debt Service Schedule
Cambrian School District
2013 General Obligation Refunding Bonds

Date	Principal	Interest	Semi-Annual Debt Service	Annual Debt Service
January 1, 2014				
July 1, 2015	$ ___,000			
January 1, 2015				
July 1, 2016	___,000			
January 1, 2016				
July 1, 2017	___,000			
January 1, 2017				
July 1, 2018	___,000			
January 1, 2018				
July 1, 2019	___,000			
January 1, 2019				
July 1, 2020	___,000			
January 1, 2020				
July 1, 2021	___,000			
January 1, 2021				
July 1, 2022	___,000			
January 1, 2022				
July 1, 2023	___,000			
January 1, 2023				
July 1, 2024	___,000			
January 1, 2024				
July 1, 2025	___,000			
January 1, 2025				
July 1, 2026	___,000			
	$12,190,000			

Upon issuance of the Bonds, scheduled debt service (without regard to optional redemption) on the District's outstanding general obligation bond debt will be as shown in the following table. See "DISTRICT FINANCIAL INFORMATION – Long-Term Borrowings" for more information on the District's outstanding bonded debt.

Outstanding General Obligation Bond Debt Service
Cambrian School District

Bond Year Ending July 1	General Obligation Bonds to Remain Outstanding*	2013 General Obligation Refunding Bonds	Total General Obligation Bonds
2014	$ 97,400		
2015	98,800		
2016	0		
2017	0		
2018	0		
2019	0		
2020	0		
2021	0		
2022	0		
2023	0		
2024	0		
2025	0		
2026	235,000		
2027	1,765,000		
2028	1,820,000		
2029	1,870,000		
2030	1,930,000		
2031	1,985,000		
2032	2,045,000		
2033	2,110,000		
2034	1,195,000		
2035	700,000		
Total	$15,851,200		

SECURITY AND SOURCE OF PAYMENT

General

In order to provide sufficient funds for repayment of principal of and interest on the Bonds when due, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues are deposited in the District's Debt Service Fund required to be maintained by the County and to be used solely for debt service on bonds of the District. Moneys in the Debt Service Fund will be invested on behalf of the District in any one or more investments generally permitted to school districts authorized pursuant to Section 53601 et seq. or Section 53635 et seq. of the State Government Code, and consistent with the County's investment policy (see "SANTA CLARA COUNTY TREASURY POOL" and "APPENDIX D—SANTA CLARA COUNTY INVESTMENT POLICY" herein).

* Preliminary; subject to adjustment

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total net assessed value of taxable property in the District. School districts levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well.

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

Assessed Valuation of Property Within the District

All property (real, personal and intangible) is taxable unless an exemption is granted by the State Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Although most taxable property is assessed by the assessor of the county in which the property is located, some special classes of property are assessed by the State Board of Equalization, as described below under the heading, "State-Assessed Property."

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. Under Proposition 13, an amendment to the State Constitution adopted in 1978, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property and of similar properties more recently sold. Likewise, changes in ownership of property and reassessment of such property to market value commonly lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES & EXPENDITURES."

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

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

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

The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

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

Shown in the following table is the assessed valuation of the various classes of property in the District in the past 10 years, including homeowner's exemption and utility values.

Historical Total Secured and Unsecured Assessed Valuation
Cambrian School District

Fiscal Year	Total Secured Assessed Value	Total Unsecured Assessed Value	Total Assessed Value	Annual Change
2004 - 05	$3,233,226,439	$105,962,878	$3,339,189,317	--
2005 - 06	3,506,217,323	118,033,784	3,624,251,107	8.54%
2006 - 07	3,856,008,858	110,768,314	3,966,777,172	9.45
2007 - 08	4,153,964,696	119,273,876	4,273,238,572	7.73
2008 - 09	4,362,431,930	123,376,101	4,485,808,031	4.97
2009 - 10	4,364,350,330	107,647,195	4,471,997,525	-0.31
2010 - 11	4,323,599,646	95,326,502	4,418,926,148	-1.19
2011 - 12	4,337,739,049	100,580,075	4,438,319,124	0.44
2012 - 13	4,411,905,215	107,356,119	4,519,261,334	1.82
2013 - 14 [1]	4,820,126,600	116,851,627	4,936,978,227	9.24

[1] Preliminary
Source: Santa Clara County, Department of Finance.

The District may not issue bonds in excess of 1.25% of the assessed valuation of taxable property within its boundaries. The District's gross bonding capacity in fiscal year 2013-14 is approximately $61.7 million. Upon issuance of the Bonds, the District will have remaining bonding capacity of approximately $44.2 million*.

* Preliminary; subject to adjustment

Shown in the following table is a distribution of taxable real property located in the District by principal purpose for which the land is used along with the local secured assessed valuation (excludes "utility" property) and number of parcels for each use for fiscal year 2012-13.

Assessed Valuation and Parcels by Land Use
Cambrian School District

	2012-13 Assessed Valuation [1]	% of Total	No. of Parcels	% of Total
NON-RESIDENTIAL				
Commercial / Office	$473,482,578	10.73%	307	3.32%
Hospital	149,980,183	3.40	2	0.02
Industrial	177,249,597	4.02	100	1.08
Government/Social/Institutional	4,901,877	0.11	7	0.08
Water Companies and Utilities	24,676,039	0.56	31	0.34
Subtotal Non-Residential	$830,290,274	18.82%	447	4.84%
RESIDENTIAL				
Single Family Residence	$2,618,255,478	59.35%	6,568	71.13%
Condominium/Townhouse	500,315,394	11.34	1,717	18.59
2-4 Residential Units	159,089,179	3.61	401	4.34
5+ Residential Units / Apartments	300,079,044	6.80	66	0.71
Subtotal Residential	$3,577,739,095	81.09%	8,752	94.78%
Vacant Parcels	$3,875,846	0.09%	35	0.38%
TOTAL	$4,411,905,215	100.00%	9,234	100.00%

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

Largest Taxpayers in District

The 20 taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2012-13 tax roll own property that comprises 13.4% of the total assessed valuation of secured property in the District. These taxpayers, ranked by aggregate assessed value of taxable property as shown on the 2012-13 secured tax roll, and the amount of each owner's assessed valuation for all taxing jurisdictions within the District are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation, and their ability or willingness to pay property taxes. In 2012-13, no single taxpayer owned more than 3.4% of the total taxable property in the District.

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Each taxpayer listed is a unique name on the tax rolls. The District cannot determine from assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

Largest Taxpayers
Cambrian School District

	Property Owner	Primary Land Use	2012-13 Assessed Valuation	% of Total[1]
1.	Good Samaritan Hospital LP	Hospital	$149,980,183	3.40%
2.	Campbell Technology Park LLC	Business Park	74,021,449	1.68
3.	Fund X PY Campbell LLC	Apartments	55,057,715	1.25
4.	Essex the Commons LP	Apartments	43,384,731	0.98
5.	Cedar Glen Associates	Apartments	25,456,987	0.58
6.	EQR-Connor, L.L.C.	Apartments	24,998,961	0.57
7.	Camden Park LLC	Shopping Center	24,059,243	0.55
8.	Bascom Sub LLC	Office Building	22,950,437	0.52
9.	Samaritan Properties LLC	Office Building	18,964,028	0.43
10.	Union Manor Apts, LP	Apartments	18,274,941	0.41
11.	HD Development of Maryland Inc.	Commercial	17,982,365	0.41
12.	Dayton Hudson Corporation	Commercial	16,383,382	0.37
13.	Lyon Shadow CR Apts LLC	Apartments	14,834,949	0.34
14.	Salvatore LLC	Commercial	13,912,652	0.32
15.	Grand Prix Campbell SJ LLC	Hotel	13,253,287	0.30
16.	San Jose Water Works	Water Company	12,997,659	0.29
17.	RMP Properties LLC	Shopping Center	11,729,999	0.27
18.	Castello Investments	Shopping Center	11,612,785	0.26
19.	Campbell Suites Grp LLC	Hotel	11,229,203	0.25
20.	Curtner Apartments LLC	Apartments	10,976,720	0.25
	TOTAL		$592,061,676	13.42%

[1] 2012-13 local secured assessed valuation, excluding tax-exempt property: $4,411,905,215
Source: California Municipal Statistics, Inc.

Tax Rate

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

The rate of tax necessary to pay fixed debt service on the Bonds in a given year depends on the net assessed value of taxable property in that year. (Unsecured property is taxed at the secured property tax rate from the prior year.) 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 exemptions for property owned by 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, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The following table shows *ad valorem* property tax rates per $100 of assessed value for the last several years in a typical tax rate areas of the District, TRA 17-015. TRA 17-015 comprises approximately 64.3% of the total assessed value of taxable property in the District in fiscal year 2012-13.

Total Tax Rates
TRA 17-015
Cambrian School District

	2008-09	2009-10	2010-11	2011-12	2012-13
General Tax Rate	1.0000	1.0000	1.0000	1.0000	1.0000
County Retirement Levy	.0388	.0388	.0388	.0388	.0388
County Hospital Bonds	-	.0122	.0095	.0047	.0051
Cambrian School District Bonds	.0221	.0228	.0247	.0244	.0251
Campbell Union High School District Bonds	.0299	.0314	.0327	.0342	.0325
West Valley-Mission Community College District Bonds	.0032	.0140	.0139	.0137	.0289
City of San Jose Bonds	.0323	.0326	.0350	.0334	.0316
Total All Property Tax Rate	1.1263	1.1518	1.1546	1.1492	1.1620
Santa Clara Valley Water District State Water Project	.0059	.0071	.0070	.0063	.0069
Santa Clara Valley Water District Zone W-1 Bond	.0002	.0003	.0002	.0001	-
Total Land and Improvement Tax Rate	.0061	.0074	.0072	.0064	.0069

Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment

The County Board of Supervisors approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") pursuant to sections 4701 through 4717 of the State's Revenue & Taxation Code. This action of the County Board of Supervisors came pursuant to the endorsement of the Teeter Plan by the taxing districts of the County. The Teeter Plan guarantees distribution of 100% of the *ad valorem* taxes and assessments levied to the taxing entities within the County, with the County retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

The Director of Finance's cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates moneys from interest and penalty collections. In each fiscal year, the Tax Loss Reserve Fund is required to be funded to the amount of delinquent taxes plus 1% of that year's tax levy. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County's general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The County Board of Supervisors may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls in that agency.

If the Teeter Plan were discontinued, only those secured property taxes actually collected would be allocated to political subdivisions, including the District. Further, the District's tax revenues would be subject to taxpayer delinquencies, and the District would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law.

Tax Collections and Delinquencies

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

The County finance agency prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent at 5:00 p.m. December 10, after which time a 10% penalty and $20 cost attach. The second installment is due on February 1 and becomes delinquent at 5:00 p.m. April 10, after which time a 10% penalty and $20 cost attach. If taxes remain unpaid by 5:00 p.m. June 30, the tax is deemed to be in default and a $30.00 redemption fee is immediately added and the delinquent bill accrues penalties of 1.5% per month until paid. After five years, the County has the power to sell tax-defaulted property that is not redeemed.

Annual bills for property taxes on the unsecured roll are mailed no later than August 1. Taxes on the unsecured roll as of July 31, if unpaid are delinquent at 5:00 p.m. on August 31, and thereafter subject to a delinquent penalty of 10%. Taxes added to the unsecured roll after July 31, if unpaid are delinquent and subject to a penalty of 10% at 5:00 p.m., or the close of business, whichever is later, on the last day of the month succeeding the month of enrollment.

The following table shows a five-year history of real property tax collections and delinquencies in the District.

Secured Tax Charges and Delinquencies
Cambrian School District

Fiscal Year	Secured Tax Charge [1]	Amount Delinquent as of June 30	Percent Delinquent as of June 30
2007-08	$ 942,553.56	$28,161.68	2.99%
2008-09	953,722.11	23,840.85	2.50
2009-10	982,824.45	18,896.18	1.92
2010-11	1,052,316.39	17,914.93	1.70
2011-12	1,033,193.52	10,851.04	1.05

[1] District general obligation bond debt service levy only.
Source: California Municipal Statistics, Inc.

As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of the tax levy no matter the delinquency rate within the District.

Direct and Overlapping Bonded Debt

The District's statement of direct and overlapping bonded debt relating to the District, which is set forth on the following page, was prepared by California Municipal Statistics, Inc. It has been included for general information purposes only. The District has not reviewed the statement for completeness or accuracy and makes no representations in connection with the statement.

Contained within the District's boundaries are several overlapping local entities providing public services. These local entities may have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds. The first column in the table below names the public agencies that have outstanding debt as of the date of the report and whose boundaries overlap the District. The second column in the table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping entity (which is not shown in the table) produces the amount shown in the third column, the corresponding portion of each overlapping entity's existing debt allocable to taxable property within the District.

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

In addition, property owners within the District may be subject to other special taxes and assessments levied by other taxing authorities that provide services within the District. Such non-*ad valorem* special taxes and assessments (which are not levied to fund debt service) are not represented in the statement of direct and overlapping bonded debt.

Statement of Direct and Overlapping Bonded Debt (As of August 1, 2013)
Cambrian School District

2012-13 Assessed Valuation (excluding tax-exempt property): $4,519,261,334

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 8/1/2013
Santa Clara County	1.464%	$11,780,808
West Valley-Mission Community College District	5.205	15,319,495
Campbell Union High School District	13.950	21,261,195
Cambrian School District	**100.000**	**17,254,944** [1]
City of San Jose	2.450	10,805,113
Santa Clara Valley Water District Benefit Assessment District	1.464	1,802,184
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$78,223,739
OVERLAPPING GENERAL FUND DEBT:		
Santa Clara County General Fund Obligations	1.464%	$11,906,300
Santa Clara County Pension Obligations	1.464	5,496,136
Santa Clara County Board of Education Certificates of Participation	1.464	152,256
West Valley-Mission Community College District General Fund Obligations	5.205	3,403,810
Campbell Union High School District General Fund Obligations	13.950	1,499,317
City of Campbell Certificates of Participation	19.327	3,586,288
Town of Los Gatos Certificates of Participation	0.225	49,196
City of San Jose General Fund Obligations	2.450	17,738,613
Midpeninsula Regional Open Space Park General Fund Obligations	0.043	58,329
Santa Clara County Vector Control District Certificates of Participation	1.464	50,581
TOTAL OVERLAPPING GENERAL FUND DEBT		$43,940,826
OVERLAPPING TAX INCREMENT DEBT:		$5,459,211
COMBINED TOTAL DEBT		$127,623,776 [2]

Ratios to 2012-13 Assessed Valuation:	
Direct Debt ($17,254,944)	0.38%
Total Direct and Overlapping Tax and Assessment Debt	1.73%
Combined Total Debt	2.82%
Ratio to Redevelopment Incremental Valuation (138,231,868):	
Total Overlapping Tax Increment Debt	3.95%

[1]Excludes general obligation refunding bonds to be sold.
[2]Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

SANTA CLARA COUNTY TREASURY POOL

This section provides a summary description of the County's investment policy, current portfolio holdings, and valuation procedures. Certain information has been obtained from the County for inclusion in this Official Statement. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Santa Clara, Department of Finance, County Government Center, East Wing, 70 West Hedding Street, San Jose, California, 95110, Telephone (408) 299-2541.

State law requires that all moneys of the County, school districts, and certain special districts be held in the County treasury by the Director of Finance. The Director of Finance has the authority to implement and oversee the investment of funds held in the Santa Clara County Treasury Commingled Pool (the "County Pool") in accordance with State Government Code Section 53600 *et seq*. The moneys on deposit are predominantly derived from local government revenues consisting of property taxes, State and federal funding and other fees and charges. The Director of Finance accepts funds only from agencies located within the County.

Annually, the County Board of Supervisors approves an investment policy which applies to all financial assets held by the County, including the County Pool. For more information regarding the investment policy of the County Pool, see "APPENDIX D— SANTA CLARA COUNTY INVESTMENT POLICY" herein. The following investment objectives, in order of priority, shall be applied in the management of the County's funds:

1. *Safety*. Safety of principal is the foremost objective of the County's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. *Liquidity*. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
3. *Yield*. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The County Investment Policy also aims to reduce:

1. *Credit Risk*. Credit risk is the risk of loss due to the failure of the security issuer. Credit risk may be mitigated by the County by determining on-going credit worthiness of the financial institutions, broker/dealers, intermediaries and advisors with which the County does business; and, diversifying the investment portfolio so that potential losses on individual securities will be minimized.
2. *Liquidity Risk*. Liquidity risk that a portfolio that does not market value its holdings on a daily basis is the risk that sufficient cash or cash equivalents are not available and a security may have to be sold at a loss (based on its original cost) in order to meet a payment liability. Liquidity risk may be mitigated by the County by matching investment maturities with anticipated cash demands, also known as creating static liquidity, and by maintaining portfolios largely of securities with active secondary or resale markets (dynamic liquidity).
3. *Interest Rate Risk*. Interest rate risk is the risk that the market value of securities in the portfolio will decrease due to changes in general interest rates. Interest rate risk may be mitigated by not investing in securities maturing more than five years from the date of purchase, and limiting the weighted average maturity of the County Pool to 18 months or less; and by not investing in any funds in financial futures, option contracts, inverse floaters, range note or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
4. *Operational Risk*. Operational risk is the risk of losses resulting from inadequate systems, management failure, faulty controls, fraud and human error. Operational risk may be mitigated by the County by establishing a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County; and by having an audit review.

The County prepares an investment report every quarter, listing each investment of the County Pool as well as individual reports for specific investment funds in the County treasury. For the month ending June 30, 2013, the County Pool investments earned 0.47% and had an average maturity of 374 days. The composition of the County Pool is provided in the following table.

Securities by Type as of June 30, 2013
Santa Clara County Treasury Commingled Pool

Investments	Book Value	% of Portfolio
Federal Agency Bonds	2,973,127,076	65.8%
Commercial Paper	124,984,197	2.8
Corporate Bonds	200,468,261	4.4
Money Market Funds	235,593,446	5.2
Asset-Backed Securities	119,055,583	2.6
Repurchase Agreements	200,000,000	4.4
Corporate Bonds – NCUA Guaranteed	4,996,607	0.1
Municipal Securities	71,978,066	1.6
U.S. Treasuries	264,953,778	5.9
Negotiable CD's	285,000,000	6.3
LAIF	40,000,000	0.9
MBS	369,634	0.0
Total	4,520,531,650	100.0%

Source: County of Santa Clara, Department of Finance.

COUNTY ECONOMIC PROFILE

The information in this section concerning the County's economy is provided as supplementary information only, and is not intended to be an indication of security for the Bonds. The Bonds are payable from the proceeds of an ad valorem *tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied by the County on all taxable property in the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.*

General Information

Based on data complied by DataQuick Information Systems, the median sale price of a single-family home in the County was $665,000 in May 2013, an increase of approximately 25.7% from $529,000 in May 2012. The median sale price of a single-family home in the City of San Jose was $590,000 in May 2013, an increase of approximately 37.2% from $430,000 in May 2012.

Population

The following table displays population data from the 2010 census along with estimated population data as of January 1st for the past three years for the County and the City of Campbell, Town of Los Gatos and City of San Jose.

Historical Population
City of Campbell, Town of Los Gatos, City of San Jose and Santa Clara County

	2010	2011	2012	2013
City of Campbell	39,349	39,610	39,820	40,404
Town of Los Gatos	29,413	29,613	29,808	30,247
City of San Jose	945,942	957,369	969,876	984,299
Santa Clara County	1,781,642	1,794,337	1,813,696	1,842,254

Source: California Department of Finance

Unemployment

The following table contains a summary of the City of San Jose's unemployment data seasonally unadjusted.

Historical Unemployment
City of San Jose

	Annual 2009	Annual 2010	Annual 2011	Annual 2012	June 2013[1]
Total Labor Force	460,600	463,900	469,600	477,800	485,900
# Employed	405,300	407,300	418,400	433,100	449,100
# Unemployed	55,300	56,600	51,200	44,800	36,800
Unemployment Rate	12.0%	12.2%	10.9%	9.4%	7.6%

[1]Preliminary
Source: California Employment Development Department.

The following table contains a summary of the County's unemployment data seasonally unadjusted.

Historical Unemployment
Santa Clara County

	Annual 2009	Annual 2010	Annual 2011	Annual 2012	June 2013[1]
Total Labor Force	875,600	881,600	893,700	911,000	928,200
# Employed	780,800	784,700	806,100	834,400	865,300
# Unemployed	94,700	96,900	87,600	76,600	63,000
Unemployment Rate	10.8%	11.0%	9.8%	8.4%	6.8%

[1]Preliminary
Source: California Employment Development Department.

Major Employers

The following table provides a listing of 10 major employers in the County.

Major Employers
Santa Clara County

	Employer	Number of Employees	% of Total County Employment
1	Cisco Technology Inc.	17,419	2.08%
2	County of Santa Clara	15,219	1.43
3	Apple Computer, Inc.	12,000	1.22
4	Stanford University	10,223	1.01
5	Kaiser Permanente	8,435	0.88
6	Lockheed Martin Space Systems Co.	7,383	0.84
7	Intel Corporation	7,001	0.84
8	Google Inc.	7,000	0.69
9	Stanford University Medical Center/Hospital	5,813	0.65
10	City of San Jose	5,400	1.43
	TOTAL	95,893	11.45%

Source: County of Santa Clara, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012

Taxable Sales

Total taxable sales reported during calendar year 2011 in the City of San Jose were reported to be $12,333,418,000 a 7.2% increase from the total taxable sales of $11,501,623,000 reported during calendar year 2010. Data for calendar year 2012 is not yet available.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of San Jose is presented in the following table.

Taxable Retail Sales
City of San Jose

	2007	2008	2009	2010	2011
Sales Tax Permits	20,520	20,461	18,696	19,252	19,516
Taxable Sales (000's)	$12,775,964	$12,403,677	$10,425,287	$11,501,623	$12,333,418

Source: California State Board of Equalization

Total taxable sales reported during calendar year 2011 in the County were reported to be $33,431,217,000, a 9.5% increase from the total taxable sales of $30,523,322,000 reported during calendar year 2010. Data for calendar year 2012 is not yet available.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table.

Taxable Retail Sales
Santa Clara County

	2007	2008	2009	2010	2011
Sales Tax Permits	47,651	47,253	43,396	43,583	43,390
Taxable Sales (000's)	$33,663,448	$32,274,306	$27,427,709	$30,523,322	$33,431,217

Source: California State Board of Equalization

THE DISTRICT

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

General Information

The District, a political subdivision of the State, occupies approximately eight square miles in the County. The District educates approximately 3,300 kindergarten though eighth grade students at four elementary schools, three of which are charter schools, and one charter middle school.

The Board of Trustees and Key Administrative Personnel

The Board governs all activities related to public education within the jurisdiction of the District. The Board has decision-making authority, the power to designate management, and the responsibility to significantly influence operations, and is accountable for all fiscal matters relating to the District.

The Board consists of five members. Each Board member is elected by the public for a four-year term of office. Elections for the Board are held every two years, alternating between two and three positions available. A president of the Board is elected by members each year.

The current members of the Board, together with their office and the date their term expires, are set forth below.

Board of Trustees
Cambrian School District

Name	Title	Term Expires
Randy Scofield	President	November 2014
Stacey Brown	Vice President	November 2014
Doron Aronson	Clerk	November 2016
Alan Baker	Member	November 2014
Jeneva Sneed	Member	November 2016

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for managing the District's day-to-day operations and supervising the work of other key administrators. Key members of the District's staff are set forth on page 'iii' of this Official Statement.

Parcel Tax

In March 2001, voters within the District authorized a parcel tax of up to $63 per parcel effective July 1, 2001, with certain exemptions, adjusted annually by changes in the consumer price index. Parcel tax revenues are used to improve children's academic performance, reduce class size, improve teaching quality, and expand art, science, music, technology, and physical education within the District. Parcel tax revenues are estimated to be approximately $695,000 in fiscal year 2012-13, and are budgeted to be approximately $720,000 in fiscal year 2013-14.

Average Daily Attendance

Student enrollment determines to a large extent the amount of funding a California public school district receives for program, facilities and staff needs. Average daily attendance ("ADA") is a measurement of the enrollment 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. See "STATE FUNDING OF PUBLIC EDUCATION" herein.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs.

Set forth in the following exhibit is the actual historical and budgeted ADA for the District as of the second period report ("P-2"), the last day of the last full attendance month concluding prior to April 15. P-2 ADA is used by the State as the basis for State apportionments.

P-2 Average Daily Attendance
Cambrian School District

	2009-10	2010-11	2011-12	2012-13	2013-14*
Elementary School	641	655	651	687	687
Special Education	75	34	35	25	25
Charter School	2,388	2,559	2,550	2,604	2,604
Total	3,104	3,248	3,236	3,316	3,316

* Budgeted.

Charter Schools

The District operates four fiscally dependent charter schools: Fammatre Elementary School serving grades K-5, Farnham Elementary School serving grades K-5, Sartorette Elementary School serving grades K-5, and Price Middle School serving grades 6 - 8. The financial activities of the four charter schools are included in the District's General Fund reporting. See "THE DISTRICT—Average Daily Attendance" for the charter schools' ADA.

To the extent charter schools draw students from school district schools and reduce school district enrollment, charter schools can adversely affect school district revenues. However, certain per-pupil expenditures of a school district also decrease based upon the number of students enrolled in charter schools. Pursuant to Proposition 39, school districts are required to provide facilities comparable to those provided to regular district students for charter schools having a projected average daily attendance of at least 80 or more students from that district.

Pupil-Teacher Ratios

Set forth below are the pupil-to-teacher ratios for the District for fiscal year 2012-13.

Pupil-to-Teacher Ratios
Cambrian School District

Level	Staffing Ratio
Kindergarten – Second Grade	26:1
Grades Three – Five	29:1
Grades Six – Eight	30:1

Employee Relations

State law provides that employees of public school districts of the State are to be divided into appropriate bargaining units which then are to be represented by an exclusive bargaining agent.

The District has two recognized bargaining agents for its employees. The Cambrian District Teachers Association ("CDTA") represents all non-management certificated staff, and the California School Employees Association, Local 661 ("CSEA Local 661"), represents non-management classified employees.

Set forth in the following table are the District's bargaining units, number of full-time equivalent ("FTEs") budgeted for fiscal year 2013-14, and contract expiration date.

Bargaining Units, Number of Employees and Contract Status
Cambrian School District

Certificated	Full-Time Equivalents	Contract Expiration Date
Cambrian District Teachers Association	148.6	June 30, 2014
California School Employees Association, Local 661	65.4	June 30, 2014

The District has budgeted for fiscal year 2013-14 an additional 22.6 management and confidential FTEs not represented by a bargaining unit.

Pension Plans

All full-time employees of the District are eligible to participate under defined benefit retirement plans maintained by agencies of the State. Certificated employees are eligible to participate in the cost-sharing multiple-employer State Teachers' Retirement System ("STRS"). Classified employees are eligible to participate in the agent multiple-employer Public Employees' Retirement Fund of the Public Employees' Retirement System ("PERS"), which acts as a common investment and administrative agent for participating public entities within the State.

STRS operates under the State Education Code sections commonly known as the State Teachers' Retirement Law. Membership is mandatory for all certificated employees of State public schools meeting the eligibility requirements. STRS provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty-five. Active plan members are required to contribute 8.0% of their salary, and the District is required to contribute an actuarially determined rate (8.25% in fiscal year 2012-13). The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The District's contribution to STRS for fiscal year 2011-12 was $1,063,652, for fiscal year 2012-13 is estimated to be $1,073,102, and for fiscal year 2013-14 is budgeted to be $1,106,156.

All full-time classified employees of the District participate in PERS, which provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and District resolution. Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate (11.417% in fiscal year 2012-13). The actuarial methods and assumptions used for determining the rate are those adopted by the PERS Board of Administration. The District's contribution to PERS for fiscal year 2011-12 was $251,749, for fiscal year 2012-13 is estimated to be $281,528, and for fiscal year 2013-14 is budgeted to be $285,612.

Both STRS and PERS have substantial State-wide unfunded liabilities. The amount of these liabilities will vary depending on actuarial assumptions, returns on investment, salary scales and participant contributions. The District is unable to predict future amount of State pension liabilities and amount of required District contributions. Pension plan, annual contribution requirements and liabilities are more fully described in "APPENDIX A – THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDED JUNE 30, 2012."

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. The pronouncement required public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these other post-employment benefits ("OPEB") on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

The District does not offer OPEB.

DISTRICT FINANCIAL INFORMATION

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

Accounting Practices

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

The District's financial statements consist of government-wide statements and fund-based financial statements. Government-wide statements, consisting of a statement of net assets and a statement of activities, report all the assets, liabilities, revenue and expenses of the District and are accounted for using the economic resources measurement focus and accrual basis of accounting. The fund-based financial statements consist of a series of statements that provide information about the District's major and non-major funds. Governmental funds, including the District's General Fund, special revenues funds, capital project funds and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See "NOTE 1" in "APPENDIX A" herein for a further discussion of applicable accounting policies.

The independent auditor for the District is Vavrinek, Trine, Day & Co., LLP, Palo Alto, California (the "Auditor"). The audited financial statements of the District as of and for the year ended June 30, 2012, are set forth in "APPENDIX A" attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. The Auditor has not performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter.

Budget and Financial Reporting Process

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 federal and State school apportionments, taxes, use of money and property, and aid from other governmental agencies.

The District is required by provisions of the State Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed revenues plus the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting format for school districts.

The fiscal year for all State school districts is July 1 to June 30. The same calendar applies to the budgets of county offices of education, except that their budgets and reports are reviewed by the State Superintendent of Public Instruction. The State budget is an extremely important input in State school district budget preparation since many school districts depend on State funding for a substantial portion of their revenue. There is very close timing between final approval of the State budget (legally required by June 15), the associated school finance legislation, and the adoption of local school district budgets. In some years, the State budget is not approved by the legal deadline, which forces school districts to begin the new fiscal year with only estimates of the amount of funding they will actually receive.

The school district budgeting process involves continuous planning and evaluation. Within the deadlines, school districts determine their own schedules for considering whether or not to hire or replace staff, negotiating contracts with all employees, reviewing programs, and assessing the need to repair existing or acquire new facilities. Decisions depend on the critical estimates of enrollment, fixed costs, commitments in contracts with employees as well as best guesses about how much money will be available for elementary and secondary education.

The timing of some decisions is forced by legal deadlines. For example, preliminary layoff notices to teachers must be delivered in March, with final notices in May. This necessitates projecting enrollments and determining staffing needs long before a school district will know either its final financial positions for the current year or its income for the next year.

The governing board must submit a budget to the County Superintendent of Schools by July 1, and a publicized opportunity for public participation in the budget process is required by law. There are two options for budget adoption. School districts may adopt their budgets by July 1 and then revise and readopt them by September 8 after a public hearing. Alternatively, school districts may decide, by the previous October 31, to hold public hearings before adopting their budgets by July 1. School districts choosing this option revise their revenues and expenditures after the State budget act is adopted, without a second public hearing.

All school districts must perform a criteria and standards review before budget adoption. In addition, those school districts on the alternative schedule for adoption must repeat the review before their revision only if the July 1 budget was disapproved. Legislation requires criteria and standards for stringent review of school districts' finances, focusing primarily on predictions of average daily attendance, operating deficit, and reserves. The legislation also dictates when and how outside committees, or an appointed State trustee in emergency situations, must work with school districts. This oversight is part of an effort to reduce the number of districts in financial trouble and to increase the responsible use of tax dollars.

The county superintendents monitor all school districts' budgets, ongoing financial obligations and multi-year contracts. They have specific powers for recommending actions to revise budgets. They are not, however, authorized to abrogate existing collective bargaining agreements. School districts must review their financial position for the periods ending October 31 and January 31 in order to certify their abilities to meet commitments through the current fiscal year and following two years.

Each school district is required by the State Education Code to file these two interim reports each year, with the first interim report for the period ending October 31 due by no later than December 15, and the second interim report for the period ending January 31 due by March 15. 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, and financial projections for the following two years. The county office of education must then, within 30 days, evaluate the interim reports and forward their comments to the State Department of Education and the State Controller's Office.

Included in the report is a certification by the president of the governing board of each school district that classifies a school district according to its ability to meet its financial obligations. The certifications are grouped into three categories: positive certification, which designates that the District will be able to meet its financial obligations for the remainder of the fiscal year (including a minimum required reserve for contingencies set by the State Board of Education) and the following two fiscal years; a qualified certification, which means that a school district may not be able to meet its financial obligations for the remainder of the current fiscal year and following two fiscal years if certain events occur; and a negative certification, which signifies that a school district will not be able to meet its financial obligations for the remainder of the fiscal year or of the following year. A certification by the governing board may be overridden 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 report by June 1 covering the period ending April 30. If not required, a third interim report is generally not prepared (though may be at the election of the district). The same calendar applies to the budgets of county offices of education, except that their budgets and reports go to the State Superintendent of Public Instruction for review.

The county superintendent must annually present a report to the governing board of the school district and the State Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty, pursuant to Education Code Section 42127.6. Any school district with a qualified or negative certification must allow the county office of education at least 10 working days to review and comment on any proposed agreement made between its bargaining units and the school district before it is ratified by the board (or the state administrator). The county superintendent will notify the school district, the county board of education, the governing board and the district superintendent (or the state administrator), and each parent and teacher organization of the school district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district. Also, pursuant to Education Code Section 42133, a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or the next succeeding fiscal year, non-voter approved debt unless the county superintendent of schools determines that the repayment of that debt by the school district is probable.

The filing status of the District's interim reports for the past five years appears below.

Certifications of Interim Financial Reports
Cambrian School District

Fiscal Year	First Interim	Second Interim
2008-09	Positive	Positive
2009-10	Positive	Positive
2010-11	Positive	Positive
2011-12	Positive	Positive
2012-13	Positive	Positive

Financial Statements

Figures presented in summarized form herein have been gathered from the District's financial statements. The audited financial statements of the District for the fiscal year ending June 30, 2012, have been included in the appendix to this Official Statement. See "APPENDIX A" herein. Audited financial statements and other financial reports for prior fiscal years are on file with the District and available for public inspection during normal business hours. Copies of financial statements relating to any year are available to prospective investors and or their representatives upon request by contacting the District at the address and telephone number set forth on page "iii" of this Official Statement, or by contacting the Financial Advisor, Government Financial Strategies inc., 1228 "N" Street, Suite 13, Sacramento, California, 95814-5609, Tel. (916) 444-5100.

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The following table summarizes the District's audited general fund revenue, expenditures and fund balances from fiscal years 2009-10 through 2011-12.

Historical General Fund Activity
Cambrian School District

	2008-09 Audited	2009-10 Audited	2010-11 Audited	2011-12 Audited
BEGINNING BALANCE	$6,244,457	$7,557,254	$5,914,809	$9,114,786
Adjustments*	0	0	639,525	0
ADJUSTED BEGINNING BALANCE	$6,244,457	$7,557,254	$6,554,334	$9,114,786
REVENUES				
Revenue Limit Sources	$16,951,184	$15,264,367	$16,901,467	$17,124,607
Federal Revenue	1,983,646	1,236,646	1,409,659	1,720,624
Other State Revenues	4,820,209	4,660,398	4,501,741	4,727,079
Other Local Revenues	2,705,145	2,485,997	2,644,338	2,682,085
TOTAL REVENUES	$26,460,184	$23,647,408	$25,457,205	$26,254,395
EXPENDITURES				
Instruction	$17,845,658	$18,259,901	$16,586,431	$18,158,782
Instruction-related Activities	2,269,936	2,245,128	2,160,172	2,058,672
Pupil Services	1,165,939	1,220,121	853,340	1,081,110
General Administration	1,958,221	1,817,474	1,657,064	1,935,451
Plant Services	2,569,055	2,435,584	2,320,125	2,350,367
Facility Acquisition and Construction	46,318	40,598	0	43,900
Debt Service	0	10,449	2,721	0
TOTAL EXPENDITURES	$25,897,387	$26,069,853	$23,623,753	$25,670,232
FINANCING SOURCES (USES)	$750,000	$780,000	$727,000	$0
NET INCREASE (DECREASE)	$1,312,797	($1,642,445)	$2,560,452	$584,163
ENDING BALANCE	$7,557,254	$5,914,809	$9,114,786	$9,698,949

* The District implemented *Government Accounting Standard Board Statement No. 54, Fund Balance Reporting and Government Type Definitions* ("GASB 54") in fiscal year 2010-11, the effect of which was to reclassify and restate the District's Special Reserve Fund for Other Than Capital Outlay within the General Fund.

The following table summarizes the District's general fund revenue, expenditures and fund balances for fiscal years 2012-13 (estimated actuals) and 2013-14 (budgeted).

Historical and Budgeted General Fund Activity
Cambrian School District

	2012-13 Estimated	2013-14 Budget
BEGINNING BALANCE	$9,698,949	$8,954,947
Adjustments*	(639,054)	0
ADJUSTED BEGINNING BALANCE	$9,059,895	$8,954,947
REVENUES		
Revenue Limit Sources	$17,354,000	$17,577,424
Federal Revenue	1,015,778	920,933
Other State Revenues	4,373,801	3,842,165
Other Local Revenues	2,489,651	2,238,711
TOTAL REVENUES	$25,233,230	$24,579,233
EXPENDITURES		
Certificated Salaries	$13,375,057	$13,860,405
Classified Salaries	3,270,627	3,251,042
Employee Benefits	4,574,037	4,632,092
Books and Supplies	1,120,843	1,546,070
Services & Other Operating Expenses	2,955,664	2,917,940
Capital Outlay	41,950	0
Other Outgo	0	0
TOTAL EXPENDITURES	$25,338,178	$26,207,549
FINANCING SOURCES (USES)	$0	$0
NET INCREASE (DECREASE)	($104,948)	($1,628,316)
ENDING BALANCE	$8,954,947	$7,326,631

* The District implemented GASB 54 in fiscal year 2010-11, the effect of which was to reclassify and restate the District's Special Reserve Fund for Other Than Capital Outlay within the General Fund. However, the District's estimated actual results for fiscal year 2012-13 and fiscal year 2013-14 budget do not reflect the implementation of GASB 54.

The District's 2013-14 Budget

The District's budget for fiscal year 2013-14 (the "District 2013-14 Adopted Budget") was approved by the Board on June 20, 2013. However, the State budget for fiscal year 2013-14 (the "2013-14 State Budget") overhauls the State's system of K-12 education finance by, among other changes, consolidating most categorical programs within the existing revenue limit structure to provide a new funding formula phased in over seven years, and implements supplemental and concentration grants to English learners and economically disadvanted students. See "STATE FUNDING OF PUBLIC EDUCATION—Sources of Revenue for Public Education" and "—The 2013-14 State Budget" herein. As a result, the District will prepare a revised budget reflecting the 2013-14 State Budget. The District estimates that implementation of the LCFF will increase fiscal year 2013-14 revenues in the District 2013-14 Adopted Budget by approximately $38,000.

Revenues

The District categorizes its General Fund revenues into four primary sources: revenue limit sources, federal revenues, other state revenues and other local revenues.

Revenue Limit Sources. State school districts operate under general purpose revenue limits established by the State Legislature. In general, the State revenue limit for a school district is calculated by multiplying a "base revenue limit" per student by the school district's student enrollment measured in units of ADA. The revenue limit calculations are adjusted annually in accordance with a number of factors historically designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. However, the 2013-14 State Budget replaced the existing revenue limit allocation formula with a new formula, the "Local Control Funding Formula" or "LCFF". See "STATE FUNDING OF PUBLIC EDUCATION—Sources of Revenue for Public Education" and "—The 2013-14 State Budget" herein.

Revenue limit sources were 65.2% of General Fund revenues in fiscal year 2011-12, are estimated to be 68.8% of General Fund revenues in fiscal year 2012-13, and are budgeted to be 71.5% of General Fund revenues in fiscal year 2013-14. Funding of the District's revenue limit is accomplished by a mix of a) local taxes (composed predominantly of property taxes, and including miscellaneous taxes and community redevelopment funds, if any) and b) State apportionments of basic and equalization aid. The majority of the District's revenue limit funding comes from local taxes.

Federal Revenues. The federal government provides funding for several District programs, including special education programs and specialized programs such as the No Child Left Behind Act. These federal revenues, most of which historically have been restricted, were 6.6% of General Fund revenues in fiscal year 2011-12, are estimated to be 4.0% of General Fund revenues in fiscal year 2012-13, and are budgeted to be 3.7% of General Fund revenues in fiscal year 2013-14.

Other State Revenues. In addition to apportionment revenues, the State provides funding for several District programs. While the majority of these other State revenues have historically been restricted, the State budget for fiscal year 2011-12 extended spending flexibility through 2014-15 for a variety of categorical programs. These other State revenues were 18.0% of General Fund revenues in fiscal year 2011-12, are estimated to be 17.3% of General Fund revenues in fiscal year 2012-13, and are budgeted to be 15.6% of General Fund revenues in fiscal year 2013-14. Included in other State revenues are proceeds received from the State lottery.

Other Local Revenues. Revenues from other local sources were 10.2% of General Fund revenues in fiscal year 2011-12, are estimated to be 9.9% of General Fund revenues in fiscal year 2012-13, and are budgeted to be 9.1% of General Fund revenues in fiscal year 2013-14. Included in other local revenues are proceeds of a parcel tax within the District (see "THE DISTRICT—Parcel Tax" herein) as well as leases of District property and interest income.

Expenditures

The largest components of a school district's general fund expenditures are certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increases or changes in staffing levels, normal "step and column" advancements on the salary scale result in increased salary expenditures. The District has not budgeted an increase in salaries and benefit expenditures for fiscal year 2013-14 in addition to "step and column" increases. However, the District has settled with CDTA and CSEA Local 661 since budget adoption—any salary adjustments as a result of contract settlements will be reflected in the District's fiscal year 2013-14 first interim report.

Employee salaries and benefits are estimated to be 83.7% of General Fund expenditures in fiscal year 2012-13, and are budgeted to be 83.0% of General Fund expenditures in fiscal year 2013-14.

Short-Term Borrowings

The District has no short-term debt outstanding.

Capitalized Lease Obligations

The District has made use of various capital lease arrangements in the past under agreements that provide for title of items and equipment being leased to pass to the District upon expiration of the lease period. The District has no capital leases outstanding.

Long-Term Indebtedness

The District received authorization at the 2002 Election to issue $20,975,000 of general obligation bonds. On July 9, 2003, the County issued the Series A Bonds on behalf of the District in an aggregate principal amount of $15,524,912.20. On March 8, 2005, the Board issued the Series B Bonds in an aggregate principal amount of $5,450,031.80.

The table below summarizes the District's outstanding long-term indebtedness.

Outstanding General Obligation Bonds
Cambrian School District

Authorization	Issue	Final Maturity	Principal Amount Issued	Principal Outstanding as of August 1, 2013 [1]	Debt Service in Fiscal Year 2012-13
2002 Election	Series 2003	July 1, 2028	$15,524,912	$12,274,912	$972,180
2002 Election	Series 2005	July 1, 2035	5,450,032	4,980,032	150,081

[1] Excludes accreted value of capital appreciation bonds.

All long-term indebtedness of the District as of June 30, 2012, is set forth in "APPENDIX A – THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2012" attached hereto.

The District has never defaulted on any of its long-term indebtedness.

STATE FUNDING OF PUBLIC EDUCATION

The information in this section concerning State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable from the proceeds of an ad valorem *tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied by the County on all taxable property in the District in an amount sufficient for the timely payment of principal of and interest on the Bonds.*

Sources of Revenues for Public Education

Sources of Revenues. Most school districts in the State receive a significant portion of their funding from State appropriations. The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES"). As a result, changes in State revenues may affect appropriations made by the State to school districts. The State budget is required to be proposed by the Governor by January 10 and adopted by June 15 of each year (although the State often is late adopting the budget). In fiscal year 2010-11, State revenues accounted for approximately 55% of school district general fund revenues.

State revenue sources are supplemented with local property taxes, federal aid, local miscellaneous funds, and the California lottery. Property taxes are limited by the State Constitution to one percent of the value of property; property taxes may only exceed this limit to repay voter-approved debt. In fiscal year 2010-11, local property taxes accounted for approximately 22% of school district general fund revenues.

The federal government provides funding for several school district programs, including special education programs and specialized programs such as the No Child Left Behind Act and Drug Free Schools. In fiscal year 2010-11, federal revenues accounted for approximately 14% of school district general fund revenues.

Miscellaneous local revenue sources include items such as developer fees, parcel taxes, donations, lease revenues and interest income. Developer fees are fees that school districts can levy on new residential or commercial development within their boundaries to finance the construction or renovation of school facilities. A significant number of school districts have secured the required two-thirds approval from local voters to levy special taxes on parcels or residences and/or have won voter approval, with either a two-thirds vote or a 55% majority, to sell general obligation bonds or to establish special taxing districts for the construction of schools. Use of such taxes is restricted by law. School districts that still have unused school buildings or sites can lease or sell them for miscellaneous income as well. Many school districts also seek grants or contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses. In fiscal year 2010-11, miscellaneous local sources accounted for approximately 8% of school district general fund revenues.

Approved by voters in late 1984, the State lottery generated approximately 1% of total school district general fund revenues in fiscal year 2010-11. Every three months, the State Lottery Commission calculates 34% of lottery proceeds for all public education institutions, the minimum according to the lottery law. Every K-14 school district receives the same amount of lottery funds per pupil from the State, which may be spent for any instructional purpose, excluding capital projects.

No other source of general purpose revenues is currently permitted for schools. Proposition 13 eliminated the possibility of raising additional *ad valorem* property taxes for general school support, and the courts have declared that fees may not be charged for school-related activities other than for busing services.

The State Revenue Limit. The State Revenue Limit was first instituted in 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district, community college district or county board of education is entitled to receive from State and local sources. Each school district has its own target amount of funding from State funds and local property taxes per average daily attendance. This target is known as revenue limit, and the funding from this calculation forms the bulk of school districts' income. The State Legislature usually grants annual cost-of-living adjustments ("COLAs") to revenue limits. The exact amount of the COLA depends on whether the school district is an elementary, high school or a unified school district.

The 2013-14 State Budget replaced the existing revenue limit allocation formula with a new formula, the "Local Control Funding Formula" or "LCFF," which consolidates revenue limits and almost all categorical programs into a single formula. Under the LCFF, school districts receive:

- a base grant per unit of ADA in four grade spans;
- a supplemental grant for English learners, students from low-income families and foster youths;
- an additional concentration grant based on the number of English learners, students from low-income families and foster youths that exceeds 55% of enrollment;
- add-on funding equal to the amount of State aid received in fiscal year 2012-13 for two existing categorical programs; and,
- an economic recovery component to transition school districts to at or above pre-recession funding by fiscal year 2020-12.

Apportionments for revenue limits are calculated three times a year for each school district, community college district and county board of education. The first calculation is performed for the February 20th first principal apportionment (based on period 1 ADA determined in December), the second calculation for the June 25th second principal apportionment (based on period 2 ADA determined in April), and the final calculation for the end of the year annual apportionment (also based on period 2 ADA). Calculations are reviewed by the county and submitted to the State Department of Education with respect to school districts and to the Chancellor of the California Community Colleges with respect to community college districts, which, respectively, reviews the calculations for accuracy, calculates the amount of state aid owed to such school district or community college district, as the case may be, and notifies the State Controller of the amount, who then distributes the state aid.

School districts that receive their revenue limit income entirely from property taxes are called "basic aid" school districts. These school districts are permitted to keep all their property tax money (even if it exceeds their revenue limit). As guaranteed in the State Constitution, the State must apportion $120 per pupil to all school districts. However, the categorical aid (see below) that basic aid school districts receive counts toward this requirement. The District is not a basic aid district.

Distribution of Revenues for Public Education

General Purpose. The largest part of each school district's revenue funds general operating expenses associated with providing education, including salaries, benefits, supplies, textbooks and regular maintenance. As previously mentioned, the Revenue Limit governs the amount each school district receives. Each school district also receives some State and federal money for special programs, special costs, or categories of children with particular educational needs, called "categorical aid."

Categorical Aid. This special support goes into a school district's General Fund, but its expenditure is restricted to the purpose for which it is granted. Historically, the complex allocation system has been adjusted somewhat by the State Legislature almost every year, with unpredictable effects on individual school districts. Implementation of LCFF in fiscal year 2013-14 greatly reduces the amount of categorical aid received from the State.

There are a number of major federal and State categorical aid programs. Some allocations come automatically to school districts, while others require an application. Most of the federal funds flow through the California Department of Education, which retains a certain percentage for administration.

In terms of dollars and the number of children served, the largest categorical aid program is special education. According to court decisions and federal and California law, school districts are responsible for the appropriate education of each disabled child from age 3 to 21 who lives within their boundaries. Historically, federal and State allocations have not covered the cost of educating special education students. Consequently, school districts have been required to contribute general purpose funds for special education; general fund contributions toward special education programs are known as "encroachment."

School Facilities. Growing enrollments and/or aging facilities require school districts to build or make major renovations to school buildings. The income from developer fees on residential or commercial property is insufficient to fund all facilities costs. General obligation bond moneys issued by a two-thirds voter approval may only be used for purchase or improvement of real property; general obligation bond moneys issued by 55% voter approval (pursuant to Proposition 39) can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities. See "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING REVENUES & EXPENDITURES" herein. Mello-Roos taxes can be used for this as well as for ongoing maintenance or purchase of needed equipment. A majority of voters has regularly approved state bond measures for the construction or reconstruction of schools.

State IOUs and Deferrals

In recent years, fiscal stress and difficulties in achieving a balanced State budget have resulted in actions that include the State issuing IOUs (defined below) to its creditors, and the deferral of school funding.

Commencing in fiscal year 2008-09, to manage its cash flow in light of declining revenues, the State enacted several statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year, in order to more closely align the State's revenues with its expenditures. This technique has been used several times through the enactment of budget bills in fiscal years 2008-2009 through 2013-14. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. For fiscal year 2013-14, enacted K-12 inter-year deferrals total $5.6 billion.

Fiscal stress and cash pressures currently facing the State may continue or become more difficult, and continuing declines in State tax receipts or other results of the current economic recession may materially adversely affect the financial condition of the State.

The 2012-13 State Budget

The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the District nor the Underwriter assumes any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.

Adopted Budget On June 27, 2012, the Governor signed the fiscal year 2012-13 State budget (the "2012-13 Budget"). The 2012-13 Budget closes a $15.7 billion budget gap and builds a reserve of nearly $1 billion with (i) $8.1 billion in expenditure reductions, (ii) $6 billion in increased revenues (which assumed the approval by the voters of the Governor's tax initiative, "The Schools and Local Public Safety Protection Act", at a November 2012 election) and (iii) $2.5 billion from certain loan and transfer measures.

The Schools and Local Public Safety Protection Act was approved by voters in November 2012, temporarily increasing the personal income tax on the State's wealthiest taxpayers for seven years and increasing the sales tax by 0.25% for four years.

The 2012-13 Budget contains the following spending reduction measures:

- Reformation of existing K-14 education mandates claim process by providing a block grant as an alternative. For non-school mandates, provides a multiyear suspension of most mandates to provide greater flexibility to local governments. ($720 million savings)
- Creation of framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services. Assets transferred to schools will offset State general fund costs. ($1.5 billion savings)
- Other adjustments including using a fiscal year 2011-12 over-appropriation of the minimum guarantee to prepay Proposition 98 funding required by a court settlement. ($1.9 million savings)

State general fund revenues (including transfers) are budgeted to be approximately $95.9 billion in fiscal year 2012-13, an increase of 10.4% from a revised fiscal year 2011-12 State general fund revenues and transfers of $86.8 billion. State general fund expenditures are budgeted to be $91.4 billion in fiscal year 2012-13, an increase of 5.0% from a revised $87.0 billion figure for fiscal year 2011-12.

The following table identifies historical and budgeted State general fund revenues and expenditures.

State General Fund under the Adopted 2012-13 Budget

	2011-12 Revised (Millions)	2012-13 Budget (Millions)
Prior-year Fund Balance	($2,685)	($2,882)
Revenues and Transfers	86,830	95,887
Total Resources Available	84,145	93,005
Expenditures	87,027	91,338
Ending Fund Balances	($2,882)	$1,667
Encumbrances	719	719
Reserve	(3,601)	948

Source: The California Department of Finance

K-12 Education. The 2012-13 Budget includes Proposition 98 funding of $53.6 billion, of which $36.8 billion is from the State general fund. This funding level assumes passage of the Tax Initiative, which increases Proposition 98 funding by $2.9 billion in fiscal year 2012-13.

Other significant K-12 funding adjustments include:

- *Redevelopment Agency Asset Liquidation* – An increase of $1.3 billion in local property taxes for fiscal year 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies. The increase in local revenue reduces Proposition 98 State general fund contribution by an identical amount.
- *Proposition 98 Adjustments* – A decrease of approximately $630 million due to (i) eliminating the hold-harmless adjustment provided to schools from the elimination of the sales tax gasoline in 2010-11, and (ii) using a consistent current value methodology to rebench the guarantee for the exclusion of child care programs, the inclusion of special education mental health services, as well as new and existing property tax shifts. Additionally, the 2012-13 Budget reduces current year appropriations for a number of different programs by $220.1 million, backfilling them with one-time Proposition 98 general fund, which achieves State general fund savings by an identical amount.
- *Quality Education Investment Act* – A decrease of $450 million State general fund for fiscal year 2012-13. The over-appropriation in fiscal year 2011-12 will be used to repay the $450 million required to be provided on top of the minimum guarantee in fiscal year 2012-13 pursuant to the *California Teachers Association v. Schwarzenegger* settlement agreement.
- *Deferrals* – An increase of $2.1 billion Proposition 98 State general fund to reduce K-12 inter-year deferrals to $7.4 billion.
- *Charter Schools* – An increase of $53.7 billion Proposition 98 State general fund for charter schools categorical programs to fund growth in enrollment. Additionally, legislation expands the ability of school districts to convey surplus property to

charter schools, while also increasing financial assistance by allowing county treasurers to provide them with short-term cash loans, and by authorizing charter schools to utilize temporary revenue anticipation note borrowings.

- *Mandate Block Grant* – An increase of $86.2 million over the fiscal year 2011-12 funding level to provide a total of $166.6 million for K-12 mandates through a new voluntary block grant.
- *Child Care Costs* – Savings of $294.3 million in non-Proposition 98 State general fund through various cost-reduction measures, including reduction of provider contracts across the board and suspension of statutory COLA.

The 2013-14 State Budget

The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the District nor the Underwriter assumes any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.

On June 27, 2013, the Governor signed the 2013-14 State Budget which reflects a significant improvement in the State's finances due to the economic recovery, prior budgetary restraint, and voters' approval of The Schools and Local Public Safety Protection Act.

The following table identifies historical and budgeted State general fund revenues and expenditures.

State General Fund
2013-14 State Budget

	2012-13 Revised (Millions)	2013-14 Budget (Millions)
Prior-year Fund Balance	($1,658)	$872
Revenues and Transfers	$98,195	$97,098
Total Resources Available	$96,537	$97,970
Expenditures	$95,665	$96,281
Ending Fund Balances	$872	$1,689
Encumbrances	$618	$618
Reserve	$254	$1,071

Source: The California Legislative Analyst's Office.

Funding for Education. The 2013-14 State Budget includes fiscal year 2013-14 Proposition 98 funding of $56.5 billion, an increase of $2.9 billion from revised fiscal year 2012-13 levels. The following table identifies historical and budgeted Proposition 98 funding.

Proposition 98 Funding
2013-14 State Budget

	2011-12 Actual (Millions)	2012-13 Revised (Millions)	2013-14 Budget (Millions)
Preschool	$368	$481	$507
K-12 Education			
General Fund	$29,317	$36,195	$34,693
Local Property Tax Revenue	12,125	13,760	13,036
Subtotal	$41,443	$49,955	$48,628
California Community Colleges			
General Fund	$3,279	$3,701	$3,742
Local Property Tax Revenue	1,977	2,251	2,291
Subtotal	$5,256	$5,951	$6,033
Other Agencies	$83	$78	$78
Unallocated	0	0	35
Total	$47,149	$56,465	$55,281
General Fund	$33,047	$40,454	$39,055
Local Property Tax Revenue	14,102	16,011	16,226

Source: The California Legislative Analyst's Office.

The 2013-14 State Budget replaces the existing revenue limit allocation formula with a new formula, the "Local Control Funding Formula" or "LCFF". The LCFF includes the following components:

- A base grant for each local education agency equivalent to $7,643 per unit of average daily attendance (ADA). This amount includes an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local education agency's base grant, based on the number of English learners, students from low-income families, and foster youth served by the local agency that comprise more than 55% of enrollment.
- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF in fiscal year 2020-21.

In addition to implementation of the LCFF, significant K-12 funding adjustments include:

- *Common Core Implementation* — An increase of $1.25 billion in one-time Proposition 98 funding to support the implementation of Common Core – new standards for evaluating student achievement in English-language arts and math.
- *Career Technical Education Pathways Grant Program* — An increase of $250 million of Proposition 98 funding for one-time competitive capacity-building grants for K-12 school districts and community college to support programs focused on work-based learning.
- *K-12 Mandates Block Grant* — An increase of $50 million in Proposition 98 funding to reflect the including of the graduation requirements mandate within the block grant program.
- *K-12 Deferrals* — An increase of $1.6 billion million in Proposition 98 funding in fiscal year 2012-13 and an increase of $242.3 million in Proposition 98 funding in fiscal year 2013-14 for the repayment of inter-year budgetary deferrals, reducing inter-year deferrals to $5.6 billion by the end of fiscal year 2013-14.

- *Energy Efficiency Investments* — An increase of $381 million in Proposition 98 funding to support energy efficiency projects in schools consistent with Proposition 39.
- *Special Education* — The 2013-14 State Budget includes several consolidations for special education programs in an effort to simplify special education finance and provide special education local plan areas with additional funding flexibility.

Future Budgets

The District can not predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools as budgeted. Continued State budget shortfalls in future fiscal years could have an adverse financial impact on the District.

For more information on the State Budget, please refer to the California Department of Finance's website at www.dof.ca.gov and to the Legislative Analyst's Office's website at www.lao.ca.gov. The information contained in these websites is not incorporated by reference.

CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES & EXPENDITURES

Article XIIIA. In an election held on June 6, 1978, the voters of the State approved an initiative amendment to the State Constitution. The amendment added Article XIIIA to the State Constitution, commonly known as Proposition 13, which limits the taxing powers of State public agencies. Except as described in the following paragraph, Article XIIIA provides that the maximum *ad valorem* tax on real property cannot exceed one percent of the "full cash value" which is defined as 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 has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction. The "full cash value" is subject to annual adjustments to reflect increases not to exceed two percent per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, and except as described in the following sentence, prohibits the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended by Proposition 46, on June 3, 1986, Article XIIIA exempts from the one percent tax limitation *ad valorem* taxes required to pay debt service on indebtedness approved by the voters prior to July 1, 1978, or on bonded indebtedness approved by two-thirds of those voting thereon, after July 1, 1978, the proceeds of which are applied to the acquisition or improvement of real property.

Proposition 39: On November 7, 2000, voters within the State approved an amendment (commonly known as Proposition 39) to the State Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds, and (2) changes existing statutory law regarding charter school facilities. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. The 55 percent vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure.

Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for a high school or elementary school district), or $25 (for a community college district), per $100,000 of taxable property value. The Governor can change these limitations with a majority vote of both houses of the Legislature and approval; unlike constitutional amendments, which may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition.

Finally, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws for the purpose of increasing tax revenues.

Article XIIIB. In a special election held on November 6, 1979, the voters of the State approved an initiative constitutional amendment. This amendment added Article XIIIB to the State Constitution. Article XIIIB limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Appropriations subject to Article XIIIB include generally the proceeds of taxes levied by the State or by any other entity of local government, exclusive of certain State subventions, refunds or taxes, benefit payments from retirement, unemployment insurance and disability insurance funds but excludes taxes to pay voter approved bonds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (1) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (2) the investment of tax revenues. Article XIIIB includes a requirement that if an entity's 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. State law provides that in the event a school district's appropriations will exceed its limit, the district may assume from the State a portion of the State's appropriations limit.

Proposition 98/111: On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed State funding of public education below the university level and the operation of the State's appropriations limit, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990, hereinafter defined as "Proposition 98/111"), K-14 schools are guaranteed the greater of (a) the percentage of General Fund revenues appropriated for school districts in Fiscal Year 1986-87 ("Test 1"); (b) the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State *per capita* personal income) and enrollment ("Test 2"); or (c) a third test, which would replace Test 2 in any year in which the percentage growth in State *per capita* personal income is greater than the percentage growth on *per capita* General Fund revenues plus one-half of one percent ("Test 3").

Under Test 3, schools would receive the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year adjusted for changes in enrollment and *per capita* General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when *per capita* General Fund revenue growth exceeds *per capita* personal income growth. Legislation adopted prior to the end of the 1988-89 Fiscal Year, implementing Proposition 98, determined the K-14 schools' funding guarantee under Test 1 to be 40.3% of the General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 34% to account for a subsequent redirection of local property taxes, since such redirection directly affects the share of General Fund revenues to schools.

Proposition 98/111 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period. This guarantee was suspended in 2004-05, initially with the agreement of the Education Coalition (an alliance of major education interest groups), and effectively reduced the amount schools received by $2 billion. The Legislature ratified the suspension in Senate Bill 1101. However, the Education Coalition agreed to the suspension under the terms that Proposition 98 funding would be reduced for only one year, the year of the State budget crisis, by a maximum of $2 billion; and if the situation were to improve, funding would be restored. But when the State's finances did improve, funding was not restored to the same level it at which it would have been, had the suspension not occurred. Subsequently, the State Superintendent of Public Instruction Jack O'Connell filed a lawsuit jointly with the California Teachers Association against Governor Arnold Schwarzenegger over this loss in Proposition 98 funding. On May 10, 2006, the two sides reached an agreement whereby, in effect, the State would repay all losses incurred due to the suspension, with payments to be made annually through 2013-14.

Since Proposition 98/111 is unclear in some details, there can be no assurance that the Legislature or a court might not interpret it to require a different percentage of General Fund revenues to be allocated to K-14 districts or to apply the relevant percentage to the State's budget in a different way. Proposition 98/111 may place increasing pressure on the State's budget in future years, potentially reducing resources available for other State programs, especially to the extent that the Article XIIIB spending limit would restrain the State's ability to fund these other programs by raising taxes.

Proposition 98/111 also changes how tax revenues in excess of the State's appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the appropriations limits for K-14 districts and the K-14 schools' appropriations limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to schools is four percent of the minimum State spending for education mandated by Proposition 98/111, as described above.

Proposition 1A. On November 2, 2004, California voters approved Proposition 1A amending the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not reduce any local sales tax rates or alter the method of allocation, shift property taxes from local governments to schools or community colleges, make changes in how property taxes revenues are shared among local governments without two-thirds approval of both house of the State Legislature, and decrease vehicle license fees without providing local governments with equal replacement funding.

Under Proposition 1A, beginning in fiscal year 2008-09, the State may divert no more than eight percent of local property tax revenues for State purposes (including but not limited to funding K-12 education) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency, (ii) two-thirds approval of both houses of the State Legislature, (iii) the amount diverted is required to be repaid within three years, and (iv) certain other conditions are met.

Article XIIIC and Article XIIID. On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes except as allowed by Article XIIIA; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIID also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the State Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer/tax collector (of each county) to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. Legislation adopted in 1997 provides that Article XIIIC will not be construed to mean that any Registered Owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure, which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by school districts.

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

Possible Future Actions. Article XIIIA, Article XIIIB and Propositions 39, 46, 98, 111 and 218 and 1A 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 K-14 school districts' revenues or such districts' ability to expend revenues. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations which could reduce property or other tax revenues and adversely affect the revenues of school districts or require additional expenditures.

LEGAL MATTERS

No Litigation

There is no action, suit or proceeding known to be pending or threatened restraining or enjoining the sale and delivery of the Bonds, or in any way contesting or affecting the validity thereof or any proceeding of the District taken with respect to the issuance or sale of the Bonds, or the pledge or application of moneys or security provided for the payment of the Bonds, or the authority of the County to levy property taxes to pay principal and interest on the Bonds when due.

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation, Sacramento, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is set forth in "APPENDIX C—PROPOSED FORM OF BOND COUNSEL OPINION" to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Tax Matters

In the opinion of Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation, Sacramento, California, Bond Counsel, based upon the analysis of existing statutes, regulations, ruling and court decisions, and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account when determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. A complete copy of the proposed form of Opinion of Bond Counsel is set forth in "APPENDIX C—PROPOSED FORM OF BOND COUNSEL OPINION."

The Internal Revenue Code of 1986, as amended, (the "Code") imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after that date of issuance of the Bonds may adversely affect the tax status of interest on the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel expects to render an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes and exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal and/or state income taxation, or otherwise prevent Beneficial Owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal and/or state tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations that present similar tax issues, will not affect the market price or liquidity of the Bonds.

The rights of the Owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and target audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Legality for Investment

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

RATING

Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of The McGraw-Hill Companies, Inc., has assigned a municipal bond rating of "AA-" 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 S&P at the following address: Standard & Poor's Financial Services LLC, 55 Water Street, New York, New York 10041. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

Government Financial Strategies inc. has been employed by the District to perform financial advisory services in relation to the sale and delivery of the Bonds. Government Financial Strategies inc., in its capacity as financial advisor, has read and participated in drafting certain portions of this Official Statement. Government Financial Strategies inc. has not, however, independently verified nor confirmed all of the information contained within this Official Statement. Government Financial Strategies inc. will not participate in the underwriting of the Bonds. Fees charged by Government Financial Strategies inc. are not contingent upon the sale of the Bonds.

INDEPENDENT AUDITOR

The financial statements of the District as of and for the year ending June 30, 2012, have been audited by Vavrinek, Trine, Day & Co., LLP, Palo Alto, California. The audited financial statements of the District as of and for the year ended June 30, 2012, are set forth in "APPENDIX A – THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2012" attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. The Auditor has not performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter. Complete copies of all past and current financial statements may be obtained from the District.

UNDERWRITING AND INITIAL OFFERING PRICE

The Bonds were sold to__________ (the "Underwriter") pursuant to a bond purchase agreement by and among the District and the Underwriter for $_________, an amount equal to the principal amount of the Bonds, plus an original issue premium of $_______, less an underwriting discount of $_______, at a true interest cost (TIC%) to the District of _________%.

The Underwriter has certified the initial offering prices or yields stated on the cover page to this Official Statement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices. The reoffering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 270 days after the end of each fiscal year, commencing with the report for the 2012-13 fiscal year (which is due no later than March 27, 2014), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of certain enumerated events will be filed by the District with the MSREB through its EMMA system. The specific nature of the information to be contained in the Annual Report or the notices are set forth in "APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Due to administrative oversight, the District did not file its annual reports for fiscal years 2007-08 through 2011-12 as well as event notices due to rating downgrades in a timely manner. To ensure future filings are made in a timely manner, the District has retained Government Financial Strategies inc. as dissemination agent for its prior undertakings with regard to the Rule. As of the date of this Official Statement, all required filings have been made in connection with prior undertakings.

ADDITIONAL INFORMATION

Additional information concerning the District, the Bonds or any other matters concerning the sale and delivery of the Bonds may be obtained by contacting the District through the Chief Financial Officer at the address and telephone number set forth on page "iii" of this Official Statement, or by contacting Government Financial Strategies inc. at the address and telephone number set forth on page "iii" of this Official Statement.

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

Cambrian School District

By: ____________________________

Dr. Deborah Blow
Superintendent

APPENDIX A

THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2012

CAMBRIAN SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

CAMBRIAN SCHOOL DISTRICT

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JUNE 30, 2012

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cambrian School District
San Jose, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Cambrian School District, as of June 30, 2012, 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 December 3, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying supplementary information, such as the schedule of expenditures and Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
December 3, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

This section of Cambrian School District's 2011-2012 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

The primary unit of the government is the Cambrian School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, the associated student body activities. The District's fiduciary activities are reported in the Statement of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $35,852,480 for the fiscal year ended June 30, 2012. Of this amount, $9,432,485 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the school board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2011/2012	2010/2011
Current and other assets	$ 27,599,892	$ 27,188,890
Capital assets	29,825,887	31,533,766
Total Assets	57,425,779	58,722,656
Current liabilities	1,275,780	1,435,245
Long-term debt	20,297,519	20,458,230
Total Liabilities	21,573,299	21,893,475
Net Assets		
Invested in capital assets, Net of related debt	9,645,214	11,160,180
Restricted	1,072,041	1,625,511
Unrestricted	25,135,225	24,043,490
Total Net Assets	$ 35,852,480	$ 36,829,181

The $25,135,225 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations for all District funds combined and available reserves.

Changes in Net Assets

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

Table 2

	Governmental Activities	
	2011/2012	2010/2011
Revenues		
Program revenues:		
Charges for services	$ 401,530	$ 388,724
Operating grants and contributions	3,073,425	2,761,451
General Revenues		
Federal and State aid	9,414,923	9,405,490
Property taxes	13,417,085	13,230,098
Other general revenues	2,115,737	1,919,681
Total Revenues	28,422,700	27,705,444
Expenses		
Instruction related	21,644,889	20,192,446
Student support services	1,997,941	1,774,853
Administration	2,112,092	1,774,968
Maintenance and operations	2,699,823	2,336,529
Other	944,656	958,766
Total Expenses	29,399,401	27,037,562
Change in Net Assets	$ (976,701)	$ 667,882

Governmental Activities

As reported in the Statement of Activities in the audited financial statements, the cost of all of our governmental activities this year was $29,399,401. The amount that our taxpayers ultimately financed for these activities through local taxes, and other revenues was $25,924,446.

In Table 3, we have presented the net cost of each of the District's largest functions. Net cost of services shows the financial burden that was primarily placed on the District's taxpayers by each of these functions.

Table 3

	Net Cost of Services			
	2011/2012		2010/2011	
Instruction and instruction related	$	19,089,818	$	17,936,880
Pupil services		1,078,257		880,244
General administration		2,112,092		1,774,968
Maintenance and operations		2,699,623		2,336,529
Other		944,656		958,766
Totals	$	25,924,446	$	23,887,387

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $26.5 million which is a slight increase of approximately $0.6 million from last year. This increase is a result of a variety of relatively small positive revenue and expenditure variances throughout the budget.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had $44.5 million in a broad range of capital assets. Accumulated depreciation was $14.7 million. This amount represents a net decrease (including additions, deductions and depreciation) of $1.7 million or 5.42% over last year.

Long-Term Obligations

At the end of this year, the District had $20,180,673 in outstanding bonds. Lease revenue bond obligations for leased daycare relocatable buildings were paid off during the year.

Other obligations include compensated absences payable. We present more detailed information regarding our long-term liabilities in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2012-2013 fiscal year, the District board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. A slight increase in ADA due to recent trends.
2. Federal revenues are lower reflecting the exhaustion of stimulus funds.
3. Developer fee revenues are estimated based on the history of actual fees collected.
4. Other State revenues have been reduced to account for larger K-3 classes and therefore reduced class size reduction revenues.
5. Local revenues have been reduced primarily to reflect the practice of not recognizing local revenues before an award letter has been received.

Expenditures are based on existing programs. Regular education staffing has been reduced to reflect an increase in K-3 class sizes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Financial Officer, Business Services, at Cambrian School District, 4115 Jacksol Drive, San Jose, California, 95124.

CAMBRIAN SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Deposits and investments	$ 23,134,792
Receivables	4,284,142
Prepaid expenses	9,218
Deferred charges	171,740
Capital assets, net of accumulated depreciation	29,825,887
Total Assets	57,425,779
LIABILITIES	
Accounts payable	818,956
Interest payable	315,971
Due to other governments	78,395
Deferred revenue	62,458
Current portion of long-term obligations	616,846
Noncurrent portion of long-term obligations	19,680,673
Total Liabilities	21,573,299
NET ASSETS	
Invested in capital assets, net of related debt	9,645,214
Restricted for:	
Debt service	507,432
Capital outlay	128,791
Legally restricted	435,818
Unrestricted	25,135,225
Total Net Assets	$ 35,852,480

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

CAMBRIAN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities
Governmental Activities:				
Instruction	$ 19,435,841	$ -	$ 2,532,978	$ (16,902,863)
Instruction-related activities:				
Supervision of instruction	601,947	-	21,384	(580,563)
Instructional library, media, and technology	163,941	-	352	(163,589)
School site administration	1,443,160	-	357	(1,442,803)
Pupil services:				
Home-to-school transportation	230,202	-	19,784	(210,418)
Food services	837,862	401,530	381,259	(55,073)
All other pupil services	929,877	-	117,111	(812,766)
General administration:				
Data processing	556,559	-	-	(556,559)
All other general administration	1,555,533	-	-	(1,555,533)
Plant services	2,626,950	-	200	(2,626,750)
Facility acquisition and construction	72,873	-	-	(72,873)
Interest on long-term obligations	944,656	-	-	(944,656)
Total Governmental-Type Activities	$ 29,399,401	$ 401,530	$ 3,073,425	(25,924,446)

General revenues and subventions:	
Property taxes, levied for general purposes	11,509,408
Property taxes, levied for debt service	1,108,426
Taxes levied for other specific purposes	799,251
Federal and state aid not restricted to specific purposes	9,414,923
Interest and investment earnings	183,464
Miscellaneous	1,932,273
Subtotal, General Revenues	24,947,745
Change in Net Assets	(976,701)
Net Assets - Beginning	36,829,181
Net Assets - Ending	$ 35,852,480

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

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CAMBRIAN SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	$ 6,467,933	$ 8,778,695	$ 6,826,603
Receivables	4,163,431	41,507	10,504
Due from other funds	-	-	123,319
Prepaid expenditures	9,218	-	-
Total Assets	$ 10,640,582	$ 8,820,202	$ 6,960,426
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 677,461	$ -	$ 88,506
Due to other funds	123,319	-	-
Due to other governments	78,395	-	-
Deferred revenue	62,458	-	-
Total Liabilities	941,633	-	88,506
Fund Balances:			
Nonspendable	10,618	-	-
Restricted	219,076	-	-
Assigned	-	8,820,202	6,871,920
Unassigned	9,469,255	-	-
Total Fund Balances	9,698,949	8,820,202	6,871,920
Total Liabilities and Fund Balances	$ 10,640,582	$ 8,820,202	$ 6,960,426

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

Non-Major Governmental Funds	Total Governmental Funds
$ 1,061,561	$ 23,134,792
68,700	4,284,142
-	123,319
-	9,218
$ 1,130,261	$ 27,551,471
$ 52,989	$ 818,956
-	123,319
-	78,395
-	62,458
52,989	1,083,128
258	10,876
996,938	1,216,014
80,076	15,772,198
-	9,469,255
1,077,272	26,468,343
$ 1,130,261	$ 27,551,471

CAMBRIAN SCHOOL DISTRICT

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

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balance - Governmental Funds		$ 26,468,343
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 44,482,972	
Accumulated depreciation is	(14,657,085)	29,825,887
Bond issuance costs are expensed in governmental funds but are capitalized as deferred charges and amortized over the life of the debt in the government-wide statements.		171,740
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		(315,971)
Long-term liabilities at year end consist of:		
General obligation bonds	20,180,673	
Compensated absences (vacations)	116,846	(20,297,519)
Total Net Assets - Governmental Activities		$ 35,852,480

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

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CAMBRIAN SCHOOL DISTRICT

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

	General Fund	Building Fund	Special Reserve Capital Fund
REVENUES			
Revenue limit sources	$ 17,124,607	$ -	$ -
Federal sources	1,720,624	-	-
Other state sources	4,727,079	-	-
Other local sources	2,682,085	77,548	170,840
Total Revenues	26,254,395	77,548	170,840
EXPENDITURES			
Current			
Instruction	18,158,782	-	-
Instruction-related activities:			
Supervision of instruction	560,971	-	-
Instructional library, media and technology	152,781	-	-
School site administration	1,344,920	-	-
Pupil Services:			
Home-to-school transportation	214,532	-	-
Food services	-	-	-
All other pupil services	866,578	-	-
General administration:			
Data processing	518,673	-	-
All other general administration	1,416,778	-	-
Plant services	2,350,367	276,583	-
Facility acquisition and construction	43,900	-	17,469
Debt service			
Principal	40,000	-	-
Interest and other	1,950	-	-
Total Expenditures	25,670,232	276,583	17,469
NET CHANGE IN FUND BALANCES	584,163	(199,035)	153,371
Fund Balance - Beginning	9,114,786	9,019,237	6,718,549
Fund Balance - Ending	$ 9,698,949	$ 8,820,202	$ 6,871,920

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

Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 17,124,607
322,834	2,043,458
48,921	4,776,000
1,548,162	4,478,635
1,919,917	28,422,700
-	18,158,782
-	560,971
-	152,781
-	1,344,920
-	214,532
780,826	780,826
-	866,578
-	518,673
-	1,416,778
-	2,626,950
11,504	72,873
455,000	495,000
637,848	639,798
1,885,178	27,849,462
34,739	573,238
1,042,533	25,895,105
$ 1,077,272	$ 26,468,343

CAMBRIAN SCHOOL DISTRICT

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

Amounts Reported for Governmental Activities in the Statement of	
Total Net Change in Fund Balances - Governmental Funds	$ 573,238
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are capitalized in the statement of net assets and depreciated over their estimated useful lives in the statement of activities.	
This is the amount by which depreciation exceeds capital outlays in the period.	(1,707,879)
In the statement of activities, compensated absences 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).	(32,202)
Amortization of bond issuance costs is an expense in the statement of activities, but is not recorded in the governmenal funds.	(10,733)
Repayment of lease revenue bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	40,000
Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	455,000
Accretion of interest expense on the capital appreciation bonds is recorded as an expense in the government-wide statement of activities, but is not recorded in the governmental funds.	(302,087)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net change of interest accrued but not yet due.	7,962
Change in Net Assets of Governmental Activities	$ (976,701)

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

CAMBRIAN SCHOOL DISTRICT

FIDUCIARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Agency Fund
ASSETS	
Deposits and investments	$ 140,174
LIABILITIES	
Due to student groups	$ 140,174

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Cambrian School District was organized in 1865 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates four elementary and one middle schools.

A reporting entity is comprised of the primary government only. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Cambrian School District, this includes general operations, food service, and student related activities of the District.

Charter School

The District has approved Charters for Farnham Charter School, Fammatre Charter, Sartorette Charter School, and Ida Price Charter School. All of these Charter Schools are operated by the District, and their financial activities are presented in the General Fund.

Basis of Presentation - Fund Accounting

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

Governmental Funds

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

Major Governmental Funds

General Fund

The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

Building Fund

The Building Fund exists primarily to account separately for proceeds from the sale of bonds *(Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Special Reserve Fund for Capital Outlay Projects

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

Special Revenue Funds

The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Cafeteria Fund

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

Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Retiree Benefits Fund

The Retiree Benefits Fund is used for accumulating general fund moneys for retiree benefits purposes.

Capital Project Funds

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

Capital Facilities Fund

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

Debt Service Funds

The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Bond Interest and Redemption Fund

The Bond Interest and Redemption Fund is used for the repayment of bonds issued for the District *(Education Code* Sections 15125-15262).

Fiduciary Funds

Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for Associated Student Body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is similar to that used by most private sector companies, but differs from the manner in which governmental fund financial statements are prepared.

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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 fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds

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

Fiduciary Funds

Fiduciary funds are accounted for using the flow of economic resources measurement focus and 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 on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

Deferred Revenue

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

Expenses/Expenditures

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

Investments

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

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

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

Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds, but are capitalized and amortized to operations in the government-wide statements. General capital assets are long-lived assets of the District as a whole. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The historical costs of land are not considered significant and have been omitted from the capital assets detail.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements 15 to 40 years. The District capitalizes assets with value exceeding $50,000.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental column of the statement of net assets.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Debt service on bonds, capital leases, and other long-term loans is recognized as an expenditure in the governmental fund financial statements when paid. Long-term obligations are not reflected as liabilities in governmental funds. They are disclosed in the footnotes as components of long-term debt.

Deferred Issuance Costs, Premiums and Discounts

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

Fund Balances - Governmental Funds

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 3 percent of General Fund expenditures and other financing uses.

Net Assets

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

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Tax

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

New Accounting Pronouncements

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

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

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

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statements No. Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.
The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	$ 23,134,792
Fiduciary funds	140,174
Total Deposits and Investments	$ 23,274,966

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

Cash on hand and in banks	$ 1,986,883
Cash in revolving	1,658
Investments	21,286,425
Total Deposits and Investments	$ 23,274,966

Policies and Practices

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

Investment in County Treasury

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

Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District monitors the interest rate risk inherent in its portfolio by measuring the modified duration of its portfolio. The District has no specific limitations with respect to this metric.

Investment Type	Carrying Amount	Fair Value	Weighted Average Maturity In Years
U.S. Agencies	$ 2,067,741	$ 2,067,741	4.45
Corporate Notes	1,617,333	1,617,332	1.53
County Treasury Pool	14,783,092	14,839,416	1.29
State Investment Pool	2,818,259	2,821,697	1.29
Total	$ 21,286,425	$ 21,346,186	

Credit Risk

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

Investment Type	Fair Value	S & P Rating as of Year End AA+	AA-	A+	A	A-	Unrated
U.S. Agencies	$ 2,067,741	$ 2,067,741	$ -	$ -	$ -	$ -	$ -
Corporate Notes	1,617,332	196,909	64,681	439,257	293,958	622,527	-
County Treasury Pool	14,839,416	-	-	-	-	-	14,839,416
State Investment Pool	2,821,697	-	-	-	-	-	2,821,697
Total	$ 21,346,186	$ 2,264,650	$ 64,681	$ 439,257	$ 293,958	$ 622,527	$ 17,661,113

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, none of the District's bank balance of $1,772,898 was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investments that are not registered in the name of the District are the investments in the Santa Clara County Pool, the investment in the State investment pool (LAIF) and the District's investment in money market mutual funds.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The following issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) had investments that represent 5% or more of the District's total investments:

Issuer	Investment Type	Reported Amount	Percentage
Federal National Mortgage Association	US Agencies	$ 1,622,641	7.60%

NOTE 3 – RECEIVABLES

	General	Building	Special Reserve Capital	Nonmajor Funds	Total
Federal Government					
Categorical aid	$ 157,084	$ -	$ -	$ 48,834	$ 205,918
State Government					
Apportionment	2,682,761	-	-	-	2,682,761
Categorical aid	392,603	-	-	4,037	396,640
Lottery	217,656	-	-	-	217,656
Local Government					
Interest	13,507	41,507	10,504	771	66,289
Other Local Sources	699,820	-	-	15,058	714,878
Total	$ 4,163,431	$ 41,507	$ 10,504	$ 68,700	$ 4,284,142

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets being depreciated:				
Buildings and Improvements	$ 44,482,972	$ -	$ -	$ 44,482,972
Less Accumulated Depreciation:				
Buildings and Improvements	12,949,206	1,707,879	-	14,657,085
Governmental Activities Capital Assets, Net	$ 31,533,766	$ (1,707,879)	$ -	$ 29,825,887

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

Governmental Activities	
Instruction	$ 1,277,059
Supervision of instruction	40,976
Instructional library, media, and technology	11,160
School site administration	98,240
Pupil transportation	15,670
Food services	57,036
All other pupil services	63,299
All other general administration	106,553
Data processing	37,886
Total Depreciation Expense All Activities	$ 1,707,879

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

		Due To General
Due From	Special Reserve Capital	$ 123,319

NOTE 6 – ACCOUNTS PAYABLE

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

	General	Special Reserve Capital	Non-Major Governmental	Total
Vendor payables	$ 478,307	$ 88,506	$ 15,359	$ 582,172
State apportionment	142,945	-	-	142,945
Salaries and benefits	56,209	-	37,630	93,839
Total	$ 677,461	$ 88,506	$ 52,989	$ 818,956

NOTE 7 – DEFERRED REVENUE

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

	General
Federal financial assistance	$ 12,823
Other local	49,635
Total	$ 62,458

NOTE 8 – LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

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

	Balance July 1, 2011	Accretion	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	$20,333,586	$ 302,087	$ 455,000	$ 20,180,673	$ 500,000
Accumulated vacation - net	84,644	32,202	-	116,846	116,846
Lease revenue bond	40,000	-	40,000	-	-
	$20,458,230	$ 334,289	$ 495,000	$ 20,297,519	$ 616,846

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted	Redeemed	Bonds Outstanding June 30, 2012
7/1/2003	7/1/2028	2.0%-4.0%	$ 15,524,912	$ 13,784,869	$ 34,697	$ 390,000	$ 13,429,566
4/1/2005	7/1/2035	2.7%-5.5%	5,450,033	6,548,717	267,390	65,000	6,751,107
				$ 20,333,586	$ 302,087	$ 455,000	$ 20,180,673

Debt Service Requirements to Maturity

The general obligation bonds mature through 2036 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ 500,000	$ 630,111	$ 1,130,111
2014	550,000	614,411	1,164,411
2015	610,000	592,611	1,202,611
2016	670,000	568,212	1,238,212
2017	735,000	541,411	1,276,411
2018-2022	4,750,000	2,208,938	6,958,938
2023-2027	6,911,819	1,176,319	8,088,138
2028-2032	2,373,059	6,996,941	9,370,000
2033-2036	1,205,066	4,844,934	6,050,000
Total	18,304,944	$ 18,173,888	$ 36,478,832
Accretion to date:	1,875,729		
	$ 20,180,673		

Lease Revenue Bonds

During 1997, the District entered into a long-term lease agreement with the City of San Jose (the "City") for the use of portable classroom facilities. The City issued lease revenue bonds in the total amount of $9,805,000, the proceeds of which have been used to purchase portable school buildings and other items. The District's allocation of the bond proceeds at par is $445,000. The District pays back the City in the form of annual payments equal to their proportional share of the annual debt service on the bonds. The payments are due annually in principal amounts ranging from $20,000 to $40,000 plus interest at approximately 4.6 percent per annum. The final payment was made June 30, 2012.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to $116,846.

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 1,400	$ -	$ -	$ 258	$ 1,658
Prepaid expenditures	9,218	-	-	-	9,218
Total Nonspendable	10,618	-	-	258	10,876
Restricted					
Legally restricted programs	219,076	-	-	44,744	263,820
Capital projects	-	-	-	128,791	128,791
Debt services	-	-	-	823,403	823,403
Total Restricted	219,076	-	-	996,938	1,216,014
Assigned					
Capital projects	-	8,820,202	6,871,920	-	15,692,122
OPEB	-	-	-	17,168	17,168
Maintenance	-	-	-	62,908	62,908
Total Assigned	-	8,820,202	6,871,920	80,076	15,772,198
Unassigned					
Reserve for economic uncertainties	1,249,730	-	-	-	1,249,730
Remaining unassigned	8,219,525	-	-	-	8,219,525
Total Unassigned	9,469,255	-	-	-	9,469,255
Total	$9,698,949	$8,820,202	$6,871,920	$1,077,272	$26,468,343

NOTE 10 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2012, the District contracted with the Santa Clara County Schools Insurance Group 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 2011-2012, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Santa Clara County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Groups' selection criteria.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$1,063,652, \$1,025,444 and \$1,148,087, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were $251,479, $247,134 and $242,759, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $675,631 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Santa Clara County Schools Insurance Group public entity risk pool and the West Valley Transportation Joint Powers Authority. The District pays an annual premium to the entities for its health, workers' compensation, property liability coverage, and to purchase transportation services. The relationship between the District and the pool, is such that it is not a component unit of the District for financial reporting purposes.

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

The District has appointed one member to the governing board of Santa Clara County Schools Insurance Group and West Valley Transportation Joint Powers Authority.

During the year ended June 30, 2012, the District made payments of $748,173 and $142,021 to the Santa Clara County Schools Insurance Group and West Valley Transportation Joint Powers Authority, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CAMBRIAN SCHOOL DISTRICT

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

	Budgeted Amounts		Actual Non GAAP	Variances - Favorable (Unfavorable) Final
	Original	Final	Basis	to Actual
REVENUES				
Revenue limit sources	$ 17,376,041	$ 17,069,609	$ 17,124,607	$ 54,998
Federal sources	1,410,973	1,592,347	1,720,624	128,277
Other state sources	3,479,027	4,060,893	4,051,448	(9,445)
Other local sources	2,516,221	2,623,907	2,677,600	53,693
Total Revenues[1]	24,782,262	25,346,756	25,574,279	227,523
EXPENDITURES				
Current				
Certificated salaries	13,129,357	13,274,864	13,150,258	124,606
Classified salaries	3,130,149	3,233,541	3,286,133	(52,592)
Employee benefits	4,367,564	4,543,777	4,425,726	118,051
Books and supplies	839,665	1,265,570	1,167,217	98,353
Services and operating expenditures	2,774,153	2,948,895	2,879,417	69,478
Other outgo	11,109	11,109	-	11,109
Capital outlay	41,950	43,900	43,900	-
Debt service - principal	-	-	40,000	(40,000)
Debt service - interest	-	-	1,950	(1,950)
Total Expenditures[1]	24,293,947	25,321,656	24,994,601	327,055
NET CHANGE IN FUND BALANCES	488,315	25,100	579,678	554,578
Fund Balance - Beginning	8,480,217	8,480,217	8,480,217	-
Fund Balance - Ending	$ 8,968,532	$ 8,505,317	9,059,895	$ 554,578
Special Reserve Fund for Other Than Capital Outlay			639,054	
Fund Balance - Ending, GAAP Basis			$ 9,698,949	

[1] On behalf payments of $675,631 has been excluded from this schedule.

Supplementary Information

CAMBRIAN SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education:			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14981	$ 203,116
Title II, Part A, Teacher Quality	84.367	14341	72,763
Title II, Part D, Enhancing Education Through Technology	84.318	14334	1,826
Title II, ARRA, Part D, Enhancing Education Through Technology	84.386	15019	3,620
Title III, Limited English Proficiency Student Program	84.365	10084	62,458
Education Jobs and Medicaid Assistance Act:			
Education Jobs Program	84.410	25152	627,010
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B	84.027	13379	458,607
Basic Local Assistance Entitlement, Part B, Private School	84.027	10115	1,842
Preschool Grants, Part B	84.173	13430	36,702
Preschool Local Entitlement, Part B	84.027A	13682	79,516
Preschool Staff Development, Part B	84.173A	13431	533
Mental Health Allocation Plan, Part B	84.027	14468	32,075
Subtotal			1,580,068
U.S. DEPARTMENT OF AGRICULTURE			
Passed throught the California Department of Education:			
Child Nutrition Act:			
Basic School Breakfast Program	10.553	13525	9,376
Especially Needy Breakfast	10.553	13526	62,349
National School Lunch Program	10.555	13391	251,109
Fair Market Value of Commodities [1]	10.558	13534	38,425
Subtotal			361,259
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Medi-Cal Administrative Activites	93.778	10060	140,556
Total Expenditures of Federal Awards			$ 2,081,883

[1] Commodities are not recorded in the financial statements.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2012

ORGANIZATION

The Cambrian School District was organized in 1865 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates four elementary schools and one middle school.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Randy Scofield	President	2014
Stacey Brown	Vice President	2014
Doron Aronson	Clerk	2012
Jarod Middleton	Member	2012
Alan Baker	Member	2014

ADMINISTRATION

Dr. Deborah Blow	Superintendent
Don Fox	Interim Chief Financial Officer

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

	Second Period Report	Annual Report
DISTRICT ELEMENTARY		
Kindergarten	111	111
First through third	336	336
Fourth through sixth	204	204
Special education	35	35
Total Elementary	686	686
ALL CHARTER SCHOOLS		
Kindergarten	247	248
First through third	787	789
Fourth through sixth	848	849
Seventh and eighth	668	668
Total Charter Schools	2,550	2,554
Grant Total	3,236	3,240
CHARTER SCHOOL		
Classroom-Based		
Kindergarten	245	247
First through third	784	786
Fourth through sixth	845	847
Seventh and eighth	667	667
Total Classroom-Based	2,541	2,547
Non Classroom-Based		
Kindergarten	2	1
First through third	3	3
Fourth through sixth	3	2
Seventh and eighth	1	1
Total Non Classroom-Based	9	7
Total Charter School	2,550	2,554

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2011-12 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,860	31,860	36,000	33,600	35,725	177	In compliance
Grades 1 - 3							
Grade 1	45,090	45,090	50,400	49,000	49,783	177	In compliance
Grade 2	45,090	45,090	50,400	49,000	49,783	177	In compliance
Grade 3	45,090	45,090	50,400	49,000	49,788	177	In compliance
Grades 4 - 6							
Grade 4	49,755	49,755	54,000	52,500	53,440	177	In compliance
Grade 5	49,755	49,755	54,000	52,500	53,440	177	In compliance
Grade 6	49,755	49,755	54,000	52,500	54,502	177	In compliance
Grades 7 - 8							
Grade 7	52,800	52,800	54,000	52,500	55,023	177	In compliance
Grade 8	52,800	52,800	54,000	52,500	55,023	177	In compliance

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

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

	General	Special Reserve Non-Capital
FUND BALANCE		
Balance, June 30, 2012, Unaudited Actuals	$ 9,059,895	$ 639,054
To conform with GASB 54, the District consolidated the Special Reserve Fund for Other Than Capital Outlay into the General Fund.	639,054	(639,054)
Balance, June 30, 2012, Audited Financial Statement	$ 9,698,949	$ -

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

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

	(Budget) 2013 [1]	2012	2011	2010
GENERAL FUND [4]				
Revenues	$ 24,431,259	$ 26,249,910	$ 24,921,789	$ 23,013,004
Transfers in	-	-	737,000	780,000
Total Revenues and Other Sources	24,431,259	26,249,910	25,658,789	23,793,004
Expenditures	25,067,613	25,670,232	23,093,381	25,425,000
Other uses and transfers out	-	-	-	10,449
Total Expenditures and Other Uses	25,067,613	25,670,232	23,093,381	25,435,449
INCREASE (DECREASE) IN FUND BALANCE	$ (636,354)	$ 579,678	$ 2,565,408	$ (1,642,445)
ENDING FUND BALANCE	$ 8,423,541	$ 9,059,895	$ 8,480,217	$ 5,914,809
AVAILABLE RESERVES [2]	$ 8,817,807	$ 9,469,255	$ 8,310,392	$ 4,357,715
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	35.18%	37.89%	35.99%	17.54%
LONG-TERM OBLIGATIONS	$ 20,162,066	$ 20,297,519	$ 20,458,230	$ 20,636,363
AVERAGE DAILY ATTENDANCE AT P-2	3,260	3,236	3,248	3,104

The General Fund balance has increased by $3,145,086 over the past two years. The fiscal year 2012-13 budget projects a decrease of $636,354. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred two operating surpluses and one operating deficit in the previous three years. The District anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long-term obligations have decreased by $338,844 over the past two years due to principal payments of general obligation bonds and lease revenue bonds.

Average daily attendance has increased by 132 over the past two years. An increase of 24 ADA is anticipated during fiscal year 2012-13.

[1] Budget 2013 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances contained within the General Fund and Special Reserve Fund for Other than Capital Outlay.

[3] On-behalf payments of $675,631, $530,372 and $593,804, have been excluded from revenues, expenditures and the calculation of the available reserves percentage for the fiscal years ending June 30, 2012, 2011, and 2010, respectively.

[4] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other than Capital Outlay.

See accompanying note to supplementary information.

CAMBRIAN SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2012

Name of Charter School	Included in Audit Report
Farnham Charter School	Yes
Sartorette Charter School	Yes
Ida Price Charter School	Yes
Fammatre Charter School	Yes

See accompanying note to supplementary information.

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CAMBRIAN SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maitenance Fund
ASSETS		
Deposits and investments	$ 45,077	$ 62,908
Receivables	52,914	-
Total Assets	$ 97,991	$ 62,908
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 52,989	$ -
Fund Balances:		
Nonspendable	258	-
Restricted	44,744	-
Assigned	-	62,908
Total Fund Balances	45,002	62,908
Total Liabilities and Fund Balances	$ 97,991	$ 62,908

See accompanying note to supplementary information.

Retiree Benefits Special Reserve Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ 17,141	$ 113,598	$ 822,837	$ 1,061,561
27	15,193	566	68,700
$ 17,168	$ 128,791	$ 823,403	$ 1,130,261
$ -	$ -	$ -	$ 52,989
-	-	-	258
-	128,791	823,403	996,938
17,168	-	-	80,076
17,168	128,791	823,403	1,077,272
$ 17,168	$ 128,791	$ 823,403	$ 1,130,261

CAMBRIAN SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund
REVENUES		
Federal sources	$ 322,834	$ -
Other State sources	39,084	-
Other local sources	420,872	-
Total Revenues	782,790	-
EXPENDITURES		
Current		
Pupil Services:		
Food services	780,826	-
Facility acquisition and construction	-	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	780,826	-
NET CHANGE IN FUND BALANCES	1,964	-
Fund Balance - Beginning	43,038	62,908
Fund Balance - Ending	$ 45,002	$ 62,908

See accompanying note to supplementary information.

Retiree Benefit Special Reserve Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ 322,834
-	-	9,837	48,921
120	27,551	1,099,619	1,548,162
120	27,551	1,109,456	1,919,917
-	-	-	780,826
-	11,504	-	11,504
-	-	455,000	455,000
-	-	637,848	637,848
-	11,504	1,092,848	1,885,178
120	16,047	16,608	34,739
17,048	112,744	806,795	1,042,533
$ 17,168	$ 128,791	$ 823,403	$ 1,077,272

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

Description	CFDA Number	Amount
Total Federal Revenues in Statement of Revenues, Expenditures and Changes in Fund Balance:		$ 2,043,458
Fair Market Value of Commodities	10.558	38,425
Tota Expenditures of Federal Awards		$ 2,081,883

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District 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.

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

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 Charter Schools

This schedule lists all Charter Schools chartered by the District and displays information for each Charter School and whether or not the Charter School is included in the School District audit.

Combining Non-major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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

INDEPENDENT AUDITOR'S REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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

Board of Trustees
Cambrian School District
San Jose, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Cambrian School District as of and for the year ended June 30, 2012, which collectively comprise Cambrian School District's basic financial statements and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Cambrian School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cambrian 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 Cambrian School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cambrian School District's internal control over financial reporting.

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

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

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Compliance and Other Matters

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

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
December 3, 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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

Board of Trustees
Cambrian School District
San Jose, California

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Cambrian 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 Cambrian School District's compliance with those requirements.

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

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Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
December 3, 2012

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Cambrian School District
San Jose, California

We have audited Cambrian School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2011*-2012 applicable to Cambrian School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Cambrian School District's management. Our responsibility is to express an opinion on Cambrian School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Cambrian School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Cambrian School District's compliance with those requirements.

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

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Not applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable

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	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	5	Not applicable
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	No
Determination of funding for non classroom-based instruction	3	No
Annual instruction minutes classroom based	4	Yes

We did not perform testing for non classroom-based instruction/independent study and determination of funding for non classroom-based instruction because the ADA generated by the programs was below the minimum threshold for testing.

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
December 3, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133? Section .510(a)	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster Programs
84.410	Education Jobs Program Fund

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

STATE AWARDS

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

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

None reported.

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

None reported.

CAMBRIAN SCHOOL DISTRICT

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

Financial Statement Findings
None reported.

Federal Award Findings
None reported.

State Award Findings
None reported.

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$[PAR AMOUNT]
CAMBRIAN SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
2013 General Obligation Refunding Bonds

Dated: [close date]

This Continuing Disclosure Certificate (the "Disclosure Certificate") is delivered by the Cambrian School District (the "District") in connection with the issuance of the above-referenced bonds (the "Bonds") pursuant to a Paying Agent Agreement dated September 1, 2013 (the "Paying Agent Agreement"), between the District and U.S. Bank National Association (the "Paying Agent"). The District covenants and agrees as follows:

Section 1. **Purpose of the Disclosure Certificate**. This Disclosure Certificate is being delivered by the District for the benefit of the beneficial owners of the Bonds and to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. **Definitions**. Unless the context otherwise requires, the definitions set forth in the Paying Agent Agreement apply to this Disclosure Certificate. The following additional capitalized terms shall have the following meanings:

Annual Report means any report provided by the District pursuant to, and as described in, Sections 3 (Provision of Annual Reports) and 4 (Content of Annual Reports) of this Disclosure Certificate.

Beneficial Owner means any person that (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Bondholders means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

Dissemination Agent means the District, or any successor Dissemination Agent designated in writing by the District and that has filed with the District a written acceptance of such designation.

EMMA or Electronic Municipal Market Access means the centralized on-line repository for documents 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 means any of the events listed in Section 5(a) and (b) (Reporting of Significant Events – Qualified and Unqualified Listed Events) 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.

Official Statement means the final Official Statement dated _________, 2013 relating to the Bonds.

Opinion of Bond Counsel means a written opinion of a law firm or attorney experienced in matters relating to obligations the interest on which is excludable from gross income for federal income tax purposes.

Participating Underwriter means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repositories means MSRB or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future. (As of the date of this Certificate, there is no California state information depository.)

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

State means the State of California.

Section 3. Provision of Annual Reports.

a. Delivery of Annual Report to Repositories. The District shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year, commencing with the report for the 2012-2013 Fiscal Year, provide to the Repositories an Annual Report that is consistent with the requirements of Section 4 (Content of Annual Reports) of this Disclosure Certificate. The Annual Report may be submitted as a single document or as a package of separate documents and may include by cross-reference other information as provided in Section 4 (Content of Annual Reports) 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(e) (Notice of Listed Events).

c. Delivery of Annual Report to Dissemination Agent. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, 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 unable to provide an Annual Report to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories in substantially the form attached 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 provided pursuant to this Disclosure Certificate, stating the date it was provided.

Section 4. **Content of Annual Reports**. The District's Annual Report shall contain or include by reference the following:

a. The audited financial statements of the District for the prior fiscal year, prepared in accordance with 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) (Delivery of Annual Report to Repositories), 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. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(i) State funding received by the District for the last completed fiscal year;

(ii) enrollment of the District for the last completed fiscal year;

(iii) outstanding District indebtedness;

(iii) assessed valuation for real property located in the District for last completed fiscal year;

(iv) list of ten largest taxpayers, together with their assessed valuation and percentage of total assessed valuation of the District for last completed fiscal year, to the extent such information is provided by Santa Clara County at no additional cost to the District;

(v) summary financial information on revenues, expenditures and fund balances for the District's general fund for the last completed fiscal year and summary financial information on any adopted budget for the current fiscal year.

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 that have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. **Reporting of Significant Events**.

a. Qualified Listed Events. Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in all circumstances not later then ten (10) business days after the occurrence of the event:

(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) the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB);
(8) tender offers;
(9) bankruptcy, insolvency, receivership or similar event of the obligated person.

b. Unqualified Listed Events. Pursuant to the provisions of this Section, 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, not later than ten (10) business days after the occurrence of the event:

(1) Except as otherwise provided in paragraph 5(a)(7) above, adverse tax opinions or or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax-exempt status of the Bonds;
(2) non-payment related defaults;
(3) modifications to rights of Bondholders;
(4) bond calls;
(5) release, substitution, or sale of property securing repayment of the Bonds;
(6) the consummation of a merger, consolidation, or acquisition, or certain asset sales involving the obligated person, or entry into or termination of a definitive agreement relating to the foregoing;
(7) appointment of a successor or additional trustee or the change of name of a trustee.

c. Determination of Materiality of Unqualified Listed Events. Whenever the District obtains knowledge of the occurrence of an Unqualified Listed Event, the District shall immediately determine if such event would be material under applicable federal securities laws.

d. Notice to Dissemination Agent. If the District has determined an occurrence of a a Listed Event under applicable federal securities laws, the District shall promptly notify the Dissemination Agent (if other than the District) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to 5(e) (Notice of Listed Events).

e. Notice of Listed Events. The District shall file, or cause the Dissemination Agent to file with the Repositories, a notice of the occurrence of a Listed Event to provide notice of specified events in a timely manner not in excess of ten (10) business days after the event's occurrence. Notwithstanding the foregoing, notice of Listed Events described in 5(b)(4) (bond calls) need not be given under this subsection any earlier than the notice (if any) given to Bondholders of affected Bonds pursuant to the Paying Agent Agreement.

Section 6. Filings with MSRB. All documents provided to MSRB under this Disclosure Certificate shall be filed in a readable PDF or other electronic format as prescribed by MSRB and shall be accompanied by identifying information as prescribed by MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon the delivery to the District of an Opinion of Bond Counsel to the effect that continuing disclosure is no longer required. 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(e) (Notice of Listed Events).

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. The initial Dissemination Agent shall be the District.

b. Compensation of Dissemination Agent. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District.

c. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense, and liability that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders, 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 Bond Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate.

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 the following conditions are satisfied:

a. Change in Circumstances. If the amendment or waiver relates to the provisions of Sections 3(a) (Delivery of Annual Report to Repositories), 4 (Content of Annual Reports), 5(a) (Qualified Listed Events), or 5(b) (Unqualified Listed Events), 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 have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and the District obtains an Opinion of Bond Counsel to that effect; and

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 Paying Agent Agreement for amendments to the Paying Agent Agreement with the consent of Bondholders, or (ii) does not materially impair the interests of the Bondholders and the District obtains an Opinion of Bond Counsel to that effect.

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(e) (Notice of Listed Events), 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**. If the District fails to comply with any provision of this Disclosure Certificate any Bondholder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Paying Agent Agreement, and the sole remedy under this Disclosure Certificate if the District fails to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters, and the Bondholders and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the District has caused this Continuing Disclosure Certificate to be executed by its authorized officer as of the day and year first above written.

CAMBRIAN SCHOOL DISTRICT

By: ____

Authorized Officer

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District:	Cambrian School District
Name of Bonds:	Cambrian School District (Santa Clara County, California) 2013 General Obligation Refunding Bonds
Date of Delivery:	[close date]

NOTICE IS HEREBY GIVEN that the Cambrian School District (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by a Continuing Disclosure Certificate executed _____________, with respect to the above-captioned bond issue. The District anticipates that the Annual Report will be filed by ___________.

Dated: _______________

CAMBRIAN SCHOOL DISTRICT

[SAMPLE ONLY]

____

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

Board of Trustees
Cambrian School District

Re: Cambrian School District
(Santa Clara County, California)
2013 General Obligation Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Cambrian School District (the "District") of $[PAR AMOUNT] principal amount of Cambrian School District (Santa Clara County, California) 2013 General Obligation Refunding Bonds (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and executed by the District and are valid and binding general obligations of the District.

2. All taxable property in the territory of the District is subject to *ad valorem* taxation without limitation regarding rate or amount (except certain personal property that is taxable at limited rates) to pay the Bonds. Santa Clara County is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent that necessary funds are not provided from other sources.

3. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

4. Interest on the Bonds is exempt from State of California personal income taxation.

The rights of the owners of the Bonds and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding the accuracy, adequacy, or completeness of the Official Statement or other offering material relating to the Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

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.

Very truly yours,

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD,
A Professional Corporation

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APPENDIX D

SANTA CLARA COUNTY INVESTMENT POLICY

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COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY
MARCH 2012

I. STATEMENT OF INTENT

The purpose of this document is to set forth the County of Santa Clara's policy applicable to the investment of short-term surplus funds. In general, it is the policy of the County to invest public funds in a manner that will provide a competitive rate of return with maximum security while meeting the cash flow requirements of the County, school districts and special districts whose funds are held in the County Treasury, in accordance with all state laws and County ordinances governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets held by the County.
Those assets specifically included in this investment policy are accounted for in the County's Comprehensive Annual Financial Report and are included here as part of the County's commingled investment pool.

III. OBJECTIVES

The following investment objectives shall be applied in the management of the County's funds.

1. The foremost objective of the County's investment program shall be to safeguard principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. The secondary objective shall be to meet the liquidity needs of its participants. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
3. The third objective shall be to attain a market rate of return (yield) throughout budgetary and economic cycles, taking into account the County's investment constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. RISK MITIGATION

Those factors that can lead to an unexpected financial loss can be broadly grouped into the following categories; credit risk, liquidity risk, interest rate risk and operational risk. Credit risk is the possibility that a bond issuer will default or that the change in the credit quality of counter-party will affect the value of a security. Liquidity risk for a portfolio that does not market value its holdings on a daily basis is the risk that sufficient cash or cash equivalents are not available and a security may have to be sold at a loss (based on its original cost) in order to meet a payment liability. Interest rate risk is the risk that the value of a fixed income security or portfolio will fall as a result of an increase in interest rates. Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud and human error.

It is part of this policy to pursue the listed actions below to reduce the risk of exposure to the County's investments.

Credit Risk

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Only purchasing securities that meet ratings standards specified in this policy.
- Conducting ongoing reviews as needed of all credit exposures within investment portfolios.
- Rating restrictions for all investments are denoted as requirements at time of purchase. If a security should incur a downgrade by either rating agency, placing the security on special surveillance to identify and monitor any continuing deterioration trends and if warranted, selling the security.
- Reviewing the possible sale of a security whose credit quality is declining to minimize loss of principal.

Liquidity Risk

- To the extent possible, matching investment maturities with anticipated cash demands, also known as creating static liquidity. Alternatively, apply application software to analyze and validate that cash from investment activity is sufficient to cover all liabilities.
- Since all possible cash demands cannot be anticipated, maintaining portfolios largely of securities with active secondary or resale markets (dynamic liquidity).
- Making investments that could be appropriately held to maturity without compromising liquidity requirements.
- Prior to approving or disapproving a withdrawal request (a reduction of liquidity), the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool.

Interest Rate Risk

- Not investing in securities maturing more than five years from the date of purchase, and limiting the weighted average maturity of the County's Commingled portfolio to eighteen months or less.
- Limiting segregated investments to maturities of five years or less unless a longer term is specifically approved by the appropriate legislative body.

- Not investing in any funds in financial futures, option contracts, inverse floaters, range note or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- Ensure that adequate resources are devoted to interest rate risk measurement.

Operational Risk:

- Establishing a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.
- Having an audit review to examine the system of internal controls to assure that the established policies including risk management procedures are being complied with.

V. STANDARDS OF CARE

1. **Prudence**. The County Treasurer is a trustee and therefore a fiduciary subject to the **prudent investor** standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that prudent person acting in a like capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, the County Treasurer is authorized to acquire investments as authorized by law.

   The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The County recognizes that no investment program is totally without risk and that the investment activities of the County are a matter of public record. Accordingly, the County recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that the portfolio is adequately diversified and that the sale of a security is in the best long-term interest of the County. Significant adverse credit changes or market price changes on County-owned securities shall be reported to the Board of Supervisors and the County Executive in a timely fashion.

2. **Competitive Transactions.** Where practicable, each investment transaction shall be competitively transacted with brokers/dealers/banks approved by the County Treasurer.

3. **Indemnification.** Investment officers acting in accordance with state laws, County ordinances, this policy and written procedures, and exercising due

diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. **Ethics and Conflicts of Interest.** County employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment personnel shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

   County officers and employees involved with the investment process shall refrain from accepting gifts that would be reportable under the Fair Political Practices Commission (FPPC) regulations.

   Members of the Treasury Oversight Committee shall not accept any honoraria, gifts or gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business that would be reportable under the FPPC regulations.

VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The County Treasurer shall establish an approved list of brokers, dealers, banks and direct issuers of commercial paper to provide investment services to the County. It shall be the policy of the County to conduct security transactions only with approved institutions and firms. To be eligible for authorization, firms that are commercial banks must be members of the FDIC and broker/dealers:

- Preferably should be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank of New York, and
- Must maintain a secondary position in the type of investment instruments purchased by the County.

In addition, the firm must also qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule). Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of California.

The criteria for selecting security brokers and dealers from, to, or through whom the County Treasury may purchase or sell securities or other instruments, prohibits the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to any member of the governing board of any local agency that is a participant in the County Treasury or any candidate for those offices.

No public deposit shall be made except in a qualified public depository as established by state law. An annual analysis of the financial condition and professional institution/bank rating will be conducted by the County Treasurer and reported to the County Treasury Oversight Committee. Information indicating a material reduction in ratings standards or a material loss or prospective loss of capital must be shared with the Board of Supervisors, the County Executive, and the Oversight Committee in writing immediately.

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

VII. COUNTY TREASURY OVERSIGHT COMMITTEE

A County Treasury Oversight Committee shall be established by the Board of Supervisors to advise the County Treasurer in the management and investment of the Santa Clara County Treasury. Members of the Oversight Committee shall represent the County, school districts and other local governments which together comprise the County's commingled pool and other segregated investments. Members of the Oversight Committee will be nominated by the Treasurer and confirmed by the Board of Supervisors, including the following:

1. County Director of Finance
2. Representative appointed by the Board of Supervisors
3. Representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the County that are required or authorized to deposit funds in the County Treasury
4. County Superintendent of Schools or his or her designee
5. Representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County
6. Member(s) of the public that have expertise in, or an academic background in, public finance.

It is the responsibility of the County Treasury Oversight Committee to approve the investment policy prepared annually by the County Treasurer, to review and monitor the quarterly investment reports prepared by the County Treasurer, to review depositories for County funds and broker/dealers and banks as approved by the County Treasurer, and to cause an annual audit to be conducted to determine the County Treasury's compliance with all relevant investment statutes and ordinances, and this investment policy. Any receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee is limited to the amount set by the Fair Political Practices Commission. These limits may be in addition to the limits set by a committee member's own agency or by state law.

Nothing in this article shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

VIII. ELIGIBLE, AUTHORIZED AND SUITABLE INVESTMENTS

The eligible, authorized and suitable investments of the County Treasury will be made in accordance with state law unless additional restrictions are required by this investment policy as noted below.

U. S. Treasury and Government Agency bills, notes or bonds or LAIF deposits. There shall be no limit in the amount that may be invested in debt obligations that are backed by the full faith and credit of the United States Government, its agencies, and LAIF (with the exception of limitations imposed by LAIF).

Repurchase Agreements. A repurchase agreement consists of two simultaneous transactions under the same agreement. One is the purchase of securities by an investor (County Treasury) from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at a specified price and on a date mutually agreed upon.

Repurchase agreements shall be entered into only with dealers and financial institutions that have executed a Master Repurchase Agreement with the County and are recognized as primary dealers with the Market Reports Division of the Federal Reserve Bank of New York.

- The term of the repurchase agreement is limited to 92 days or less. The securities underlying the agreement may be obligations of the United States Government, its agencies, or agency mortgage backed securities. For repurchase agreements that exceed 15 days, the maturities on purchased securities may not exceed 5 years.
- The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the agreement. Purchased securities shall be held in the County's custodian bank as safekeeping agent, and the market value of the securities shall be marked-to-market on a daily basis.

Reverse Repurchase Agreements. A reverse repurchase agreement consists of two simultaneous transactions under the same agreement. One is the sale of securities by the County Treasury to a bank or dealer. The other is the commitment by the County Treasury to repurchase the securities at a specified price and on a date mutually agreed upon.

Reverse repurchase agreements may only be transacted with dealers and financial institutions that have executed a Master Repurchase Agreement with the County as approved by the Board of Supervisors, and are recognized as Primary Dealers with the Market Reports Division of the Federal Reserve Bank of New York. Reverse repurchase transactions must meet the following requirements:

- Sold securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value**.***
- The term of the reverse repurchase agreement is not to exceed 92 days unless the agreement includes a written codicil that guarantees a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
- Funds obtained through a reverse repurchase agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
- Reverse repurchase agreements may only be used to effect a "matched" transaction whereby the proceeds of the reverse are reinvested for approximately the same time period as the term of the reverse repurchase agreement.
- The total value of all reverse repurchase agreements may not exceed $90 million.
- Investments in reverse repurchase agreements in which Treasury sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the Board of Supervisors.

Reverse Repurchase Agreements will be used solely for the intent of accessing liquid funds on a temporary basis and will not be used as a means to amplify portfolio returns. All other cost effective means of obtaining liquidity will be considered prior to exercising this option.

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* Base value of the County's Pool refers to the dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements or securities lending agreements.

In exception to the above, a trial transaction will be permitted on a periodic basis as emergency preparation to ensure that internal systems and staff members remain up-to-date on processing procedures. The amount of the trial transaction will not exceed pre-established limits set by the Treasurer.

Securities Lending. The mechanics behind a securities lending transaction consist of the County lending a security. The borrower, a financial institution, pledges collateral consisting of cash to secure the loan. Borrowers sometimes offer letters of credit as collateral. The lending agreement requires that the collateral must always exceed the market value of the security by 2%. Changes in the bond's price during the term of the loan may require adjustments in the amount of collateral. The cash collateral obtained from the borrower is then invested in short-term assets for additional income. Also, the County is entitled to all coupon interest earned by the loaned security. At the end of the loan term, the transaction is unwound, and the securities and collateral, which are held by a custodian bank, are returned to the original owners. The borrower is obliged to return the securities to the lender, either on demand from the County or at the end of any agreed term. Lending transactions must meet the following requirements:

- Loaned securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value.
- The term of the securities lending agreement is not to exceed 92 days.
- Funds obtained through a securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the securities lending agreement.
- The objective of the transaction is to produce positive earnings.

To qualify as a counter-party to the County in a securities lending transaction, the broker/dealer must be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank and the County's custodial bank must indemnify the County against losses related to the broker-dealer.

Collateralized Time Deposits. Time deposits with banks or savings and loan associations shall be subject to the limitations imposed by Government Code Section 53638, as amended, and additional constraints prepared by the County Treasurer that would limit amounts to be placed with institutions based on creditworthiness, size, market conditions and other investment considerations.

Negotiable Certificates of Deposit. The bank issuing a negotiable certificate of deposit, with a maturity of one year or less must reflect the following or higher ratings from at least two of these *nationally recognized statistical rating organizations (*NRSRO): Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Certificates that exceed one year must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-), and Fitch (AA-). Negotiable certificates of deposit shall not exceed 30% of the surplus funds of the portfolio. No more than 7.5% of the 30% shall be in a single bank.

Bankers' Acceptances. Investments in eligible bankers' acceptances of United States or foreign banks shall not exceed 180 days maturity from the date of purchase. This debt must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Bankers' Acceptances shall not exceed 40% of surplus funds. No more than 15% of the 40% shall be invested in a single commercial bank.

Commercial Paper. Investments in commercial paper shall not have a maturity that exceeds 270 days. Commercial paper must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). The issuer must meet the qualifications as indicated below pursuant to California Government Code Section 53601(g):

If the commercial paper is short-term unsecured promissory notes issued by financial institutions or corporations, the issuer must:

- Be organized and operating in the United States as a general corporation;
- Have total assets in excess of five hundred million dollars ($500,000,000); and
- If the issuer has senior debt outstanding, the senior debt must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-), and Fitch (AA-).

If the commercial paper is asset backed, the issuer must:

- Be organized within the United States as a special purpose corporation, trust, or limited liability company; and
- Have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit or surety bonds and include a liquidity vehicle.

Commercial paper shall not exceed 40% of the local agency's funds. No more than 10% of the total assets of the investments held by a local entity may be invested in any single issuer of commercial paper.

Medium Term Corporate Notes or Deposit Notes. The purchase of corporate notes shall be limited to securities that reflect the following ratings or higher by at least two of these NRSRO's: Moody's, (Aa3), Standard and Poor's (AA-), and Fitch (AA-). Medium term corporate notes or deposit notes (five years or less) shall be limited to 30%of surplus funds. No more than 10% of the 30% shall be invested in any single corporation.

Municipal Obligations. The purchase of municipal obligations shall include the following:

(i) Treasury notes or bonds of the State of California, including other obligations such as registered state warrants, certificates of participation, lease revenue bonds and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. [1]

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

(iii) Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

(iv) For those instruments that are rated, long term obligations must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-). Similarly, short term obligations must carry the following ratings or higher by at least one of these NRSRO's: Moody's (MIG-1), Standard and Poor's (SP-1), and Fitch (F-1).

(v) No more than 10% of surplus funds shall be in such obligations.

Money Market Funds. Companies issuing such money market funds must have assets under management in excess of $500,000,000. The advisors must be registered with the Securities and Exchange Commission (SEC) and have at least five years' experience investing in such types of investments. The fund must reflect the highest rating by at least two of these NRSRO's: Moody's (Aaa), Standard and Poor's (AAA), and Fitch (AAA). No more than 20% of the Treasury's funds may be invested in money market funds and no more than 10% of the Treasury's funds may be invested in one money market fund. If the money market fund is tax-exempt then only one "AAA" rating by a NRSRO is required. The money market fund must also be "no-load", which is a fund that does not compensate sales intermediaries with a sales charge or commission that is deducted from the return of the fund.

Asset Backed Securities. Asset backed securities (ABS) are notes or bonds secured or collateralized by pools of loans such as installment loans or receivables.

- Securities shall be issued by an issuer whose debt must reflect the following

1 In response to the State of California's issuance of registered warrants on July 2, 2009, the County Treasury considered three possible methods to handle warrants. One method was to hold warrants on-site and not book an accounting entry until redemption. A second method was to post warrants as a receivable to Pool participant accounts and render cash at redemption. The method chosen by Treasury was to purchase warrants at face value from Pool participants and hold the warrants as Pool investments. This enabled participants to benefit from immediate credit to their fund, and from avoidance of a 3 month delay until redemption. We viewed the client needs addressed by this service as an auxiliary consideration to those standards already provided by existing investment policy and California Government Code in evaluating the investment merits of the warrants.

ratings or higher by at least two of these NRSRO’s: Moody's (A3), Standard and Poor's (A-), and Fitch (A-).

- The asset backed security itself must reflect the following ratings or higher from at least two of these NRSRO’s: Moody’s (AA-), Standard and Poor’s (Aa3) and Fitch (AA-).
- Asset backed securities together with mortgage backed securities may not exceed 20% of the Treasury’s surplus money.

Agency Mortgage Backed Securities. Mortgage backed securities **(MBS)** are bonds collateralized by pools of conforming residential mortgage loans insured by FHLMC or FNMA and residential mortgages guaranteed by FHA (GNMA).

- Agency mortgage backed securities together with asset backed securities may not exceed 20% of the Treasury’s surplus money.

Investments will be reviewed for the possibility of a swap to enhance yield when both securities have a similar duration, so as not to affect the cash flow needs of the program. Swaps should have a minimum of five basis points of gain before being transacted.

No commingled fund shall be invested in instruments that do not pay interest within one year of initial investment and at least semiannually in subsequent years.

IX. MATURITY

To the extent possible, investments shall be matched with anticipated cash flow requirements. Additionally, the County will not invest in securities maturing more than five years from the date of purchase, and the weighted average maturity of the County's commingled portfolio shall not exceed eighteen months.

X. SEGREGATED INVESTMENTS (excludes Commingled Funds)

Segregated investments of instruments permitted in Government Code Section 53601 can be made upon proper authorization where cash flow or other factors warrant segregation from the commingled pool. Examples that may justify such segregation are bond or note proceeds, Retiree Health funds or Workers Compensation funds where longer term or matching term investments are warranted.

For segregated investment funds, no investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements.

Segregated investments shall be limited to five years maturity unless a longer term is specifically approved by the appropriate legislative body.

Government Code Sections 53620 and 53622 grant the County authority to invest the assets of the Santa Clara County Retiree Health Trust in any form or type of investment deemed prudent by the governing body. Accordingly, the County Board of Supervisors has determined that up to 67% of the Trust's assets, excluding near-term liability payouts, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

In accordance with the prudent person standard in Government Code Sections 53620 through 53622, the assets of the Santa Clara County Retiree Health Trust may be invested in bonds that have a final maturity of 30 years or less from purchase date, and in bonds that reflect the following ratings or higher from at least two of these NRSRO's; Moody's (A3), Standard and Poor's (A-), and Fitch (A-). The fixed income holdings may be structured with sector concentrations comparable to those of the Lehman Aggregate Index.

XI. <u>SAFEKEEPING AND CUSTODY</u>

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the County by a third party custodian designated by the County Treasurer and evidenced by trade confirmations and safekeeping holdings report.

The County Treasurer will approve certain financial institutions on an annual basis to provide safekeeping and custodial services for the County. Custodian banks shall be selected on the basis of their ability to provide service to the County's account and the competitive pricing of their safekeeping and related services. All securities purchased by the County under this section shall be properly designated as an asset of the County and held in safekeeping by a third party custodial bank or other third party custodial institution, chartered by the United States Government or the State of California.

The County will execute third party custodial agreement(s) with its bank(s) and depository institutions(s). Such contracts will outline the responsibilities of each party for the notification of security purchases and sales. It will address wire transfers, as well as safekeeping and transaction costs and it will provide details on procedures in case of wire failures or other unforeseen mishaps along with the liability of each party.

To be eligible for designation as the County's safekeeping and custodian agent, a financial institution shall meet the following criteria:

- Have a Moody's or Standard and Poor's rating of P-1 or A1 for the most recent reporting quarter before the time of selection.
- Qualify as a depository of public funds in the State of California as defined in G. C. 53638.

The County Treasurer shall require each approved safekeeping financial institution to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the County within forty-five days after the end of each calendar quarter.

It is the intent of the County to mitigate custodial credit risk by insuring that all securities are appropriately held.

- Securities typically clear and settle as electronic book entries through the following clearing houses, DTC (the Depository Trust Corp.), a member of the Federal Reserve Bank and the Fed Book-Entry System, owned by the Federal Reserve. Governments generally do not have their own account in the Fed System or at DTC. They have access to those systems through large financial institutions who are members and participants. The County's securities within the clearing system are held under the Custodial Bank's name. The Custodial Bank's internal records identify the County as the underlying beneficial owner of securities.
- Infrequently, physical certificates are used to reflect ownership of a security. When physical securities are received by the Custodial Bank, they are sent to a transfer agent to be re-registered into the Custodial Bank's nominee name. It is kept in the bank's vault until redeemed or sold. The Custodial Bank records the County as the underlying beneficial owner and includes it on the County's Safekeeping Report.

XII. INTERNAL CONTROLS AND ACCOUNTING

The County shall establish a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.

The County maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

The County shall establish a process for an annual review by either the County's internal or external auditor. This review will examine the system of internal controls to assure that the established policies and procedures are being complied with and may result in recommendations to change operating procedures to improve internal control.

XIII. REPORTING

1. **Methods.** The County Treasurer shall prepare an investment report quarterly, including a management summary that provides a clear status of the current investment portfolio, quarterly transactions, investment philosophy and market actions and trends. The management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, the County Executive, the County Treasury

Oversight Committee, Internal Auditor, and local agencies with funds on deposit in the County pool. The report will include the following:

- A listing of individual securities by type of investment and maturity held at the end of the reporting period.
- A composite of transactions purchased during the reporting period by type of security.
- Unrealized gains or losses resulting from appreciation or depreciation of securities held in the portfolio, by listing the cost of market value of securities.
- Average weighted yield to maturity of the portfolio and benchmark comparisons.
- Weighted average maturity of the portfolio.
- A summary of purchases during the reporting period by broker/dealers or banks showing the purchase date, issuing agency, amount purchased, cost and purchase date.
- A statement denoting the ability of the County to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be available.

Material deviations from projected budgetary investment results shall be reported no less frequently than quarterly to the Board of Supervisors and the County Executive.

2. **Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account the County's investment risk constraints and cash flow needs.

   The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the State Treasurer's Local Agency Investment Fund (LAIF). It should be recognized, however, that since the investment parameters of LAIF are broader than the County's investment policies, the returns realized by the County cannot necessarily be expected to exceed the returns realized by LAIF on a regular basis.

3. The County utilizes the following methods to pay for banking services and County administration of the investment function.

General Banking Services
General banking services such as safekeeping, items deposited, statements, account maintenance, etc., may be paid to the bank through direct payment or a combination of direct payment and compensating balance.

Investment and Banking Administration Costs
The County recovers staffing and other costs relating to the County's administration services for banking and investment functions provided to the County Treasury. The administrative costs are allocated against the earnings of the County pool prior to apportionment of earnings.

Earnings Apportionment
Earnings of the County pool are apportioned quarterly to all participants of the pool based on the average daily balance of each fund during the quarter.

Realized capital gains (the gain from securities sold at a higher price compared to cost) are added to quarterly earnings. Realized capital losses (the loss from securities sold at a lower price compared to cost) reduce quarterly earnings. To the extent that a realized capital loss exceeds the quarterly aggregate earnings of the Pool, the loss will be shared across all funds. The size of the write-down for any individual fund balance will be based on the average daily balance of each fund during the quarter in which the loss occurred.

Any apportioned earnings may not be available for withdrawal until all monies that have been earned (i.e., accrued) have actually been received by the County Treasurer.

XIV. INVESTMENT POLICY ADOPTION

Upon recommendation by the County Treasurer, the County's investment policy shall be approved annually by the County Treasury Oversight Committee. Copies of the approved investment policy shall be circulated annually to the Board of Supervisors, the County Executive, and local agencies with funds on deposit in the County pool.

XV. VOLUNTARY PARTICIPANTS

The County provides the opportunity for voluntary participants to deposit excess funds within the County’s Commingled Pool, (California Code 53684). In order to participate, voluntary participants must sign the County’s Disclosure and Agreement for Voluntary Deposits which outlines the terms and conditions of participation including constraints on deposits and withdrawals from the pool. Voluntary participants must also submit a resolution duly adopted by its governing board authorizing the deposit of funds into the Investment Pool.

It is the County's policy to not allow access to the pool unless the voluntary participant agrees to a long-term relationship utilizing the pool and County Treasury for its primary banking needs. The County does not wish to enter into relationships where an entity is placing funds because yields for a time may be higher than what is available at other organizations, because such activity can have an adverse and unfair impact on the other participants. Upon approval of the Treasurer, accommodations may be made to utilize the County resources to make specific investments or manage segregated funds for a voluntary participant at an agreed cost.

XVI. WITHDRAWAL OF FUNDS BY VOLUNTARY PARTICIPANTS

Public entities that are voluntary participants in the County pool who wish to make withdrawals for the purpose of investing outside of the County pool may request such withdrawals in accordance with the County Investment Management Agreement.

The County Treasurer will assess the proposed withdrawal on the stability and predictability of the investments in the County pool. Prior to approving or disapproving a withdrawal request, the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool. Funds are withdrawn based on the market value.

XVII. WARRANTIES

All depositors acknowledge that funds deposited in the Investment Pool are subject to market/investment risk, and that the County Treasurer makes no warranties regarding Investment Pool performance, including but not limited to preservation of capital or rate of return earned on funds deposited in the Investment Pool. Depositors knowingly accept these risks and waive any claims or causes of action against the County Treasurer, the County, and any employee, official or agent of the County for loss, damage or any other injury related to the Depositors’ funds in the Investment Pool, with the exception of loss, damage or injury caused solely by the County Treasurer’s material failure to comply with the County Investment Policy and all applicable laws and regulations.

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