

**PRELIMINARY OFFICIAL STATEMENT DATED MAY 12, 2014**

**NEW ISSUE—BOOK-ENTRY ONLY**

**RATING:**  
S&P: “AA-”  
See “RATING” herein.

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, the Bonds are a “qualified tax-exempt obligations” under section 265(b)(3) of the Internal Revenue Code of 1986. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS” herein.

**\$1,900,000\***  
**GRANT ELEMENTARY SCHOOL DISTRICT**  
**(Shasta County, California)**  
**2014 General Obligation Refunding Bonds**  
**(Bank Qualified)**

**Dated: Date of Delivery**

**Due: August 1, as shown below**

The \$1,900,000\* Grant Elementary School District (Shasta County, California) 2014 General Obligation Refunding Bonds (the “Bonds”) are being issued by the Grant Elementary School District (the “District”) pursuant to the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code and a resolution of the Board of Education of the District. The Bonds are being issued to (a) refund, on a current basis, the District’s outstanding Grant Elementary School District (Shasta County, California) General Obligation Bonds, Election of 2004, Series 2004), maturing on and after August 1, 2015, and (b) pay for costs of issuance of the Bonds.

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

The Bonds are issuable in denominations of \$5,000 and any integral multiple thereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2015. See “THE BONDS” herein. The Bonds will be delivered in fully registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by U.S. Bank National Association, as paying agent, to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY ONLY SYSTEM” herein.

**The Bonds are subject to redemption prior to maturity as described herein.**

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

CUSIP† Prefix: 387577

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP† Suffix</u>	<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP† Suffix</u>
2015	\$ 50,000					2022	\$135,000				
2016	65,000					2023	155,000				
2017	75,000					2024	165,000				
2018	75,000					2025	180,000				
2019	90,000					2026	205,000				
2020	110,000					2027	225,000				
2021	115,000					2028	255,000				

Bids for the purchase of the Bonds will be received by the District on Wednesday, May 28, 2014, *electronically only*, through the I-Deal LLC BiDCOMP/PARITY® system, until 10:00 A.M., Pacific Daylight time. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated May 12, 2014.

This cover page and the inside cover page contain information for quick reference only. They are not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued, and received by the purchaser thereof, subject to the approval as to their validity by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about June 10, 2014.

May \_\_, 2014

\*Preliminary, subject to change.

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

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

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

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

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

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

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

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

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

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

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

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## TABLE OF CONTENTS

INTRODUCTION .....	1	Average Daily Attendance and Base Revenue Limit .....	12
The District.....	1	SECURITY AND SOURCE OF PAYMENT FOR THE BONDS .....	12
Sources of Payment for the Bonds .....	1	General .....	12
Authority for Issue; Purpose of Issue .....	1	Property Taxation System .....	12
Description of the Bonds.....	2	Assessed Valuation of Property Within the District.....	13
Tax Matters .....	2	Tax Rates.....	16
Offering and Delivery.....	2	Tax Levies and Delinquencies.....	17
Continuing Disclosure .....	3	Alternative Method of Tax Apportionment .....	17
Other Information.....	3	Largest Property Owners.....	18
THE BONDS .....	3	Direct and Overlapping Debt .....	19
Authority for Issuance.....	3	COUNTY INVESTMENT POOL .....	20
Purpose of Issuance.....	3	LEGAL OPINIONS .....	21
Security .....	4	TAX MATTERS.....	21
Description of the Bonds.....	4	FINANCIAL ADVISOR .....	23
Payment .....	5	CONTINUING DISCLOSURE .....	24
Redemption.....	5	LEGALITY FOR INVESTMENT IN CALIFORNIA .....	24
Defeasance .....	7	ABSENCE OF MATERIAL LITIGATION .....	24
Partial Defeasance.....	7	RATING.....	24
Registration, Transfer and Exchange of Bonds .....	8	VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS.....	25
Sources and Uses of Funds .....	9	UNDERWRITING .....	25
Plan of Refunding.....	9	ADDITIONAL INFORMATION .....	26
Debt Service Schedule .....	10		
PAYING AGENT .....	10		
BOOK-ENTRY-ONLY SYSTEM .....	11		
THE DISTRICT .....	11		
General Information.....	11		
Governing Board and Administration .....	11		
APPENDIX A: THE ECONOMY OF THE DISTRICT			
APPENDIX B: DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION			
APPENDIX C: AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013			
APPENDIX D: COUNTY QUARTERLY INVESTMENT REPORT			
APPENDIX E: FORM OF OPINION OF BOND COUNSEL			
APPENDIX F: FORM OF CONTINUING DISCLOSURE CERTIFICATE			
APPENDIX G: BOOK-ENTRY SYSTEM			

**GRANT ELEMENTARY SCHOOL DISTRICT**

8835 Swasey Drive  
Redding, California 96001-9722  
(530) 243-0561

**BOARD OF TRUSTEES**

Chuck Aukland, *President*  
Sami Kader, *Clerk*  
Galen E. Schmidt, *Board Member*  
Brenda Meline, *Board Member*  
Camile Woodstrom, *Board Member*

**DISTRICT ADMINISTRATION**

Michael Freeman, *Superintendent*  
Deborah Kogel, *Chief Business Official*

**PROFESSIONAL SERVICES**

**BOND COUNSEL and DISCLOSURE COUNSEL**

Quint & Thimmig LLP  
*Larkspur, California*

**FINANCIAL ADVISOR**

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

**PAYING AGENT, TRANSFER AGENT,  
AUTHENTICATION AGENT and ESCROW BANK**

U.S. Bank National Association  
*San Francisco, California*

**\$1,900,000\***  
**GRANT ELEMENTARY SCHOOL DISTRICT**  
**(Shasta County, California)**  
**2014 General Obligation Refunding Bonds**

**INTRODUCTION**

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of \$1,900,000\* 2014 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, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

**The District**

The Grant Elementary School District (the “District”) provides public education in kindergarten through grade 8 to the residents of the unincorporated Centerville area immediately west of the City of Redding in Shasta County, California (the “County”). The District operates one elementary school.

For more complete information concerning the District, including certain financial information, see “THE DISTRICT” and “APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION.” The District’s audited financial statements for the fiscal year ended June 30, 2013, are included as APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

**Sources of Payment for the Bonds**

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

**Authority for Issue; Purpose of Issue**

The Bonds are issued pursuant to the Constitution and laws of the State of California (the “State”), including the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code. The Bonds are authorized to be issued pursuant to a resolution (the “Resolution”), adopted by the Board of Trustees of the District (the “District Board”) on April 24, 2014.

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\* Preliminary, subject to change.

The Bonds are being issued to (a) refund, on a current basis, the District's outstanding Grant Elementary School District (Shasta County, California) General Obligation Bonds, Election of 2004, Series 2004) (the "2004 Bonds"), maturing on and after August 1, 2015 (the "Refunded 2004 Bonds"), and (b) pay for costs of issuance of the Bonds. The 2004 Bonds were issued to finance educational facilities. See "THE BONDS—Sources and Uses of Funds" and "THE BONDS—Plan of Refunding."

### **Description of the Bonds**

The Bonds are being issued as current interest bonds. The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an "Interest Payment Date"), commencing February 1, 2015.

The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" and APPENDIX G—BOOK-ENTRY SYSTEM. In event that the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolutions described herein. See "THE BONDS—Registration, Transfer and Exchange of Bonds." Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 principal amount or any integral multiple thereof.

Certain of the Bonds are subject to redemption prior to maturity. See "THE BONDS—Redemption."

### **Tax Matters**

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel ("Bond Counsel"), subject to compliance by the District with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, the Bonds are a "qualified tax-exempt obligations" under section 265(b)(3) of the Internal Revenue Code of 1986. In the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

### **Offering and Delivery**

The Bonds are offered when, as and if issued and received by the purchaser thereof, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about June 10, 2014.

## **Continuing Disclosure**

The District will covenant for the benefit of the holders of the Bonds 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 of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." Also, see APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the Superintendent, Grant Elementary School District, 8835 Swasey Drive, Redding, CA 96001, telephone (530) 243-0561. The District may impose a charge for copying, mailing and handling.

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

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

## **THE BONDS**

### **Authority for Issuance**

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code. The Bonds are authorized pursuant to the Resolution.

### **Purpose of Issuance**

The Bonds are being issued to (a) refund the Refunded 2004 Bonds and (b) pay for costs of issuance of the Bonds. See "—Sources and Uses of Funds" and "—Plan of Refunding."

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

## Security

The Bonds represent general obligations of the District payable solely from *ad valorem* property taxes levied and collected with respect to the Bonds. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes for the payment of the Bonds, and the interest thereon, upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Bonds are outstanding in an amount sufficient to pay the principal of or interest on the Bonds when due. Such taxes, when collected, will be deposited, with respect to the Bonds, into the Interest and Sinking Fund and which is required by the California Education Code to be applied for the payment of principal of or interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and the County Treasurer-Tax Collector will maintain the Interest and Sinking Fund, the Bonds are a debt of the District, not the County.

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

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

## Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds. See "Book-Entry Only System" and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Interest with respect to the Bonds accrues from their date of delivery and is payable semiannually on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing February 1, 2015. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear

interest from such Interest Payment Date, or unless it is authenticated on or before January 15, 2015, in which event it will bear interest from their date of delivery. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the inside cover page hereof. The principal of and interest on the Bonds will be payable by check or draft mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Bond at the office of the Paying Agent. See also “Book Entry Only System” below.

See the maturity schedule on the cover page hereof and “DEBT SERVICE SCHEDULES—Bonds.”

### **Payment**

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

### **Redemption**

*Optional Redemption.* The Bonds maturing on and prior to August 1, 2021, are not callable for redemption prior to their stated maturity date. The Bonds maturing on and after August 1, 2022, are callable for redemption prior to their stated maturity date at the option of the District, in whole or in part on any date on or after August 1, 2021 (in such maturities as are designated by the District, or, if the District fails to designate such maturities, on a proportional basis), from any source lawfully available therefor, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

*Selection of Bonds for Redemption.* If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District and, in lieu of such direction, in inverse order of their maturity. Within a maturity, the Paying Agent shall select the Bonds for redemption by lot; *provided, however*, that the portion of any Bonds to be redeemed shall be in the principal amount of \$5,000 or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bonds as representing that number of Bonds which is obtained by dividing the principal amount of such Bonds by five thousand dollars.

*Notice of Redemption.* The Paying Agent is required to give notice of the redemption of the Bonds at the expense of the District. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds including the dated date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Bonds to be redeemed, the portion of the principal amount of such Bonds to be redeemed, together with interest accrued to said date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Notice of redemption shall be by registered or otherwise secured mail or delivery service, postage prepaid, to the registered owner of the Bonds, or if the registered owner is a syndicate, to the managing member of such syndicate, to a municipal securities depository and to a national information service that disseminates securities redemption notices, and by first class mail, postage prepaid, to the District and the respective owners of any registered Bonds designated for redemption at their addresses appearing on the bond register, in every case at least thirty (30) days, but not more than sixty (60) days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds.

*Conditional Notice of Redemption.* Any notice of optional redemption of the Bonds may be conditional and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, (i) said notice shall be of no force and effect, (ii) the District shall not be required to redeem such Bonds; (iii) the redemption shall be cancelled and (iv) the Paying Agent shall within a reasonable time thereafter give notice to the persons and in the manner in which the conditional notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled. The actual receipt by the owner of any Bonds of notice of such cancellation shall not be a condition precedent to cancellation, and failure to receive such notice or any defect in such notice shall not affect the validity of the cancellation.

*Rescission of Notice of Redemption.* The District may rescind any optional redemption and notice thereof for any reason on any date on or 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 moneys are not available in the Interest and Sinking Fund 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 Bonds 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 will not affect the validity of the rescission.

*Partial Redemption of Bonds.* Upon the surrender of any Bonds redeemed in part only (other than Bonds redeemed from sinking fund payments), the Paying Agent shall execute and deliver to the registered owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such registered owner, the Paying Agent and the District shall be released and discharged thereupon from all liability to the extent of such payment.

*Effect of Redemption.* Notice having been given as described above, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside for such purpose, the Bonds to be redeemed shall become due and payable on such date of redemption. If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Bonds shall be held in trust for the account of the registered owners of the Bonds so to be redeemed. Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable

instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, and sufficient moneys are held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, then such Bonds shall no longer be deemed outstanding and shall be surrendered to the Paying Agent for cancellation.

## **Defeasance**

The Bonds may be defeased prior to maturity in the following ways:

(a) *Cash*. By irrevocably depositing with a bank or trust company, in escrow, an amount of cash which, together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Bonds outstanding, including all principal and interest and premium, if any; or

(b) *Defeasance Securities*. By irrevocably depositing with a bank or trust company, in escrow, noncallable Defeasance Securities (as defined below), as permitted under section 149(d) of the Code, together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds (including all principal and interest represented thereby and redemption premiums, if any), at or before their maturity date;

*then*, notwithstanding that any of the Bonds will not have been surrendered for payment, all obligations of the District and the County with respect to all outstanding Bonds will cease and terminate, except for the obligation of the County and the Paying Agent or an independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of the Bonds not so surrendered and paid all sums due with respect thereto.

“Defeasance Securities” means direct and general obligations of the United States of America (including State and Local Government Series), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidence of direct ownership or proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein; (a) a bank or trust company acts as custodian and holds the underlying Defeasance Securities; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Defeasance Securities; and (c) the underlying Defeasance Securities are held in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claims of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed “AAA” by Standard & Poor’s if the Bonds are then rated by Standard & Poor’s, and “Aaa” by Moody’s Investors Service if the Bonds are then rated by Moody’s Investors Service.

## **Partial Defeasance**

A portion of the then-outstanding maturities of the Bonds may be defeased prior to maturity in the following ways:

(a) *Cash*. By irrevocably depositing with a bank or trust company, in escrow, an amount of cash which, together with amounts then on deposit in the Debt Service Fund, is sufficient to pay

the designated outstanding maturities of Bonds, including all principal and interest and premium, if any; or

(b) *Defeasance Securities*. By irrevocably depositing with a bank or trust company, in escrow, non-callable Defeasance Securities, as permitted under section 149(d) of the Code, together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge the designated outstanding maturities of Bonds (including all principal and interest represented thereby and redemption premiums, if any), at or before their maturity date;

*then*, notwithstanding that any such designated maturities of Bonds shall not have been surrendered for payment, all obligations of the District and the County with respect to all such outstanding maturities of Bonds will cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of the designated Bonds of such maturities not so surrendered and paid, all sums due with respect thereto.

### **Registration, Transfer and Exchange of Bonds**

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Bonds as provided in the Resolution (each, a “Bond Register”). Subject to the provisions of the Resolution, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the Resolution. Payment of or on account of the principal of any Bond will be made only to or upon the order of that person; neither the District, nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Resolution. All such payments will be valid and effectual to satisfy and discharge the District’s liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

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

Any Bond may be exchanged for Bonds of the same series of like tenor, maturity, and outstanding principal amount or maturity value (the “Transfer Amount”) upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the principal office of the Paying Agent together with an assignment executed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent will complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the owner equal to the Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Bonds, the District will sign and the Paying Agent will authenticate and deliver Bonds in accordance with the provisions of the Resolution. All fees and costs of transfer will be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer will be valid obligations of the District, evidencing the same debt, and entitled to the same security and benefit under the Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer will be canceled by the Paying Agent. The District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the District may have acquired in any manner whatsoever, and those Bonds will be promptly canceled by the Paying Agent. Written reports of the surrender and cancellation of Bonds will be made to the District by the Paying Agent. The canceled Bonds will be retained for a period of time, then returned to the District or destroyed by the Paying Agent as directed by the District.

Neither the District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 15th business day next preceding either any Interest Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

**Sources and Uses of Funds**

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

<u>Sources of Funds:</u>	
Principal Amount of Bonds	
Plus: Original Issue Premium	
Total Sources of Funds	_____
	=====
<u>Uses of Funds:</u>	
Deposit to Escrow Fund (1)	
Costs of Issuance (2)	
Total Uses of Funds	_____
	=====

- (1) Amounts deposited in the Escrow Fund will be applied to the refunding of the Refunded 2004 Bonds. See “PLAN OF REFUNDING.”
- (2) Includes Underwriter’s discount, Bond Counsel fees, Disclosure Counsel fees, financial advisory fees, printing costs, rating agency fees and other miscellaneous expenses.

**Plan of Refunding**

A portion of the proceeds from the sale of the Bonds will be deposited into an escrow fund (the “Escrow Fund”) to be created and maintained by U.S. Bank National Association, as escrow bank (the “Escrow Bank”), under an escrow deposit and trust agreement by and between the District and the Escrow Bank. The moneys deposited in the Escrow Fund will be in an amount sufficient to redeem the Refunded 2004 Bonds in full on August 1, 2014, at a redemption price equal to 100% of the then accreted value of the Refunded 2004 Bonds. The moneys deposited in the Escrow Fund will be held in cash, uninvested, until such redemption date.

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account (the “Costs of Issuance Fund”) and used to pay costs associated with the issuance of the Bonds. Any proceeds of sale of the Bonds not needed to fund the Escrow Fund or to pay costs of issuance of the Bonds will be transferred by the Paying Agent to the County Treasurer-Tax Collector for deposit in the Interest and Sinking Fund maintained by the County Treasurer-Tax Collector for the District to be used only for payment of principal of and interest on the Bonds. Amounts deposited into the Interest and

Sinking Fund, as well as proceeds of taxes held therein for payment of the Bonds, will be invested on behalf of the District by the County Treasurer-Tax Collector pursuant to law and the investment policy of the County. See “COUNTY INVESTMENT POOL.”

**Debt Service Schedule**

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

Fiscal Year Ended (June 30)	Principal*	Interest (1)	Total Debt Service
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
<b>TOTAL</b>	_____	_____	_____

\*Preliminary, subject to change.

(1) Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2015.

**PAYING AGENT**

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

The Paying Agent, the District, the County and the Underwriter have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the for the Bonds.

## **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX G—BOOK-ENTRY SYSTEM.

## **THE DISTRICT**

### **General Information**

The District provides public education in kindergarten through grade 8 to the residents of the unincorporated Centerville area immediately west of the City, part of the greater Redding area. The District operates an elementary school (grades K-6) and a junior high school (grades 7 and 8) on a single campus.

Enrollment in the District for grades K-8 in the 2012-13 school year was 613 students, and is budgeted at 634 in Fiscal Year 2013-14. In Fiscal Year 2013-14, the District has budgeted for approximately 58.26 employees. Budgeted full-time-equivalent positions (FTEs) include 29.49 certificated (credentialed teaching) staff, 24.77 classified (non-teaching) staff, and 4.0 management personnel. The District has budgeted general fund expenditures of approximately \$5.0 million in Fiscal Year 2013-14. Total assessed valuation of taxable property in the District in Fiscal Year 2013-14 is approximately \$329,177,731 million. The District operates under the jurisdiction of the County Superintendent of Schools. The District is not a “basic aid district.”

### **Governing Board and Administration**

The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the District Board are held every two years, alternating between two and three available positions.

#### **BOARD OF TRUSTEES Grant Elementary School District**

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
Chuck Aukland	President	2016
Sami Kader	Clerk	2014
Galen E. Schmidt	Board Member	2016
Brenda Meline	Board Member	2014
Camile Woodstrom	Board Member	2014

The District’s day-to-day operations are managed by a board-appointed Superintendent of Schools, Michael Freeman.

## Average Daily Attendance and Base Revenue Limit

The following table summarizes the historical and current year estimated average daily attendance for the District.

### AVERAGE DAILY ATTENDANCE Grant Elementary School District Fiscal Years 2006-07 to 2013-14

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>
2006-07	576
2007-08	589
2008-09	598
2009-10	580
2010-11	580
2011-12	582
2012-13	587
	<i>Projected</i>
2013-14	607

Source: Grant Elementary School District

## SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

### General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, 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, including the countywide tax of 1% of taxable value. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

### Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total 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. The District receives approximately 11% of its total general fund operating revenues from local property taxes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller 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 treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer-tax collector, 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 State Board of Equalization also assesses certain special classes of property, as described later in this section.

**Assessed Valuation of Property Within the District**

Under Proposition 13, an amendment to the California 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 that of similar properties more recently sold, and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will 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 “DISTRICT FINANCIAL INFORMATION” and “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.”

For assessment and tax collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property 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.”

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. The following table shows recent history of taxable property assessed valuation in the District.

The table below shows the assessed valuation in the District for fiscal years 2009-10 to 2013-14.

**HISTORIC ASSESSED VALUATIONS  
Grant Elementary School District  
Fiscal Years 2009-10 to 2013-14**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2009-10	\$343,025,329	\$0	\$10,399,662	\$353,424,991
2010-11	322,475,468	0	4,966,432	327,441,900
2011-12	311,503,195	0	4,015,816	315,519,011
2012-13	312,514,417	0	4,545,428	317,059,845
2013-14	324,621,232	0	4,556,499	329,177,731

Source: California Municipal Statistics, Inc.

The following table gives a distribution of taxable real property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**ASSESSED VALUATION AND PARCELS BY LAND USE**  
**Grant Elementary School District**  
**Fiscal Year 2013-14**

	2013-14 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 11,986,737	3.69%	203	13.53%
Commercial/Office	2,270,276	.70	9	.60
Vacant Commercial	856,363	.26	4	.27
Industrial	3,695,957	1.14	10	.67
Vacant Industrial	37,989	.01	1	.07
Recreational	122,981	.04	2	.13
Government/Social/Institutional	35,803	.01	134	8.93
Miscellaneous	1,825	.00	4	.27
Subtotal Non-Residential	\$ 19,007,931	5.86%	367	24.47%
<b>Residential:</b>				
Single Family Residence	\$ 298,745,468	92.03%	989	65.93%
Mobile Home	1,633,189	.50	38	2.53
2-4 Residential Units	219,460	.07	2	.13
Miscellaneous Residential	2,443,538	.75	26	1.73
Vacant Residential	2,571,646	.79	78	5.20
Subtotal Residential	\$ 305,613,301	94.14%	1,133	75.53%
<b>Total</b>	<b>\$ 324,621,232</b>	<b>100.00%</b>	<b>1,500</b>	<b>100.00%</b>

Source: California Municipal Statistics, Inc.

<sup>(1)</sup> Local Secured Assessed Valuation; excluding tax-exempt property.

The following table focuses on single-family residential properties only, which comprise approximately 90% of the assessed value of taxable property in the District. The average assessed value per parcel is \$302,068, and the median assessed value per parcel is \$270,000.

**ASSESSED VALUATION OF SINGLE FAMILY HOMES**  
**Grant Elementary School District**  
**Fiscal Year 2013-14**

	No. of Parcels	2013-14 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	989	\$ 298,745,468	\$ 302,068	\$ 270,000

2013-14 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cum. % of Total	Total Valuation	% of Total	Cum. % of Total
\$0 - \$49,999	27	2.730%	2.730%	\$ 866,998	0.290%	0.290%
\$50,000 - \$99,999	56	5.662	8.392	4,203,475	1.407	1.697
\$100,000 - \$149,999	81	8.190	16.582	10,443,953	3.496	5.193
\$150,000 - \$199,999	128	12.942	29.525	22,459,289	7.518	12.711
\$200,000 - \$249,999	153	15.470	44.995	34,313,439	11.486	24.197
\$250,000 - \$299,999	138	13.953	58.948	37,945,410	12.702	36.898
\$300,000 - \$349,999	101	10.212	69.161	32,605,486	10.914	47.813
\$350,000 - \$399,999	85	8.595	77.755	31,700,971	10.611	58.424
\$400,000 - \$449,999	59	5.966	83.721	24,793,061	8.299	66.723
\$450,000 - \$499,999	45	4.550	88.271	21,182,657	7.091	73.814
\$500,000 - \$549,999	27	2.730	91.001	14,011,547	4.690	78.504
\$550,000 - \$599,999	19	1.921	92.922	10,899,841	3.649	82.152
\$600,000 - \$649,999	17	1.719	94.641	10,596,312	3.547	85.699
\$650,000 - \$699,999	16	1.618	96.259	10,616,373	3.554	89.253
\$700,000 - \$749,999	8	.809	97.068	5,773,623	1.933	91.185
\$750,000 - \$799,999	6	.607	97.674	4,650,108	1.557	92.742
\$800,000 - \$849,999	5	.508	98.180	4,087,320	1.368	94.110
\$850,000 - \$899,999	6	.607	98.787	5,179,819	1.734	95.844
\$900,000 - \$949,999	4	.404	99.191	3,730,455	1.249	97.093
\$950,000 - \$999,999	4	.404	99.596	3,855,257	1.290	98.383
\$1,000,000 and greater	4	.404	100.000	4,830,074	1.617	100.000
Total	989	100.00%		\$ 298,745,468	100.00%	

Source: California Municipal Statistics, Inc.

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

The following table shows the 2013-14 assessed valuation of each jurisdiction with the boundaries of the District:

**ASSESSED VALUATION BY JURISDICTION<sup>(1)</sup>**  
**Grant Elementary School District**  
**Fiscal Year 2013-14**

Jurisdiction	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Redding	\$ 15,322,868	4.65%	\$ 7,251,300,617	0.21%
Unincorporated Shasta County	313,854,863	95.35	\$ 6,048,395,327	5.19%
Total District	\$ 329,177,731	100.00%		
Shasta County	\$ 329,177,731	100.00%	\$ 14,468,720,078	2.28%

Source: California Municipal Statistics, Inc.

(1) Before deduction of redevelopment incremental valuation.

**Tax Rates**

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in the principal Tax Rate Area (“TRA”) within the District from fiscal year 2009-10 to fiscal 2013-14. TRA 83-001 comprises approximately 56% of the total assessed value of property in the District.

**DEFINITIONS AND SUMMARY OF AD VALOREM TAX RATES**  
**Grant Elementary School District**  
**Fiscal Years 2009-10 to 2013-14**

Total Tax Rates (TRA 83-001 – 2013-14 Assessed Valuation: \$183,991,240)

	2009-10	2010-11	2011-12	2012-13	2013-14
General	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Centerville Community Services District	.0036	.004	.0036	.0063	.0043
Shasta Union High School District	.0187	.0205	.0289	.0189	.0219
Shasta-Tehama-Trinity Community College	.0101	.0095	.0162	.0054	.0088
Grant School District	.0275	.0327	.0411	.0333	.0375
Total	1.0599%	1.0667%	1.0898%	1.0639%	1.0725%

Source: California Municipal Statistics, Inc.

## Tax Levies and Delinquencies

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

The following table reflects the historical secured tax levy and year-end delinquencies for the District.

### SECURED TAX CHARGE AND DELINQUENCY Grant Elementary School District Fiscal Years 2008-09 to 2012-13

Fiscal Year	Secured Tax Charge <sup>(1)</sup>	Amount Delinquent as of June 30	Percent Delinquent as of June 30
2008-09	\$ 73,560.52	\$ 3,361.11	4.57%
2009-10	92,626.94	3,305.18	3.57
2010-11	103,426.16	2,996.82	2.90
2011-12	125,661.58	3,609.47	2.87
2012-13	102,236.32	2,575.75	2.52

Source: California Municipal Statistics, Inc.

(1) Bond debt service levy.

## Alternative Method of Tax Apportionment

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

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

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

## Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2013-14, representing 7.27% of the total assessed valuation.

### LARGEST LOCAL SECURED TAXPAYERS Grant Elementary School District Fiscal Year 2013-14

	Property Owner	Primary Land Use	2013-14 Assessed Valuation	% of Total <sup>(1)</sup>
1.	John A. and Jeni S. Crosby	Residence	\$ 1,574,050	.48%
2.	Charles and Linda Jewell, Trust	Residence	1,555,721	.48
3.	Hsiao-Ping Hu and Panechanh Sinantha-Hu	Residence	1,500,000	.46
4.	Lyle L. and Jeannie V. Tullis	Industrial & Office	1,485,905	.46
5.	Craig A. and Mi Sook Kim Kraffert	Residence	1,451,537	.45
6.	Harold Marcus Cox	Residence	1,340,000	.41
7.	Gary E. and Jane L. Black	Residence	1,224,000	.38
8.	John P. McDermott	Residence	1,208,463	.37
9.	Richard Scott and Pamela A. Schalo	Residence	1,206,074	.37
10.	Daniel W. and Melissa Petersen	Residence	1,145,000	.35
11.	Claude D. and Lisa Michelle Lavoie	Industrial	1,082,016	.33
12.	Henson Family Trust	Residence	1,060,000	.33
13.	Chae H. and Sun Moon, Trust	Residence	1,022,661	.32
14.	John A. and Lisa M. Dorsett	Residence	1,022,079	.31
15.	Mark and Jennifer Fix	Residence	1,016,160	.31
16.	Gary and Erica Buxa	Residence	975,000	.30
17.	Yukihiko Matsumoto, Trust	Residence	946,405	.29
18.	Philip D. and Diane S. Hurner, Trust	Residence	935,000	.29
19.	D&M Partnership	Industrial	929,165	.29
20.	Ryan and Sara Hall	Residence	925,000	.28
			<u>\$ 23,604,236</u>	<u>7.27%</u>

Source: California Municipal Statistics, Inc.

(1) 2013-14 Local Secured and Utility Assessed Valuation: \$324,621,232.

*Risk of Decline in Property Values; Earthquake Risk.* Property values could be reduced by factors beyond the District's control, including earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, toxic dumping, acts of terrorism, etc., or 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). Lower assessed values could 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 bonds in the future might also cause the tax rate to increase, although the District does not currently have any voter authorization to issue additional bonds.

*State-Assessed Property.* Under the 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 Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the 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 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 California, 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 all 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.

*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 (the "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 Assessor. The 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 County Tax Collector against all taxing agencies who received tax revenues, including the District.

## **Direct and Overlapping Debt**

*Direct and Overlapping Debt.* Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of April 1, 2014, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in 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.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**  
**Grant Elementary School District**  
**Fiscal Year 2013-14**

2013-14 Assessed Valuation: \$329,177,731

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/14</u>
Shasta-Tehama-Trinity Community College District	1.622%	\$ 431,047
Shasta Union High School District	3.871	766,045
<b>Grant School District</b>	<b>100.</b>	<b><u>1,086,959</u></b> (1)
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 2,284,051</b>
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Shasta County General Fund Obligations	2.275%	\$ 865,751
Shasta-Tehama-Trinity Community College District Certificates of Participation	1.622	302,098
Shasta Union High School District Certificates of Participation	3.871	113,807
City of Redding General Fund Obligations	.211	<u>85,508</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 1,367,164</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$ 3,651,215</b> (2)

Ratios to 2013-14 Assessed Valuation:

<b>Direct Debt (\$1,086,959)</b> .....	<b>0.33%</b>
Total Gross Direct and Overlapping Tax and Assessment Debt .....	0.69%
Combined Total Debt .....	1.11%

Source: California Municipal Statistics, Inc.

(1) Excludes issue to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

**COUNTY INVESTMENT POOL**

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

Each treasurer-tax collector is required to invest funds, including those pooled funds described above, in accordance with Section 53601 *et seq* of the California Government Code. In addition, each treasurer-tax collector is required to establish an investment policy which may impose further limitations beyond those required by the California Government Code. A copy of the County investment policy and

periodic reports on the County investment pool are available from the County Treasurer, Shasta County 1450 Court Street, Suite 227, Redding, California, 96001, Telephone: (530) 225-5511. It is not intended that such information be incorporated into this Official Statement by such references. Certain information concerning the County's pooled investment portfolio as of March 31, 2014 is included here in APPENDIX D—COUNTY QUARTERLY INVESTMENT REPORT.

## **LEGAL OPINIONS**

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, Larkspur, California, Bond Counsel for the District. Certain legal matters will also be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Bonds.

## **TAX MATTERS**

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

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

Subject to the District's compliance with certain covenants, in the opinion of Bond Counsel, the Bonds are "qualified tax exempt obligations" under the small issuer exception provided under section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under section 265(b)(2) of the Code.

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

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain

exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Bonds.

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

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

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

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

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

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

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

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

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

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

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

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

### **FINANCIAL ADVISOR**

KNN Public Finance, Oakland, California, has served as financial advisor (the “Financial Advisor”) to the District in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees of the Financial Advisor are contingent upon the sale and delivery of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

## **CONTINUING DISCLOSURE**

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than nine months after the end of the District’s fiscal year (which date would be March 31 following the current end of the District’s fiscal year on June 30), commencing with the report for the 2013-14 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board (the “MSRB”). The notices of enumerated events will be filed by the District with the MSRB. The specific nature of the information to be made available and to be contained in the notices of material events is summarized below under the caption APPENDIX F—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”). In preparation for issuance of the Bonds, the District determined that, while it had had filed all required Annual Reports and financial and operating data as required by its continuing disclosure undertakings during the last five years, it had failed to file material event notifications relating to rating downgrades of the municipal bond insurer insuring the District’s outstanding bonds. Prior to the date of this Official Statement, all such material event notifications have been filed with the MSRB.

## **LEGALITY FOR INVESTMENT IN CALIFORNIA**

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

## **ABSENCE OF MATERIAL LITIGATION**

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

## **RATING**

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), have assigned the rating of “AA- (stable outlook)” to the Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P at 55 Water Street, New York, NY 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Bonds.

## VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, the arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to the computation of (a) the adequacy of forecasted receipts of principal and interest on the cash to be held in the Escrow Fund to pay, when due, the principal and interest on the Refunded 2004 Bonds, and (b) the yield with respect to the Bonds and the securities to be deposited to the Escrow Fund upon the delivery of the Bonds, will be verified by the Verification Agent. Such verification of the accuracy of the mathematical computations shall be based solely upon information and assumptions supplied to such accountants by the Underwriter. Such accountants have restricted their procedures to examining the arithmetical accuracy of certain computations and have not made a study or evaluation of the information and assumptions on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## UNDERWRITING

The Bonds are being purchased by \_\_\_\_\_ (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (being equal to the aggregate principal amount of the Bonds (\$\_\_\_\_\_), plus an original issue premium (\$\_\_\_\_\_), less \$\_\_\_\_\_ retained by the Underwriter to pay the Underwriter's discount, and less \$\_\_\_\_\_ wired by the Underwriter to the Paying Agent as costs of issuance custodian to pay for costs of issuance). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. In addition, the Underwriter will pay certain costs of issuance of the Bonds, as set forth in the bond purchase agreement relating to the Bonds. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

**ADDITIONAL INFORMATION**

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

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

GRANT ELEMENTARY SCHOOL  
DISTRICT

By \_\_\_\_\_  
Michael Freeman  
*Superintendent*

## APPENDIX A

### THE ECONOMY OF THE DISTRICT

*While the economics of the City and County and surrounding region influence the economics within the District, only property within the District is subject to an unlimited ad valorem tax levy to pay debt service on the Bonds.*

#### Introduction

The District is located in Shasta County. Shasta County (the "County") covers an area of over 24 square miles. Shasta County was one of the original counties of California, created in 1850 at the time of statehood. The County is named after Mount Shasta. Originally Mt. Shasta was within the county, but it is now part of Siskiyou County, to the north. Its 14,179-foot (4,322 m) peak is visible throughout most of Shasta County.

The County is located at the northern end of the Sacramento Valley and is bordered by Tehama County to the south, Lassen County to the east, Siskiyou County to the north and Trinity County to the west. The City of Redding (the "City"), the county seat, is located on Interstate 5 approximately 215 miles north of San Francisco, 160 miles north of Sacramento, and 100 miles south of the Oregon Border.

The valley floor gives way north of the City to the Trinity Mountains, the Cascade Range, the Shasta National Forest, and the Whiskeytown-Shasta-Trinity National Recreation Area. To the west, the County is flanked by the Trinity Alps and the Trinity National Forest, and to the east by the Cascades, the Lassen National Forest, and the Lassen Volcanic National Park. The Sacramento River flows out of the mountains to the north, through the center of the county, and toward the Sacramento Valley to the south.

#### Population

The table below summarizes population of the City and the County.

#### POPULATION City of Redding and Shasta County

Year	City of Redding	County of Shasta
2004	86,470	172,729
2005	87,152	173,862
2006	87,662	174,747
2007	88,343	175,546
2008	88,898	176,240
2009	89,343	176,756
2010	89,878	177,248
2011	90,050	177,516
2012	90,342	178,107
2013	90,670	178,601

Source: California Department of Finance, Demographic Research Unit.

## Employment

The following table summarizes the historical numbers of workers by industry in the Redding MSA (Shasta County):

**REDDING MSA (SHASTA COUNTY)**  
**Annual Average Wage and Salary Employment by Industry\***  
**2009-2013**

	2009	2010	2011	2012	2013
Total, All Industries	60,200	59,300	58,500	59,100	61,100
Farm	700	700	800	800	800
Non-Farm:					
Goods Producing	5,300	5,000	5,000	4,900	4,800
Mining, Logging, and Construction	2,900	2,700	2,800	2,700	2,700
Manufacturing	2,400	2,300	2,200	2,200	2,200
Trade, Transportation & Utilities	12,100	11,900	11,800	11,700	12,000
Information	700	600	600	600	600
Financial Activities	2,600	2,500	2,400	2,400	2,500
Professional & Business Services	5,400	5,000	4,900	5,000	5,300
Educational & Health Services	11,900	12,300	12,200	12,400	13,400
Leisure & Hospitality	6,300	6,100	5,800	6,300	6,500
Other Services	2,400	2,300	2,400	2,500	2,600
Government	12,800	12,800	12,600	12,500	12,600
Goods Producing	5,300	5,000	5,000	4,900	4,800
Mining, Logging, and Construction	2,900	2,700	2,800	2,700	2,700
Manufacturing	2,400	2,300	2,200	2,200	2,200

Source: California Employment Development Department, based on March 2013 benchmark.

\*Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

The following tables summarize historical employment and unemployment for the Shasta County, the State of California and the United States:

**SHASTA COUNTY, CALIFORNIA, AND UNITED STATES**  
**Civilian Labor Force, Employment, and Unemployment**  
**(Annual Averages)**  
**2009-2013**

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate <sup>(1)</sup></u>
2009	Shasta County	84,100	71,700	12,300	14.7%
	California	18,208,300	16,144,500	2,063,900	11.3
	United States	154,142,000	139,877,000	14,265,000	9.3
2010	Shasta County	83,900	70,500	13,400	16.0%
	California	18,316,400	16,051,500	2,264,900	12.4
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	Shasta County	82,500	70,200	12,300	14.9%
	California	18,384,900	16,226,600	2,158,300	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	Shasta County	81,600	70,800	10,800	13.3%
	California	18,494,900	16,560,300	1,934,500	10.5
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	Shasta County	80,900	72,100	8,800	10.9%
	California	18,596,800	16,933,300	1,663,500	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4

Source: California Employment Development Department, based on March 2013 benchmark and US Department of Labor, Federal Bureau of Labor Statistics

(1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures available in this table.

## Construction Activity

The following tables reflects the five-year history of building permit valuation for the City and the County:

### CITY OF REDDING Building Permits and Valuation (Dollars in Thousands)

	2008	2009	2010	2011	2012
<u>Permit Valuation:</u>					
New Single-family	\$ 39,104	\$ 18,089	\$ 14,935	\$ 6,465	\$ 19,950
New Multi-family	7,113	1,304	9,610	4,559	2,479
Res. Alterations/Additions	9,710	5,585	5,106	8,356	3,768
Total Residential	55,927	24,978	29,653	19,380	26,197
Total Nonresidential	35,048	29,470	25,486	11,195	26,340
Total All Building	\$ 90,975	\$ 54,448	\$ 55,139	\$ 30,575	\$ 52,537
<u>New Dwelling Units:</u>					
Single Family	192	95	75	31	116
Multiple Family	93	20	82	41	15
Total	285	115	157	72	131

### SHASTA COUNTY Building Permits and Valuation (Dollars in Thousands)

	2008	2009	2010	2011	2012
<u>Permit Valuation:</u>					
New Single-family	\$ 73,658	\$ 41,827	\$ 32,843	\$ 19,070	\$ 31,251
New Multi-family	13,216	2,180	9,902	4,559	4,134
Res. Alterations/Additions	15,488	9,668	10,894	21,529	7,291
Total Residential	102,360	53,676	53,640	45,158	42,676
Total Nonresidential	60,320	43,172	40,322	18,296	31,706
Total All Building	\$ 162,680	\$ 96,848	\$ 93,962	\$ 63,454	\$ 74,382
<u>New Dwelling Units:</u>					
Single Family	358	217	165	97	180
Multiple Family	172	26	84	41	20
Total	530	243	249	138	200

Sources: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

## Commercial Activity

Taxable sales in the City and the County are shown below. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data from 2009 are not comparable to that of prior years.

### TAXABLE SALES, 2008-2012 CITY OF REDDING (dollars in thousands)

	2008			
Retail Stores				
Apparel Stores				43,339
General Merchandise				293,985
Food Stores				81,446
Eating and Drinking				154,685
Home Furnishings and Appliances				68,563
Building Materials				148,292
Motor Vehicles and Parts				276,526
Service Stations				183,846
All Other Retail Stores				182,622
Retail Stores Totals				1,433,304
All Other Outlets				398,021
Total All Outlets <sup>(2)</sup>				1,831,324

	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	2011 <sup>(1)</sup>	2012 <sup>(1)(3)</sup>
Retail and Food Services				
Motor Vehicle and Parts Dealers	209,935	219,219	249,005	302,507
Home Furnishings and Appliance Stores	74,042	70,685	72,910	75,193
Bldg. Matrl. And Garden Equip. and Supplies	128,332	127,307	130,259	133,598
Food and Beverage Stores	87,212	90,126	89,817	91,923
Gasoline Stations	149,036	179,396	216,414	219,704
Clothing and Clothing Accessories Stores	49,538	54,4475	59,472	66,871
General Merchandise Stores	256,886	256,290	262,250	263,103
Food Services and Drinking Places	145,291	154,764	149,520	160,205
Other Retail Group	148,809	155,069	154,986	160,559
Total Retail and Food Services	1,249,082	1,298,331	1,384,632	1,473,662
All Other Outlets	360,775	316,277	346,019	367,713
Total All Outlets <sup>(2)</sup>	1,609,857	1,614,608	1,730,651	1,841,374

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

(1) Starting in 2009, categories were revised from prior years.

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

(3) Last available full year data.

**TAXABLE SALES, 2008-2012**  
**SHASTA COUNTY**  
**(dollars in thousands)**

	<u>2008</u>			
Retail Stores				
Apparel Stores				61,660
General Merchandise				361,910
Food Stores				134,079
Eating and Drinking				194,346
Household Group				74,952
Building Material Group				170,530
Automotive Group				316,802
Service Stations				303,636
All Other Retail Stores				241,912
Retail Stores Totals				<u>1,859,828</u>
Business & Personal Services				105,314
All Other Outlets				<u>675,644</u>
Total All Outlets <sup>(2)</sup>				<u>2,640,786</u>

	<u>2009<sup>(1)</sup></u>	<u>2010<sup>(1)</sup></u>	<u>2011<sup>(1)</sup></u>	<u>2012<sup>(1)(3)</sup></u>
Retail and Food Services				
Motor Vehicles and Parts Dealers	235,061	243,658	274,845	336,474
Furniture and Home Furnishings Stores	32,438	29,712	32,388	34,635
Electronics and Appliance Stores	54,215	52,423	53,051	53,669
Bldg Mtrl. and Garden Equip. and Supplies	156,305	156,712	160,671	168,034
Food and Beverage Stores	127,777	132,738	138,690	140,731
Health and Personal Care Stores	46,616	53,374	55,748	47,179
Gasoline Stations	243,970	290,639	348,809	360,364
Clothing and Clothing Accessories Stores	69,834	74,314	78,991	86,418
Sporting Goods, Hobby, Book and Music Stores	50,087	51,164	54,226	65,854
General Merchandise Stores	318,438	314,521	319,064	321,339
Miscellaneous Store Retailers	81,608	79,914	79,765	80,760
Nonstore Retailers	10,150	11,638	11,812	18,357
Food Services and Drinking Places	185,369	184,770	189,986	201,899
Total Retail and Food Services	<u>1,611,868</u>	<u>1,675,578</u>	<u>1,798,045</u>	<u>1,915,713</u>
All Other Outlets	695,232	810,540	745,940	726,567
Totals All Outlets <sup>(2)</sup>	<u>2,307,100</u>	<u>2,486,118</u>	<u>2,543,985</u>	<u>2,642,280</u>

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

(1) Starting in 2009, categories were revised from prior years.

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

(3) Last available full year data.

## Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the years 2008 through 2012.

### CITY OF REDDING, SHASTA COUNTY, STATE AND UNITED STATES Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2008	City of Redding	\$ 1,681,790	\$ 35,869
	Shasta County	3,319,528	36,392
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2009	City of Redding	\$ 1,707,550	\$ 35,883
	Shasta County	3,357,435	36,658
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Redding	\$ 1,625,405	\$ 34,322
	Shasta County	3,192,375	34,781
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Redding	\$ 1,619,607	\$ 34,225
	Shasta County	3,204,622	34,695
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Redding	\$ 1,607,060	\$ 34,240
	Shasta County	3,150,812	34,336
	California	664,088,827	47,307
	United States	6,737,867,730	41,358

Source: Nielsen Claritas, Inc.

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## APPENDIX B

### DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

*The information in this appendix concerning the operations of the District, the District's finances, and State funding of 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 the general fund of the District or from State revenues. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the Official Statement.*

#### **District Budget**

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

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

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

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent two fiscal years. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

The District's Second Interim Report for Fiscal Year 2013-14, adopted March 20, 2014, was certified as "Positive." The District has not received a qualified or negative certification in any of the last five years.

### **Accounting Practices**

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

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

## Financial Statements

The District's general fund finances the basic operating activities of the District. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2013, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 8835 Swasey Drive, Redding, California, 96001, telephone number (530) 243-0561. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address.

The following table shows the District's audited actual General Fund for fiscal years 2011-12 and 2012-13, and the District's adopted General Fund budget for 2013-14. For further information, see also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

### GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCE Grant Elementary School District Fiscal Years 2009-10 to 2013-14

	2009-10 <sup>(1)</sup>	2010-11 <sup>(1)</sup>	2011-12 <sup>(1)</sup>	2012-13 <sup>(1)</sup>	Projected 2013-14 <sup>(2)</sup>
<b>REVENUES</b>					
Revenue Limit Sources:					
Property Tax	\$621,036	\$543,503	\$541,341	\$535,871	\$575,005
State Revenue	2,850,591	3,157,207	3,019,596	2,418,096	3,139,409
Total Revenue Limit Sources	3,471,627	3,700,710	3,560,937	2,953,967	3,714,414
Federal Revenues	352,787	493,761	242,522	640,895	150,400
Interest and Investment Earnings	12,607	14,296	9,393	212,926	263,678
Other Local Revenues	981,077	820,323	827,197	884,703	819,795
<b>TOTAL REVENUES</b>	<b>4,818,098</b>	<b>5,029,090</b>	<b>4,640,049</b>	<b>4,692,491</b>	<b>4,948,287</b>
<b>EXPENDITURES</b>					
Salaries:					
Certificated Salaries	2,087,262	2,095,786	2,084,245	2,023,741	2,106,001
Classified Salaries	853,270	802,518	761,425	789,343	841,825
Employee Benefits	862,354	847,933	868,677	825,499	810,896
Books and Supplies	218,059	213,200	191,289	210,661	560,187
Services and Other Operating Expenditures	583,171	487,431	481,133	529,685	695,123
Capital Outlay		144,980			
Other Outgo	(5,195)		(5,932)	(5,266)	16,396
Debt Service:					
Principal	10,390	10,615	10,843	10,934	
Interest and Other Charges	2,508	2,283	2,055	1,964	
Direct Support and Indirect Costs					(4,358)
<b>TOTAL EXPENDITURES</b>	<b>4,611,819</b>	<b>4,604,746</b>	<b>4,393,735</b>	<b>4,386,561</b>	<b>5,026,070</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating Transfers In	110,000				
Operating Transfers Out					
Other Sources (Uses)	3,350				
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>113,350</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>					
	319,629	424,344	246,314	305,930	(77,783)
<b>ADJUSTMENTS</b>					
		85,135			(77,848)
GENERAL FUND BALANCE JUNE 30 PRIOR YEAR	1,145,700	1,465,329	1,974,808	2,221,122	2,527,052
COMBINED FUND BALANCE JUNE 30	1,465,329	1,974,808	2,221,122	2,527,052	2,371,421

Sources: Grant Elementary School District Audited Financial Statements and Second Interim Report.

(1) District audited Financial Statements.

(2) Based on District 2013/14 *Second Interim Report*.

## **District Revenues—LCFF**

As part of the 2013-14 State Budget, the formula for determining the level of funding per student changed from the “revenue limit” formula to the “Local Control Funding Formula” (or “LCFF”) discussed below. See “—State Funding of Education; State Budget Process—Local Control Funding Formula” below. The California Department of Education has not yet provided an update to the Standardized Accounting Code Structure (which all school districts in California use to account for their funds).

Under section 42238 et seq. of the California Education Code, prior to fiscal year 2013-14, each school district was determined to have a target funding level: a “base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance (“A.D.A.”). The base revenue limit was calculated from the district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State’s contribution.

The 2013-14 State Budget replaced the current K-12 finance system with the LCFF. The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. The 2013-14 State Budget provides an additional \$2.1 billion of funding to school districts and charter schools to support the first-year implementation of the LCFF. Until full implementation, however, school districts will receive roughly the same amount of funding they received in 2012-13 plus an additional amount each year to bridge the gap between current funding levels and the new LCFF target levels. The 2013-14 State Budget projects the time frame for full implementation of the LCFF to be eight years. For more information on the LCFF, see “—State Funding of Education; State Budget Process—Local Control Funding Formula” below.

Funding of the District’s local control funding is provided by a mix of local property taxes and State aid. Local control funding formula revenues comprised approximately 75.52% of the District’s general fund revenues in 2013-14. The District anticipates that it will receive approximately \$3,572,784 in base grant funding, \$141,630 in supplemental grant funding and \$0.00 in concentration grant funding.

## **Implementation of the LCFF**

The California Department of Education (the “CDE”) cannot immediately determine how much a school district is entitled to receive under the LCFF because funding is based on current year attendance data not known until the end of the fiscal year and because the CDE must reprogram its apportionment systems to reflect the new formula calculations.

However, because the greater part of a school district’s funding is based on what the school received in fiscal year 2012-13, the CDE will apportion funds during the advance principal apportionment and first principal apportionment periods based on fiscal year 2012-13 funding, and according to the fiscal year 2012-13 model (not the LCFF), plus a portion of the \$2.1 billion appropriated to begin

implementation of the provisions of the LCFF. The CDE has indicated that the second principal apportionment will be based on the LCFF. The fiscal year 2013-14 budgetary information that follows, which discusses the District's revenues and expenditures, does so under the 2012-13 budget model, and does not reflect how funds will be apportioned once the LCFF is implemented.

For districts that receive a portion of their Base Grant from State equalization aid, the LCFF will translate to additional revenues of approximately \$394 per A.D.A. in 2013-14 and LCFF revenues received in 2014-15 and 2015-16 will increase at a rate of approximately 4.5% per A.D.A. per year. These projections are subject to changes in statewide economic conditions. Further, actual revenues depend not only on funding per A.D.A., but also on the number of units of A.D.A. The District, however, is not entitled to State equalization aid, and therefore will not receive additional funds as a result of the conversion from revenue limit to the Local Control Funding Formula.

In its fiscal year 2013-14 budget, the District projects that it will receive approximately \$3,714,414 in aggregate LCFF income in fiscal year 2013-14, or approximately 75.52% of its general fund revenues. To develop its projected revenue under the LCFF, the District used its current number of English language learners as its "unduplicated count," which the District anticipates will be lower than the actual unduplicated count when available. 2013-14 revenues represent an increase of 6.61% from the \$3,483,954 million that the District received in fiscal year 2012-13. State funds for special programs are budgeted to be \$263,678 for fiscal year 2013-14. This amount includes a small portion from State Lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property or the construction of facilities. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue was \$96,884.77 in fiscal year 2012-13 and is budgeted at approximately \$94,735 for fiscal year 2013-14.

*Effect of Changes in Enrollment.* Changes in local property tax income and student enrollment (or A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools. 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 District to make adjustments in fixed operating costs.

In basic aid districts, the opposite is generally true: increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid received in the form of categorical aid, as described above. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a basic aid district.

For revenue limit districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State.

State funds for special (categorical) programs in fiscal year 2013-14 which include moneys received from the State lottery fund, have been reduced by the “fair share” reduction the District expects the State to impose on basic aid districts in fiscal year 2013-14. The District has budgeted a net amount of State categorical and lottery funds received to approximately \$94,735 in fiscal year 2013-14. Lottery funds may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District’s total State lottery revenue is budgeted at \$94,735, or approximately 1.9% of general fund revenue in fiscal year 2013-14.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State’s ability to meet the revenue and spending assumptions in the State’s adopted budget, and the effect of these changes on school finance. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

*Dissolution of Redevelopment Agencies.* Under California law, a city or county could, and did, prior to California legislation dissolving redevelopment agencies as described below, create a redevelopment agency in territory within one or more school districts. Upon formation of a “project area” of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as “tax increment”) belong to the redevelopment agency, causing a loss of general fund tax revenues (relating to the 1% countywide general fund levy) to other local taxing agencies, including school districts, from that time forward. However, special ad valorem property taxes (in excess of the 1% general fund levy) collected for payment of debt service on school bonds are based on assessed valuation before reduction for redevelopment increment and such special ad valorem property taxes are not affected or diverted by the operation of a redevelopment agency project area.

As to operating revenues, any loss of local property taxes that contribute to the revenue limit target of a revenue limit district is made up by an increase in State equalization aid, until the base revenue limit is reached. “Pass-through” payments of local tax revenues required by law to be paid to the school district by a local redevelopment agency will count toward the revenue limit, except for any portion dedicated to capital facilities or deferred maintenance.

Commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved were instead deposited in a “redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in Part 1.85 (commencing with Section 34170) of Division 24 of the State Health and Safety Code (the “Health and Safety Code”). The Health and Safety Code generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the

recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;

- To the former redevelopment agency’s successor agency for payments listed on the successor agency’s recognized obligation payment schedule for the ensuing six-month period;
- To the former redevelopment agency’s successor agency for payment of administrative costs; and
- Any remaining balance to school entities and local taxing agencies.

**Reserves**

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% of its total general fund expenditures, based on total student attendance below 30,000. For Fiscal Year 2013-14, the District has budgeted an unrestricted general fund reserve of 3%, or approximately \$1 million. Substantially all funds of the District are required by law to be deposited with and invested by the Treasurer-Tax Collector on behalf of the District, pursuant to law and the investment policy of the County. See “SHASTA COUNTY INVESTMENT POOL.”

**District Expenditures**

The largest part of each school district’s general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. 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.

In its 2013-14 budget, the District estimates that it will expend \$2,947,826 in salaries and benefits, or approximately 58.6% of its general fund expenditures. This amount represents an increase of approximately 5% from the \$2,813,084 the District expended in 2012-13.

*Labor Relations.* Currently the District employs 29.49 full-time equivalent (FTE) certificated employees, 24.77 FTE classified employees, 3.0 management employees and 1.0 confidential employees. There are two formal bargain units operating in the District which are described in the table below. The parties are currently operating under the terms of the prior contracts.

**LABOR ORGANIZATIONS  
Grant Elementary School District**

Labor Organization	Contract Expiration
Grant Elementary Teachers Association (GETA)	June 30, 2013
California School Employees Association (CSEA)	June 30, 2013

Source: Grant Elementary School District

*Retirement Programs.* Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of

the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

### **California Public Employees' Retirement System (CalPERS)**

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

*Funding Policy.* Active plan members are required to contribute 7.00% 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 the 2012-13 fiscal year was 11.417%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$87,480, \$79,241, and \$81,151, respectively, and equaled 100% of the required contributions for each year.

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

*Plan Description.* The District contributes to CalSTRS, a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. 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, 100 Waterfront Place, Sacramento, California 95605.

*Funding Policy.* Active plan members are required to contribute 8.00% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% 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 ended June 30, 2013, 2012, and 2011, were \$157,729, \$167,439, and \$170,626, respectively, and equaled 100% of the required contributions for each year.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 16.

*Early Retirement Incentive Program.* The District did not enter into any early retirement incentive agreements during 2012-13, pursuant to California Education Code, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 17.

*Governor's Pension Reform.* On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$110,100 for 2012, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make.

### **County Office of Education**

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

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

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

### **Temporary Inter-fund Borrowing**

The Education Code generally authorizes a school district to temporarily transfer cash from a specific purpose fund to any other district fund by district board action, including transfer of cash from proceeds of general obligation bonds; *provided that*, (a) the transferred cash is repaid to the original fund within the same fiscal year or (b), if transferred within the final 120 days of a fiscal year, then repaid to the original fund within the following fiscal year. However, depending on the circumstances of a particular

such transfer, other State law, grant or contractual restrictions, or in the case of proceeds of tax-exempt obligations, federal tax law, may apply and may further restrict the use of such cash.

**District Debt Structure**

*General Obligation Bonds.* The only outstanding bonds of the District are the 2004 Bonds. Following issuance of the Bonds, the outstanding bonds of the District will be comprised of the Bonds and the 2004 Bonds maturing on August 1, 2014.

*Capital Leases.* The District leases land under an agreement which provides for title to pass upon expiration of the lease provided. The amount of interest cost incurred during the year ended June 30, 2013, was \$1,964, all of which was charged to expenses. Future minimum lease payments are as follows:

**FUTURE CAPITAL LEASE OBLIGATIONS  
Grant Elementary School District**

Fiscal Year Ending June 30	Lease Payments
2014	\$ 12,898
2015	12,898
2016	12,898
2017	12,898
2018	12,898
2019-2020	19,837
Total	84,327
Less: Amount representing interest	5,825
Present Value of Net Minimum Lease Payments	\$ 78,502

Source: Grant Elementary School District Audited Financial Statements

*Operating Leases.* The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Rent expenditures were \$32,755 for the year ended June 30, 2013. Future minimum lease payments are as follows:

**FUTURE OPERATING LEASE OBLIGATIONS  
Grant Elementary School District**

Fiscal Year Ending June 30	Lease Payments
2014	\$ 32,755
2015	31,693
2016	31,480
2017	15,740
Total	\$ 111,668

Source: Grant Elementary School District Audited Financial Statements

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

### **Article XIII A of the California Constitution**

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property, to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” The full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIII A.

### **Article XIII B of the California Constitution**

Article XIII B of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines

- (a) “change in the cost of living” with respect to school districts to mean the percentage change in California per capita income from the preceding year, and
- (b) “change in population” with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government will be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for certain debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated

during that fiscal year and the fiscal year immediately following it will be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution.

### **Unitary Property**

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

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

### **California Lottery**

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

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2011-12, the District budgets to receive \$18,218 in State Lottery aid at the time of the Second Interim Report. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted.

### **Proposition 46**

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

### **Proposition 39**

On November 7, 2000, California voters approved Proposition 39, called the “Smaller Classes, Safer Schools and Financial Accountability Act” (the “Smaller Classes Act”) which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55%

of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for “the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities,” (2) a list of projects to be funded and a certification that the school district board has evaluated “safety, class size reduction, and information technology needs in developing that list” and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIII A has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIII A of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed \$30 per \$100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed \$60 per \$100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed \$25 per \$100,000 of taxable property. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. Finally, AB 1908 requires that a citizens’ oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Alternatively, charter schools are independent public schools formed by teachers, parents, and other individuals and/or groups. The schools function under contracts or “charters” with local school districts, county boards of education, or the State Board of Trustees. They are exempt from most State laws and regulations affecting public schools. As of June 2000, there were 309 charter schools in California, serving about 105,000 students (less than 2% of all K-12 students). The law permits an additional 100 charter schools each year until 2003, at which time the charter school program will be reviewed by the Legislature. Under current law, school districts must allow charter schools to use, at no charge, facilities not currently used by the district for instructional or administrative purposes.

Proposition 39 requires that each local K-12 school district provide charter school facilities sufficient to accommodate the charter school’s students. A K-12 school district, however, would not be required to spend its general discretionary revenues to provide these facilities for charter schools. Instead, the district could choose to use these or other revenues — including State and local bonds. Such facilities must be reasonably equivalent to the district schools that such charter students would otherwise attend. The respective K-12 school district is permitted charge the charter school for its facilities if district discretionary revenues are used to fund the facilities and a district may decline to provide facilities for a charter school with a current or projected enrollment of fewer than 80 students. There are presently no charter schools within the District.

### **Article XIII C and XIII D of the California Constitution**

On November 5, 1996, an initiative to amend the California Constitution known as the “Right to Vote on Taxes Act” (“Proposition 218”) was approved by a majority of California voters. Proposition 218

added Articles XIIIIC and XIIIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as “general taxes” (defined as those used for general governmental purposes) or “special taxes” (defined as taxes for a specific purpose even if the revenues flow through the local government’s general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

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

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

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

## **Propositions 98 and 111**

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). Certain provisions of the Accountability Act have, however, been modified by

Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the

General Fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of General Fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State 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 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit 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 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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

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

b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are

under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

## **Kindergarten-University Public Education Facilities Bond Act of 2006**

The Kindergarten-University Public Education Facilities Bond Act of 2006 ("Proposition 1D") appeared on the November 7, 2006 ballot as Proposition 1D and was approved by California voters. This measure authorized the sale and issuance of \$10.4 billion in general obligation bonds for construction and renovation of K-12 school facilities (\$7.3 billion) and higher education facilities (\$3.1 billion). Proposition 1D makes available \$3.3 billion for reconstruction or modernization of existing K-12 school facilities. K-12 school districts are required to pay for 40% of these costs with local revenues, unless qualified for hardship funding. Proposition 1D also includes \$1.9 billion for acquisition of land and new construction of K-12

school facilities. K-12 school districts are required to pay for 50% of such costs with local revenues, unless qualified for hardship funding. Proposition 1D directs a total of \$1.0 billion to K-12 school districts which are considered severely overcrowded, specifically to schools that have large number of pupils relative to the size of the school site.

### **Proposition 30**

On November 6, 2012, voters of the State approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. Beginning in the taxable year commencing January 1, 2012 and through the taxable year ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Propositions 98 and 111” herein. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

### **Future Initiatives**

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

## GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

### State Funding of Education; State Budget Process

*General.* As is true for all school districts in the State, the District's operating income consists primarily of two components: a State portion funded from the State's general fund and a locally-generated portion derived from the District's share of the 1% county-wide *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. Because the District's legal minimum funding level is expected to be met from local property taxes alone, the District did not budget receipt of any general operating funds from the State in fiscal year 2013-14; however, the District has budgeted to receive approximately \$ \_\_\_\_\_ in State categorical funding in fiscal year 2013-14, or approximately \_\_\_\_% of the District's overall revenues. As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may affect District operations, though generally to a lesser extent than these may affect most school districts.

State funding is guaranteed to a minimum level for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. The funding guarantee is known as "Proposition 98," a constitutional and statutory initiative amendment adopted by the State's voters in 1988, and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the State Constitution).

Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is at the heart of annual budget negotiations and adjustments.

*Adoption of Annual State Budget.* According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget must be adopted by a majority vote (rather than a two-third majority, as was the case prior to the passage of Proposition 25) of each house of the Legislature no later than June 15, although this deadline has been breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the 2013-14 Budget on June 27, 2013.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by

federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. The State Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: [www.sco.ca.gov](http://www.sco.ca.gov). Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues.

*Aggregate State Education Funding.* The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

*2013-14 State Budget.* The Governor signed the fiscal year 2013-14 State budget (the "2013-14 State Budget") on June 27, 2013. The 2013-14 State Budget represents a multiyear plan that maintains a

\$1.1 billion reserve and pays down certain budgetary debt. The 2013-14 State Budget provides for \$97.1 billion in revenues and transfers for fiscal year 2013-14 (down slightly from the \$98.2 billion estimated for fiscal year 2012-13), and \$96.3 billion in total expenditures for fiscal year 2013-14 (up slightly from the \$95.7 billion estimates for fiscal year 2012-13). However, unlike recent years, the State enters fiscal year 2013-14 with a positive prior year general fund balance, approximately \$872 million, as compared to a negative general fund balance of \$1.7 billion at the start of fiscal year 2012-13. The 2013-14 State Budget, accordingly, is able to set aside a \$1.1 billion reserve in a special fund for economic uncertainties.

The 2013-14 State Budget projects that budgetary debt, which was approximately \$35 billion at the end of fiscal year 2010-11 and \$27 billion at the end of fiscal year 2012-13, will be reduced to less than \$5 billion by the end of fiscal year 2016-17. Although the 2013-14 State Budget is a balanced budget, the 2013-14 State Budget notes that substantial risks, uncertainties and liabilities remain, including the pace of the economic recovery, the State's needs to address its other significant liabilities and the federal budget for federal fiscal year 2014.

With the passage of Proposition 30 in November 2012, The Schools and Local Public Safety Protection Act (the "Temporary Tax Measure"), the 2013-14 State Budget reinvests in, rather than cuts, education funding. The Temporary Tax Measure increased the personal income tax rates on the State's highest income taxpayers by up to three percent for a period of seven years beginning with the 2012 tax year, and increased the sales tax by one-quarter percent for a period of four years beginning on January 1, 2013.

For kindergarten through twelfth grade ("K-12") education, the 2013-14 State Budget provides \$55.3 billion (or \$8,220 per student) in Proposition 98 funding in fiscal year 2013-14, which is slightly lower than the \$56.5 billion estimated in fiscal year 2012-13 but an increase of more than \$8 billion (or \$1,045 per student) from fiscal year 2011-12 levels. The 2013-14 State Budget projects \$67.1 billion (or \$10,010 per student) in Proposition 98 funding in fiscal year 2016-17. Total funding under the 2013-14 State Budget for all K-12 education in fiscal year 2013-14 is approximately \$70 billion.

The 2013-14 State Budget also contains a new formula for funding the school finance system (the "Local Control Funding Formula"). The Local Control Funding Formula is designed to increase local control and flexibility, reduce State bureaucracy and better allocate resources based on student needs. The Local Control Funding Formula replaces the existing revenue limit funding system and most categorical programs. See "—Local Control Funding Formula" herein for more information.

Certain budget adjustments for K-12 programs include the following:

- *Local Control Funding Formula.* An increase of \$2.1 billion in Proposition 98 general funds for school districts and charter schools, and \$32 million in Proposition 98 general funds for county offices of education, to support first-year funding provided through the Local Control Funding Formula.
- *Common Core Implementation.* An increase of \$1.25 billion in one-time Proposition 98 general funds to support the implementation of the Common Core, which are new standards for evaluating student achievement in English-language arts and mathematics. Such funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials and technology. Local education

agencies will be required to develop a plan to spend this money over the next two years and to hold a public hearing on such plan.

- *Career Technical Education Pathways Grant Program.* An increase of \$250 million in Proposition 98 general funds for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.
- *K-12 Mandates Block Grant.* An increase of \$50 million in Proposition 98 general funds to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.
- *K-12 Deferrals.* An increase of \$1.6 billion in Proposition 98 general funds in fiscal year 2012-13 and an increase of \$242.3 million in Proposition 98 general funds in fiscal year 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over such two-years will reduce K-12 inter-year deferrals to \$5.6 billion by the end of fiscal year 2013-14.
- *Special Education Funding Reform.* The 2013-14 State Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

With respect to the implementation of Proposition 39 (The California Clean Energy Jobs Act), which was approved at the November 6, 2012 election, the 2013-14 State Budget allocates \$381 million in Proposition 98 general funds to K-12 local education agencies to support energy efficiency projects approved by the California Energy Commission. Of this amount, 85% will be distributed based on A.D.A. and 15% will be distributed based on free and reduced-price meal eligibility. The 2013-14 State Budget establishes minimum grant levels of \$15,000 and \$50,000 for small and exceptionally small local education agencies and allows these agencies to receive an advance on a future grant allocation. Other local education agencies would receive the greater of \$100,000 or their weighted distribution amount. The 2013-14 State Budget also provides \$28 million for interest-free revolving loans to assist eligible energy projects at schools and community colleges.

The complete 2013-14 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this interest address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

*Local Control Funding Formula.* The Local Control Funding Formula replaces the existing revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base funding grant (“Base Grant”) per unit of A.D.A. with additional supplemental funding allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth, beginning in fiscal year 2013-14. The Local Control Funding Formula has an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The Local Control Funding Formula includes the following components:

A Base Grant for each local education agency, equivalent to \$7,643 per unit of A.D.A. in fiscal year 2013-14. Such Base Grant per unit of A.D.A., adjusted by grade span variation and to be adjusted annually for cost-of-living (1.565% in fiscal year 2013-14), is as follows: \$6,845 for grades K-3, \$6,947 for grades 4-6, \$7,154 for grades 7-8 and \$8,289 for grades 9-12 (the “Target Base Grant”). This amount includes an adjustment of 10.4% 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 grades 9-12.

- A 20% supplemental grant for the unduplicated number of English language 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 50.0% of a local education agency’s Base Grant, based on the number of English language 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 (the “ERT”) to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the Local Control Funding Formula. Upon full implementation, local education agencies would receive the greater of the Target Base Grant or the ERT.

Of the more than \$25 billion in new funding to be invested through the Local Control Funding Formula over the next eight years, the vast majority of new funding will be provided for Base Grants. Specifically, of every dollar invested through the Local Control Funding Formula, 84 cents will go to Base Grants, 10 cents will go to supplemental grants and 6 cents will go to concentration grants.

Under the new formula, for “basic aid districts” (as further described herein), local property tax revenues would be used to offset up to the entire allocation under the new formula. However, “basic aid districts” would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

All school districts, county offices of education and charter schools will be required to develop and adopt local control and accountability plans, which will identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement and school climate. Such local control and accountability plans are to be developed in accordance with a template to be provided by the State Board of Education. County superintendents will review and provide support to the school districts under their jurisdiction, while the Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition the 2013-14 State Budget creates the California Collaborative for Education Excellence (the “Collaborative”) to advise and assist local education agencies in achieving the goals identified in their plans. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the Superintendent of Public Instruction would have authority to make changes to a local education agency’s plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is persistent and acute as to warrant revocation.

*State Cash Management Legislation.* On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the “Cash Management Bill”). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts

(not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). The Cash Management Bill permitted deferrals of payments to K-12 schools in July 2010, October 2010 and March 2011, for not to exceed 60, 90 and 30 days, respectively, but depending on actual cash flow conditions at the time, and allowed the Controller, Treasurer and Director of Finance to either accelerate or delay the deferrals up to 30 days or reduce the amounts deferred. The Cash Management Bill also permitted the State to move a deferral to the prior month or to a subsequent month upon 30 days written notice by the State Department of Finance to the Legislative Budget Committee, except that the Cash Management Bill provided that the deferral for March 2011 was required to be paid prior to April 30. The Cash Management Bill provided for exceptions to the deferrals for school districts that could demonstrate hardship. The Cash Management Bill made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. Similar legislation was enacted for fiscal year 2011-12. The legislation, however, sets forth a specific deferral plan for K-12 education payments. In the legislation, the July 2011 and August 2011 K-12 payments of \$1.4 billion and the October 2011 payment of \$2.4 billion were deferred. In September 2011, \$700 million of the July deferral was paid, in January 2012, \$4.5 billion from the remaining July, August and October deferrals was paid, and in March 2012, \$1.4 billion was deferred and paid in April 2012.

The State Legislature enacted similar legislation for fiscal year 2012-13 that provided for \$1.2 billion of K 12 payments to be deferred in July 2012, \$600 million to be deferred in August 2012, \$800 million to be deferred in October 2012 and \$900 million to be deferred in March 2013. Of such deferred amounts, \$700 million of the deferral made in July 2012 was paid in September 2012, the remaining \$1.9 billion deferred in July, August and October of 2012 was paid in January 2013, and the \$900 million deferred in March 2013 was repaid in April 2013. The District is authorized to borrow temporary funds to cover its annual cash flow deficits and, as a result of this or similar future legislation, the District might find it necessary to utilize cash flow borrowings or increase the size or frequency of its cash flow borrowings in fiscal year 2012-13 and in future years. In future fiscal years, if the District finds that its other funds are insufficient to cover any cash flow deficits, the District is authorized to borrow funds from the County.

The District cannot predict when, if, and to what extent the State may defer some or all of those payments due to school districts during the 2013-14 fiscal year.

*Future Budgets and Budgetary Actions.* The District cannot 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 during fiscal year 2013-14 and in future fiscal years. Continued State budget shortfalls in fiscal year 2013-14 and future fiscal years could have a material adverse financial impact on the District. However, the Bonds are secured by *ad valorem* taxes levied and collected on taxable property within the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

*Prohibitions on Diverting Local Revenues for State Purposes.* Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate

the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved. Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

### **Supplemental Information Concerning Litigation Against the State of California**

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

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al.* The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State

Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

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

### **State Funding of School Construction**

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

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

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit

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

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**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR  
THE FISCAL YEAR ENDED JUNE 30, 2013**

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MATSON  
& ISOM

GRANT ELEMENTARY  
SCHOOL DISTRICT

**County of Shasta  
Redding, California**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORTS

**June 30, 2013**

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**TABLE OF CONTENTS**

June 30, 2013

*Grant Elementary  
School District*

	<b>Page Number</b>
Independent Auditors' Report	1
 <b>FINANCIAL SECTION</b>	
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis	5
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet – Governmental Funds	15
Reconciliation of Governmental Fund Balances to Government-Wide Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of Net Change in Fund Balances to Change in Net Position	18
Statement of Fiduciary Net Position – Fiduciary Funds	19
<b>Notes to the Financial Statements</b>	20
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	40
Budgetary Comparison Schedule – Cafeteria Special Revenue Fund	41
Notes to the Budgetary Comparison Schedules	42

# TABLE OF CONTENTS

June 30, 2013

*Grant Elementary  
School District*

	<b>Page Number</b>
<b>OTHER SUPPLEMENTARY INFORMATION SECTION</b>	
Local Educational Agency Organization Structure	44
Schedule of Average Daily Attendance	45
Schedule of Instructional Time	46
Schedule of Financial Trends and Analysis	47
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	48
Schedule of Charter Schools	49
Note to the Other Supplementary Information	50
<b>OTHER REPORTS SECTION</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	52
Independent Auditors' Report on State Compliance	54
<b>FINDINGS AND QUESTIONED COSTS SECTION</b>	
Schedule of Findings and Questioned Costs	58
Corrective Action Plan	60
Summary Schedule of Prior Audit Findings	61



MATSON  
& ISOM

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Grant Elementary School District  
Redding, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grant Elementary School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **INDEPENDENT AUDITORS' REPORT**

Continued

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison schedules 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Matson and Isom*

November 26, 2013  
Chico, California

**FINANCIAL SECTION**

**Required Supplementary Information**

**INTRODUCTION**

An overview of the Grant Elementary School District's (the District) financial activities for the fiscal year ended June 30, 2013, is provided in this discussion and analysis of the District's financial performance.

This management's discussion and analysis should be read in conjunction with the District's financial statements (including notes and supplementary information).

**FINANCIAL HIGHLIGHTS**

Overall revenues in all funds were \$4,953,630. Overall revenues exceeded expenses by \$49,876.

Total net position in governmental funds was \$11,653,383, an increase of 0.4% from the previous year. The General Fund reported a total fund balance of \$2,527,052.

Average daily attendance (ADA) increased by 5.2 ADA, a nominal percentage increase of 0.9%.

**USING THIS ANNUAL REPORT**

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

**Government-Wide Financial Statements**

The government-wide financial statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets owned less the liabilities owed. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The two financial statements report the District's net position and how it has changed.

Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health. Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of net position and the statement of activities divide the District into two kinds of activities:

*Governmental Activities:* Represent the basic services provided by the District, such as regular and special education, administration, and transportation.

*Business-Type Activities:* Represent services for which the District charges fees to help cover the cost of certain services beyond the scope of normal district operations. The District does not have any of these types of activities at this time.

**Fund Financial Statements**

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

- Some funds are required by bond covenants and by state law.
- Other funds are established by the District to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The District has two types of funds:

**Governmental Funds**

Most of the District's basic services are included in governmental funds, which generally focus on:

- How cash and other financial assets can readily be converted to cash flow (in and out).
- The balances left at year end that are available for spending.

A detailed short-term view is provided by the governmental fund financial statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided at the bottom of the governmental fund financial statements that explains the differences (or relationships) between them.

**Fiduciary Funds**

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. A separate statement of fiduciary net position reports the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used by the District to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

As shown in the following table, the District's net position as of June 30, 2013, was \$11,653,383. Of this amount \$2,456,322 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Board of Trustees' ability to use the net position for day-to-day operations. All District net position is the result of governmental activities.

	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2012</b>	<b>2013</b>	<b>Change 2012-13</b>
<b>ASSETS</b>			
Cash and investments	\$ 1,356,449	\$ 1,766,312	30.2%
Receivables	1,383,138	1,058,106	-23.5%
Other assets	58,322	5,214	-91.1%
Restricted cash and investments	3,203,834	474,248	-85.2%
Capital assets - net of accumulated depreciation	8,318,190	10,431,871	25.4%
<b>Total Assets</b>	<b>14,319,933</b>	<b>13,735,751</b>	<b>-4.1%</b>
<b>LIABILITIES</b>			
Overdraft in county treasury	28	-	-100.0%
Accounts payable and other current liabilities	671,604	48,000	-92.9%
Advances from grantors	622	620	-0.3%
Long-term debt	2,044,172	2,033,748	-0.5%
<b>Total Liabilities</b>	<b>2,716,426</b>	<b>2,082,368</b>	<b>-23.3%</b>
<b>NET POSITION</b>			
Net investment in capital assets	6,350,992	8,433,672	32.8%
Restricted	3,084,465	763,389	-75.3%
Unrestricted	2,168,050	2,456,322	13.3%
<b>Total Net Position</b>	<b>\$ 11,603,507</b>	<b>\$ 11,653,383</b>	<b>0.4%</b>

**CHANGES IN NET POSITION**

The following table summarizes the changes in net position for the District.

	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2012</b>	<b>2013</b>	<b>Change</b>
			<b>2012-13</b>
<b>REVENUES</b>			
<b>PROGRAM REVENUES</b>			
Charges for services	\$ 151,702	\$ 135,181	-10.9%
Federal and state categorical programs	634,046	635,847	0.3%
Capital grants and contributions	3,203,385	(1,572)	-100.0%
<b>GENERAL REVENUES</b>			
Property taxes	671,979	646,711	-3.8%
Federal and state aid not restricted	2,999,246	2,985,763	-0.4%
Other	492,721	551,700	12.0%
<b>Total Revenues</b>	<b>8,153,079</b>	<b>4,953,630</b>	<b>-39.2%</b>
<b>EXPENSES</b>			
Instruction-related services	3,780,300	3,733,651	-1.2%
Student support services	278,614	255,621	-8.3%
Plant services	363,766	382,435	5.1%
Administration	280,164	283,739	1.3%
Ancillary and community services	77,434	94,409	21.9%
Other	108,354	153,899	42.0%
<b>Total Expenses</b>	<b>4,888,632</b>	<b>4,903,754</b>	<b>0.3%</b>
<b>Changes in Net Position</b>	<b>\$ 3,264,447</b>	<b>\$ 49,876</b>	<b>-98.5%</b>

Total revenues were \$4,953,630. Property taxes and state aid funding accounted for most of the District's revenue; representing approximately 73.3 cents of each dollar raised. Another 12.8% came from federal and state aid for specific programs and projects, and the remaining 13.9% came from fees charged for services, which is primarily our preschool/daycare programs and miscellaneous sources.

The total cost of all programs and services increased 0.3% to \$4,903,754. Revenues exceeded the District's expenses for the year by \$49,876. The District's expenses are primarily related to educating and caring for students (81.4%). Administrative activities of the District account for 5.8% of the total costs. Maintenance and operations account for 7.8% of the total costs.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2013

*Grant Elementary**School District*

The District's total expenses were \$4,903,754; however, the net cost for these activities was \$4,134,298 after costs were paid by those who benefited from the programs and amounts paid by other governments and organizations who subsidized certain programs with grants and contributions.

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2012	2013	2012-13	2012	2013	2012-13
Instruction	\$ 3,368,207	\$ 3,315,686	-1.6%	\$ (422,104)	\$ 2,750,660	751.7%
Instruction-related services	412,093	417,965	1.4%	389,690	389,441	-0.1%
Pupil services	278,614	255,621	-8.3%	119,429	99,232	-16.9%
General administration	280,164	283,739	1.3%	262,930	264,222	0.5%
Plant services	363,766	382,435	5.1%	363,766	382,435	5.1%
Ancillary services	29,515	32,480	10.0%	29,515	32,480	10.0%
Community services	47,919	61,929	29.2%	47,919	61,929	29.2%
Interest on long-term debt	108,354	153,899	42.0%	108,354	153,899	42.0%
<b>Total</b>	<b>\$ 4,888,632</b>	<b>\$ 4,903,754</b>	<b>0.3%</b>	<b>\$ 899,499</b>	<b>\$ 4,134,298</b>	<b>359.6%</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS****Governmental Funds**

The District's governmental funds reported a combined fund balance of \$3,255,260, a decrease of \$2,026,411 from the previous year. This is primarily due to a decreased ending balance in the County School Facilities Fund as a result of the expenditures for the school modernization and new construction projects during the year ended June 30, 2013. Following is a summary of the District's fund balances.

	Fund Balance		Increase
	2012	2013	(Decrease)
General	\$ 2,221,122	\$ 2,527,052	\$ 305,930
Cafeteria Special Revenue	24,435	34,220	9,785
Pupil Transportation Equipment	26,954	26,767	(187)
Capital Facilities	40,409	50,413	10,004
County School Facilities	2,823,270	472,609	(2,350,661)
Bond Interest and Redemption	145,481	144,199	(1,282)
<b>Total</b>	<b>\$ 5,281,671</b>	<b>\$ 3,255,260</b>	<b>\$ (2,026,411)</b>

The increase in the General Fund is due to the District having a positive change to fund balance for 2012-13. Revenues were \$305,930 more than expenditures. The State funded revenue limit category increased by \$37,747 and the federal revenue category decreased by \$29,596. There was also an increase of \$48,113 in other local revenue, primarily due to increased preschool enrollment.

Expenditures in the General Fund were lower in some expenditure categories. The biggest savings were in instruction which totaled \$52,521 and pupil services which totaled \$5,231. Savings in these categories were from the instructional supplies category, transfers to other programs, and personal contracts.

The increase in the Cafeteria Special Revenue Fund is mainly due to an increase in revenue due to an increase in the number of meals served while there was a decrease in expenditures due to the fact no large equipment needed to be purchased in the current year.

The increase in the Capital Facilities Fund is due to \$10,466 being collected from developer fees and interest income while there were only \$462 in expenditures during 2012-13.

**General Fund Budgetary Highlights**

During the course of the year, the District revises its budget as information is available which results in changes in revenues and expenditures. A schedule showing the District’s original and final budget amounts compared with the amounts actually paid and received for the General Fund is provided in our annual report as required supplementary information.

The budget amendments for the year typically fell into the following categories:

- Budget revisions to reflect funding levels approved in the State budget.
- Budget revisions to update revenues and expenditures for fluctuations in enrollment and ADA data.
- Adjustments to program revenues and expenditures related to unexpended balances carried forward from the prior year.

The District budgeted expenditures and other financing uses to exceed revenues and other financing sources by \$16,716. Actual revenues and other financing sources exceeded expenditures and other financing uses by \$305,930.

- Significant revenue revisions were made to the budget to reflect the increase of federal, state, and local revenues.

**CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION**

**Capital Assets**

The District invested \$13,804,302 in capital assets including land, site improvements, buildings, and equipment. During the year, \$2,349,089 was invested in construction in progress for school modernization and modular buildings.

	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2012</b>	<b>2013</b>	<b>Change 2012-13</b>
Land	\$ 492,076	\$ 492,076	0.0%
Buildings and improvements	9,600,057	9,600,057	0.0%
Equipment	513,840	513,840	0.0%
Construction in progress	849,240	3,198,329	276.6%
<b>Total Capital Assets</b>	<b>\$ 11,455,213</b>	<b>\$ 13,804,302</b>	<b>20.5%</b>

**Long-Term Debt**

At year end, the District had \$2,033,748 in outstanding long-term debt. The District’s general obligation bond rating is “AAA.” The reduction in capital leases is due to payments on the preschool buildings. The District has no plans to incur any additional debt during 2013-14.

	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2012</b>	<b>2013</b>	<b>Change</b>
			<b>2012-13</b>
Compensated absences	\$ 29,156	\$ 35,549	21.9%
General obligation bonds	1,925,580	1,919,697	-0.3%
Capital leases	89,436	78,502	-12.2%
<b>Total Long-Term Debt</b>	<b>\$ 2,044,172</b>	<b>\$ 2,033,748</b>	<b>-0.5%</b>

**FACTORS BEARING ON THE DISTRICT’S FUTURE**

At a time when most of the school districts in Shasta County are experiencing declining enrollment, the District has grown slightly. The ADA increased by approximately 5.2 in 2012-13 from 2011-12. The Board of Trustees has consistently demonstrated in the past that it is prepared to take the steps necessary to ensure the District’s solvency.

The District is continuing to meet with both the teachers’ and classified bargaining groups for the 2013-14 school year.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. For questions regarding this report or for additional financial information, please contact:

Deborah Kogel  
Chief Business Official  
Grant Elementary School District  
8835 Swasey Dr.  
Redding, CA 96001

## **Basic Financial Statements**

**STATEMENT OF NET POSITION***Grant Elementary  
School District*

June 30, 2013	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 1,766,312
Accounts receivable	29,394
Due from other governments	1,028,712
Inventories - supplies and materials	5,214
Restricted cash and investments	474,248
Nondepreciated capital assets	3,690,405
Depreciated capital assets	10,113,897
Accumulated depreciation	(3,372,431)
<b>Total Assets</b>	<b>13,735,751</b>
<b>LIABILITIES</b>	
Accounts payable and other current liabilities	48,000
Advances from grantors	620
Long-term obligations:	
Due within one year	126,302
Due beyond one year	1,907,446
<b>Total Liabilities</b>	<b>2,082,368</b>
<b>NET POSITION</b>	
Net investment in capital assets	8,433,672
Restricted for capital projects	523,022
Restricted for debt service	144,199
Restricted for educational programs	67,212
Restricted for other purposes	28,956
Unrestricted	2,456,322
<b>Total Net Position</b>	<b>\$ 11,653,383</b>

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

**STATEMENT OF ACTIVITIES**

*Grant Elementary  
School District*

Year Ended June 30, 2013	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Program Revenues Capital Grants and Contributions</u>	<u>Net (Expense) Revenue Change in Net Position</u>
					<u>Governmental Activities</u>
<b>FUNCTIONS/PROGRAMS</b>					
<b>PRIMARY GOVERNMENT</b>					
Governmental activities:					
Instruction	\$ 3,315,686	\$ 123,063	\$ 443,535	\$ (1,572)	\$ (2,750,660)
Instruction - related services	417,965	-	28,524	-	(389,441)
Pupil services	255,621	10,540	145,849	-	(99,232)
Ancillary services	32,480	-	-	-	(32,480)
Community services	61,929	-	-	-	(61,929)
General administration	283,739	1,578	17,939	-	(264,222)
Plant services	382,435	-	-	-	(382,435)
Interest on long-term debt	153,899	-	-	-	(153,899)
<b>Total Governmental Activities</b>	<b>\$ 4,903,754</b>	<b>\$ 135,181</b>	<b>\$ 635,847</b>	<b>\$ (1,572)</b>	<b>(4,134,298)</b>
<b>GENERAL REVENUES</b>					
Property taxes - levied for general purposes					535,871
Property taxes - levied for debt service					110,840
Federal and state aid not restricted to specific purposes					2,985,763
Unrestricted investment earnings					(12,186)
Miscellaneous					563,886
<b>Total General Revenues</b>					<b>4,184,174</b>
<b>Change in Net Position</b>					<b>49,876</b>
<b>Net Position - Beginning of Year</b>					<b>11,603,507</b>
<b>Net Position - End of Year</b>					<b>\$ 11,653,383</b>

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

**BALANCE SHEET –  
GOVERNMENTAL FUNDS**

*Grant Elementary  
School District*

June 30, 2013	<b>General Fund</b>	<b>Cafeteria Special Revenue Fund</b>	<b>County School Facilities Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and investments	\$ 1,524,910	\$ 20,023	\$ -	\$ 221,379	\$ 1,766,312
Accounts receivable	29,394	-	-	-	29,394
Due from other governments	1,015,066	13,646	-	-	1,028,712
Due from other funds	4,548	-	-	-	4,548
Inventories - supplies and materials	-	5,214	-	-	5,214
Restricted cash and investments	-	-	474,248	-	474,248
<b>Total Assets</b>	<b>\$ 2,573,918</b>	<b>\$ 38,883</b>	<b>\$ 474,248</b>	<b>\$ 221,379</b>	<b>\$ 3,308,428</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	\$ 37,295	\$ 115	\$ 1,639	\$ -	\$ 39,049
Due to other funds	8,951	4,548	-	-	13,499
Advances from grantors	620	-	-	-	620
<b>Total Liabilities</b>	<b>46,866</b>	<b>4,663</b>	<b>1,639</b>	<b>-</b>	<b>53,168</b>
<b>FUND BALANCES</b>					
Nonspendable	1,300	5,264	-	-	6,564
Restricted	67,212	28,956	472,609	194,612	763,389
Assigned	2,023,161	-	-	26,767	2,049,928
Unassigned	435,379	-	-	-	435,379
<b>Total Fund Balances</b>	<b>2,527,052</b>	<b>34,220</b>	<b>472,609</b>	<b>221,379</b>	<b>3,255,260</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,573,918</b>	<b>\$ 38,883</b>	<b>\$ 474,248</b>	<b>\$ 221,379</b>	<b>\$ 3,308,428</b>

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

**RECONCILIATION OF GOVERNMENTAL  
FUND BALANCES TO GOVERNMENT-WIDE  
NET POSITION**

*Grant Elementary  
School District*

June 30, 2013

<b>Total Fund Balances - Governmental Funds</b>		\$ 3,255,260
<p>Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:</p>		
<p>Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.</p>		
Capital assets at historical cost	\$ 13,804,302	
Accumulated depreciation	(3,372,431)	10,431,871
<p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>		
General obligation bonds	1,919,697	
Compensated absences	35,549	
Capital leases	78,502	(2,033,748)
<b>Total Net Position - Governmental Activities</b>		<b>\$ 11,653,383</b>

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

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

*Grant Elementary  
School District*

Year Ended June 30, 2013	<b>General Fund</b>	<b>Cafeteria Special Revenue Fund</b>	<b>County School Facilities Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Property taxes	\$ 535,871	\$ -	\$ -	\$ 110,840	\$ 646,711
Revenue limit sources	2,418,096	-	-	-	2,418,096
Other state revenue	640,895	3,712	4,665	-	649,272
Federal revenue	212,926	61,204	-	-	274,130
Other local revenue	884,703	78,798	(6,237)	8,157	965,421
<b>Total Revenues</b>	<b>4,692,491</b>	<b>143,714</b>	<b>(1,572)</b>	<b>118,997</b>	<b>4,953,630</b>
<b>EXPENDITURES</b>					
Current:					
Instruction	3,112,806	-	-	-	3,112,806
Instruction-related services	413,259	-	-	-	413,259
Pupil services	103,612	128,663	-	-	232,275
Ancillary services	32,480	-	-	-	32,480
Community services	60,865	-	-	-	60,865
General administration	274,845	5,266	-	462	280,573
Plant services	375,796	-	-	-	375,796
Debt service:					
Principal	10,934	-	-	75,959	86,893
Interest and other charges	1,964	-	-	34,041	36,005
Capital outlay	-	-	2,349,089	-	2,349,089
<b>Total Expenditures</b>	<b>4,386,561</b>	<b>133,929</b>	<b>2,349,089</b>	<b>110,462</b>	<b>6,980,041</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>305,930</b>	<b>9,785</b>	<b>(2,350,661)</b>	<b>8,535</b>	<b>(2,026,411)</b>
<b>Fund Balances - Beginning of Year</b>	<b>2,221,122</b>	<b>24,435</b>	<b>2,823,270</b>	<b>212,844</b>	<b>5,281,671</b>
<b>Fund Balances - End of Year</b>	<b>\$ 2,527,052</b>	<b>\$ 34,220</b>	<b>\$ 472,609</b>	<b>\$ 221,379</b>	<b>\$ 3,255,260</b>

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

**RECONCILIATION OF NET CHANGE  
IN FUND BALANCES TO  
CHANGE IN NET POSITION**

*Grant Elementary  
School District*

June 30, 2013

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (2,026,411)</b>
<p>Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:</p>	
<p>Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:</p>	
Expenditures for capital outlay	\$ 2,349,089
Depreciation expense	<u>(235,408)</u>
	2,113,681
<p>Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:</p>	
	120,934
<p>Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. Debt issue costs amortized for the period were:</p>	
	(47,818)
<p>Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:</p>	
	(104,117)
<p>Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:</p>	
	<u>(6,393)</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 49,876</b>

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

**STATEMENT OF FIDUCIARY NET POSITION –  
FIDUCIARY FUNDS**

*Grant Elementary  
School District*

June 30, 2013	<b>Agency</b>
<b>ASSETS</b>	
Cash and investments	\$ 15,627
Due from other funds	8,951
<b>Total Assets</b>	<b>\$ 24,578</b>
<b>LIABILITIES</b>	
Overdraft in county treasury	\$ 8,951
Accounts payable	1,632
Due to student groups	13,995
<b>Total Liabilities</b>	<b>\$ 24,578</b>

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

**1. SIGNIFICANT ACCOUNTING POLICIES****Significant Accounting Policies**

The District is governed by an elected five member board. The District operates one elementary school in Redding, California.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's, *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the District are discussed below.

**Implementation of New Accounting Standards****Governmental Accounting Standards Board Statement No. 63**

The District adopted the provisions of GASB 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. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

**Governmental Accounting Standards Board Statement No. 65**

The District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2013. This statement improves financial reporting by clarifying the appropriate use of the financial elements deferred outflows of resources and deferred inflows of financial resources to ensure consistency in financial reporting. As a result, prior year deferred charges of \$47,818 have been expensed as amortization of debt issue costs in 2012-13, as the amount was not material.

**Basis of Presentation****Government-Wide Financial Statements**

The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Program revenues include: (a) fees, fines, and charges paid by recipients of goods or services offered by the major programs; and (b) 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, including all taxes and unrestricted grants and contributions, are presented as general revenues.

### **Fund Financial Statements**

Fund financial statements of the reporting entity are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

### **Governmental Funds**

**General Fund** The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code*, Sections 38090-38093).
2. Pupil Transportation Equipment Fund is used to account separately for state and local revenues received for the acquisition, rehabilitation, or replacement of equipment used to transport students (*California Education Code*, Section 41852[b]).

**Capital Projects Funds** Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code*, Section 15146).
2. Capital Facilities Fund is used primarily to account for funds received from fees levied on developers or others as a condition for approving development (*California Education Code*, Sections 17620-17626).
3. County School Facilities Fund is used to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*California Education Code*, Section 17070.10).

**Debt Service Funds** Funds that are established to account for the accumulation of resources for the payment of the principal and interest on long-term debt.

1. Bond Interest and Redemption Fund is used to account for the repayment of bonds (*California Education Code*, Sections 15125-15262).

**Fiduciary Funds**

**Agency Funds** Funds that are used to account for assets of others for whom the District acts as an agent.

1. Warrant/Pass-Through Fund is used to account for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.
2. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code*, Sections 48930-48938).

**Major and Nonmajor Funds**

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:

- General Fund
- Cafeteria Special Revenue Fund
- County School Facilities Fund

Nonmajor Governmental Funds:

- Pupil Transportation Equipment Fund
- Building Fund
- Capital Facilities Fund
- Bond Interest and Redemption Fund

## Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

### Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

In the fund financial statements, governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

### Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

## Budgets and Budgetary Accounting

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

These budgets are revised by the District’s Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund and each major special revenue fund as required supplementary information.

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

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Cash, Cash Equivalents, and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Shasta County Treasury as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2013, the fair value of the County pool is 99.04% of the carrying value and is deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during the year ended June 30, 2013, was \$20,334. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at June 30, 2013, was \$18,092.

**Restricted Cash, Cash Equivalents, and Investments**

Certain restricted cash and investments are held in the County Treasury (County School Facilities Fund) and are considered restricted as the balance represents state grant funding received for future construction projects. Restricted cash and cash equivalents are combined with investments and displayed as restricted cash and investments.

The net decrease in the fair value of restricted investments during the year ended June 30, 2013, was \$10,376. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on restricted investments held at June 30, 2013, was \$4,576.

**Accounts Receivable and Due From Other Governments**

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed but not received as of June 30, 2013. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated but has not received as of June 30, 2013. At June 30, 2013, no allowance for doubtful accounts was deemed necessary.

**Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

**Inventories**

Inventories consist of supplies and materials. Expenses are recorded as the supplies and materials are consumed. Inventories are valued on the average cost method for purchased supplies and materials. Donated commodities inventory is valued at its fair value at the time of donation.

**Fixed Assets**

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Statements**

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year, except for buildings and improvements for which a higher capitalization threshold of \$15,000 or more is used. All fixed assets are valued at historical cost, or estimated historical cost if the actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2001.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

Buildings	50
Portable classrooms	25
Site improvements	20-30
Equipment	8-20
Vehicles	8

**Fund Financial Statements**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Advances From Grantors**

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

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

**Compensated Absences**

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

## Equity Classifications

### Government-Wide Statements

Equity is classified as net position and displayed in three components:

*Net Investment in Capital Assets:* Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position:* Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

*Unrestricted Net Position:* Consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

*Nonspendable Fund Balance:* Consists of 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 Fund Balance:* Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, or the laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

*Committed Fund Balance:* Consists of amounts that can be used only for specific purposes determined by a formal action of the District’s Board of Trustees. The District’s Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District’s Board of Trustees.

*Assigned Fund Balance:* Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District’s Board of Trustees or a designee of the District’s Board of Trustees.

*Unassigned Fund Balance:* Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 4% of General Fund expenditures and other financing uses.

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

### **Revenue Limit and Property Tax**

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

Shasta County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. Secured property taxes attach as an enforceable lien on property as of January 1. Property taxes on the secured roll are due on November 1 and February 1 and become delinquent after December 10 and April 10, respectively.

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

Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State's General Fund and is referred to as the state apportionment. The District's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

### **Revenue – Nonexchange Transactions**

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

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

**Expenditures and Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by character

- Current (further classified by function)
- Debt service
- Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

**Interfund Transfers**

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

**2. CASH AND INVESTMENTS**

The following is a summary of cash and investments at June 30, 2013:

	<b>Maturities</b>	<b>Fair Value</b>
DEPOSITS (1)		\$ 16,977
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer’s investment pool (net of overdraft)	25.4 months average	1,756,011
<b>Total Cash and Investments</b>		<b>1,772,988</b>
Less: Agency fund cash and investments (net of overdraft in county treasury)		6,676
<b>Total Cash and Investments Per Government-Wide Statement of Net Position</b>		<b>\$ 1,766,312</b>

(1) *Deposits* The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

(2) *Investments That are Not Securities* A “security” is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

**Restricted Cash and Investments**

The following is a summary of restricted cash and investments at June 30, 2013:

	Maturities	Fair Value
INVESTMENTS THAT ARE NOT SECURITIES (1)		
County treasurer’s investment pool	25.4 months average	\$ 474,248

(1) *Investments That are Not Securities* A “security” is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Restricted investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

**Credit Risk – Investments**

*California Government Code*, Section 53601, limits investments in commercial paper to “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District’s investment in the County investment pool is unrated.

**Concentration of Credit Risk – Investments**

*California Government Code*, Section 53635, places the following concentration limits on the County investment pool:

No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

*California Government Code*, Section 53601, places the following concentration limits on the District’s investments:

No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers’ acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2013, consisted of the following:

	<b>General Fund</b>
Interest	\$ 496
Other	28,898
<b>Total Accounts Receivable</b>	<b>\$ 29,394</b>

**4. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2013, consisted of the following:

	<b>General Fund</b>	<b>Cafeteria Special Revenue Fund</b>
Due from federal government	\$ 140,692	\$ 12,700
Due from state government	778,436	946
Due from local governments	95,938	-
<b>Total Due From Other Governments</b>	<b>\$ 1,015,066</b>	<b>\$ 13,646</b>

**5. INTERFUND BALANCES**

**Interfund Receivables/Payables**

Interfund receivable and payable balances in the fund financial statements are as follows:

<b>Interfund Receivable</b>	<b>Interfund Payable</b>	<b>Amounts</b>
General	Cafeteria Special Revenue	\$ 4,548
Warrant/Pass-Through	General	8,951
<b>Total</b>		<b>\$ 13,499</b>

The specific purposes of the interfund balances are as follows:

General Fund interfund receivable from the Cafeteria Special Revenue Fund for indirect costs and to reimburse salary expenses that were paid out of the General Fund; and

Warrant/Pass-Through Fund interfund receivable from the General Fund to reimburse health and welfare costs.

6. CAPITAL ASSETS

Capital assets activity is as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b>GOVERNMENTAL ACTIVITIES</b>				
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ 492,076	\$ -	\$ -	\$ 492,076
Construction in progress	849,240	2,349,089	-	3,198,329
<b>Total Nondepreciated Capital Assets</b>	<b>1,341,316</b>	<b>2,349,089</b>	<b>-</b>	<b>3,690,405</b>
DEPRECIATED CAPITAL ASSETS				
Buildings and improvements	9,478,559	-	-	9,478,559
Site improvements	121,498	-	-	121,498
Equipment and vehicles	513,840	-	-	513,840
<b>Total Depreciated Capital Assets</b>	<b>10,113,897</b>	<b>-</b>	<b>-</b>	<b>10,113,897</b>
<b>Totals at Historical Cost</b>	<b>11,455,213</b>	<b>2,349,089</b>	<b>-</b>	<b>13,804,302</b>
LESS: ACCUMULATED DEPRECIATION				
Buildings and improvements	2,754,276	201,617	-	2,955,893
Site improvements	57,585	4,538	-	62,123
Equipment and vehicles	325,162	29,253	-	354,415
<b>Total Accumulated Depreciation</b>	<b>3,137,023</b>	<b>235,408</b>	<b>-</b>	<b>3,372,431</b>
<b>Total Depreciated Capital Assets - Net</b>	<b>6,976,874</b>	<b>(235,408)</b>	<b>-</b>	<b>6,741,466</b>
<b>Governmental Activities Capital Assets - Net</b>	<b>\$ 8,318,190</b>	<b>\$ 2,113,681</b>	<b>\$ -</b>	<b>\$ 10,431,871</b>

Depreciation expense was charged to governmental activities as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	
Instruction	\$ 202,880
Pupil services	23,392
General administration	4,329
Plant services	4,807
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 235,408</b>

**7. ACCOUNTS PAYABLE**

Accounts payable at June 30, 2013, consisted of the following:

	<u>General Fund</u>	<u>Cafeteria Special Revenue Fund</u>	<u>County School Facilities Fund</u>
Vendors	\$ 35,863	\$ -	\$ 1,639
Other	1,432	115	-
<b>Total Accounts Payable</b>	<b>\$ 37,295</b>	<b>\$ 115</b>	<b>\$ 1,639</b>

**8. BONDED DEBT**

The outstanding general obligation bonded debt is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2012</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2013</u>
2004	4.25-8.85%	2029	\$ 1,699,483	\$ 1,237,457	\$ 75,959	\$ 1,161,498

The amount of interest cost incurred during the year ended June 30, 2013, was \$104,117, all of which was charged to expenses.

The annual requirements to amortize the general obligation bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 74,538	\$ 40,462	\$ 115,000
2015	78,781	51,219	130,000
2016	74,175	55,825	130,000
2017	76,830	68,170	145,000
2018	76,951	78,049	155,000
2019-2023	360,820	539,180	900,000
2024-2028	348,607	871,393	1,220,000
2029	70,796	224,204	295,000
<b>Totals</b>	<b>\$ 1,161,498</b>	<b>\$ 1,928,502</b>	<b>\$ 3,090,000</b>

**9. CAPITAL LEASE**

The District leases land under an agreement which provides for title to pass upon expiration of the lease period. The cost of the land is included in land on the statement of net position as nondepreciated capital assets and was \$205,000 at June 30, 2013. The amount of interest cost incurred during the year ended June 30, 2013, was \$1,964, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30	<b>Lease Payments</b>
2014	\$ 12,898
2015	12,898
2016	12,898
2017	12,898
2018	12,898
2019-2020	19,837
<b>Total</b>	<b>84,327</b>
Less: Amount representing interest	5,825
<b>Present Value of Net Minimum Lease Payments</b>	<b>\$ 78,502</b>

The District will receive no sublease rental revenues nor pay any contingent rentals for this land.

**10. OPERATING LEASES**

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

Year Ending June 30	<b>Lease Payments</b>
2014	\$ 32,755
2015	31,693
2016	31,480
2017	15,740
<b>Total</b>	<b>\$ 111,668</b>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Rent expenditures were \$32,755 for the year ended June 30, 2013.

## 11. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Compensated absences	\$ 29,156	\$ 6,393	\$ -	\$ 35,549	\$ -
General obligation bonds	1,237,457	-	75,959	1,161,498	74,538
Capitalized interest	688,123	104,117	34,041	758,199	40,462
Capital lease	89,436	-	10,934	78,502	11,302
<b>Totals</b>	<b>\$ 2,044,172</b>	<b>\$ 110,510</b>	<b>\$ 120,934</b>	<b>\$ 2,033,748</b>	<b>\$ 126,302</b>

## 12. FUND BALANCES COMPONENTS

Fund balances as of June 30, 2013, are composed of the following:

	General Fund	Cafeteria Special Revenue Fund	County School Facilities Fund	Other Governmental Funds
<b>NONSPENDABLE</b>				
Reserved for revolving cash	\$ 1,300	\$ 50	\$ -	\$ -
Reserved for stores inventories	-	5,214	-	-
<b>Total Nonspendable</b>	<b>\$ 1,300</b>	<b>\$ 5,264</b>	<b>\$ -</b>	<b>\$ -</b>
<b>RESTRICTED</b>				
Restricted for capital projects	\$ -	\$ -	\$ 472,609	\$ 50,413
Restricted for debt service	-	-	-	144,199
Restricted for federal and state categoricals	67,212	28,956	-	-
<b>Total Restricted</b>	<b>\$ 67,212</b>	<b>\$ 28,956</b>	<b>\$ 472,609</b>	<b>\$ 194,612</b>
<b>ASSIGNED</b>				
Assigned for capital projects	\$ 235,000	\$ -	\$ -	\$ -
Assigned for deferred maintenance	77,846	-	-	-
Assigned for state aid cash deferrals	487,310	-	-	-
Assigned for musicals	16,126	-	-	-
Assigned for legal costs	60,000	-	-	-
Assigned for affordable health care	65,000	-	-	-
Assigned for PTO	3,245	-	-	-
Assigned for CEF	11,066	-	-	-
Assigned for Medi-Cal administrative activities	316,853	-	-	-
Assigned for instructional materials	121,474	-	-	-
Assigned for School Library Block Grant	18,369	-	-	-
Assigned for common core implementation	150,000	-	-	-
Assigned for special education	150,000	-	-	-
Assigned for preschool	147,032	-	-	-
Assigned for lottery	160,156	-	-	-
Assigned for other purposes	3,684	-	-	-
Assigned for transportation equipment	-	-	-	26,767
<b>Total Assigned</b>	<b>\$ 2,023,161</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,767</b>
<b>UNASSIGNED</b>				
Designated for economic uncertainties	\$ 250,000	\$ -	\$ -	\$ -
Unassigned	185,379	-	-	-
<b>Total Unassigned</b>	<b>\$ 435,379</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**13. JOINT POWERS AUTHORITIES**

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Northern California Schools Insurance Group (NCSIG), Northern California Regional Liability Excess Fund (ReLiEF), Schools Excess Liability Fund (SELF), and Shasta-Trinity Schools Insurance Group (STSIG). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

**14. COMMITMENTS AND CONTINGENCIES****Federal and State Allowances, Awards, and Grants**

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

**15. RISK MANAGEMENT**

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

**16. EMPLOYEE RETIREMENT SYSTEMS**

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

**California State Teachers' Retirement System****Plan Description**

The District contributes to CalSTRS, a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. 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, 100 Waterfront Place, Sacramento, California 95605.

**Funding Policy**

Active plan members are required to contribute 8.00% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% 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 ended June 30, 2013, 2012, and 2011, were \$157,729, \$167,439, and \$170,626, respectively, and equaled 100% of the required contributions for each year.

**California Public Employees' Retirement System****Plan Description**

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

**Funding Policy**

Active plan members are required to contribute 7.00% 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 the 2012-13 fiscal year was 11.417%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$87,480, \$79,241, and \$81,151, respectively, and equaled 100% of the required contributions for each year.

**17. EARLY RETIREMENT INCENTIVE PROGRAM**

The District did not enter into any early retirement incentive agreements during 2012-13, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

**18. FUTURE GASB IMPLEMENTATION**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement will improve accounting and financial reporting by State and local governments for defined benefit pensions and defined contribution pensions. The statement will also improve information provided by State and local governmental employers about financial support for pensions that are provided by other entities. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2014, will have on the District's financial statements, if any.

**Required Supplementary Information**

**BUDGETARY COMPARISON SCHEDULE –  
GENERAL FUND**

*Grant Elementary  
School District*

Year Ended June 30, 2013	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 514,459	\$ 495,491	\$ 535,871	\$ 40,380
Revenue limit sources	2,184,288	2,454,058	2,418,096	(35,962)
Other state revenue	620,025	635,225	640,895	5,670
Federal revenue	217,952	211,615	212,926	1,311
Other local revenue	776,809	795,091	884,703	89,612
<b>Total Revenues</b>	<b>4,313,533</b>	<b>4,591,480</b>	<b>4,692,491</b>	<b>101,011</b>
<b>EXPENDITURES</b>				
Certificated salaries	2,000,402	2,057,803	2,023,741	34,062
Classified salaries	755,241	821,545	789,343	32,202
Employee benefits	824,161	824,228	825,499	(1,271)
Books and supplies	231,509	290,770	210,661	80,109
Services and other operating	555,137	606,409	529,685	76,724
Other outgo	(5,666)	(5,457)	(5,266)	(191)
Debt service:				
Principal	10,934	10,934	10,934	-
Interest and other charges	1,964	1,964	1,964	-
<b>Total Expenditures</b>	<b>4,373,682</b>	<b>4,608,196</b>	<b>4,386,561</b>	<b>221,635</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(60,149)</b>	<b>(16,716)</b>	<b>305,930</b>	<b>322,646</b>
<b>Fund Balances - Beginning of Year</b>	<b>2,221,122</b>	<b>2,221,122</b>	<b>2,221,122</b>	<b>-</b>
<b>Fund Balances - End of Year</b>	<b>\$ 2,160,973</b>	<b>\$ 2,204,406</b>	<b>\$ 2,527,052</b>	<b>\$ 322,646</b>

*See the accompanying notes to this budgetary comparison schedule.*

**BUDGETARY COMPARISON SCHEDULE –  
CAFETERIA SPECIAL REVENUE FUND**

*Grant Elementary  
School District*

Year Ended June 30, 2013	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Other state revenue	\$ 3,000	\$ 3,000	\$ 3,712	\$ 712
Federal revenue	40,000	40,000	61,204	21,204
Other local revenue	75,200	75,200	78,798	3,598
<b>Total Revenues</b>	<b>118,200</b>	<b>118,200</b>	<b>143,714</b>	<b>25,514</b>
<b>EXPENDITURES</b>				
Classified salaries	53,614	49,400	47,946	1,454
Employee benefits	22,071	21,132	21,114	18
Books and supplies	46,400	46,400	56,251	(9,851)
Services and other operating	4,675	5,141	3,352	1,789
Other outgo	5,666	5,457	5,266	191
<b>Total Expenditures</b>	<b>132,426</b>	<b>127,530</b>	<b>133,929</b>	<b>(6,399)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(14,226)</b>	<b>(9,330)</b>	<b>9,785</b>	<b>19,115</b>
<b>Fund Balances - Beginning of Year</b>	<b>24,435</b>	<b>24,435</b>	<b>24,435</b>	<b>-</b>
<b>Fund Balances - End of Year</b>	<b>\$ 10,209</b>	<b>\$ 15,105</b>	<b>\$ 34,220</b>	<b>\$ 19,115</b>

*See the accompanying notes to this budgetary comparison schedule.*

**NOTES TO THE BUDGETARY  
COMPARISON SCHEDULES**

June 30, 2013

*Grant Elementary  
School District*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District’s Governing Board annually adopts budgets for the General Fund and each major special revenue fund of the District. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund and the special revenue funds present actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2013, expenditures exceeded appropriations by the following amounts:

	<b>General Fund</b>	<b>Cafeteria Special Revenue Fund</b>
Employee benefits	\$ 1,271	\$ -
Books and supplies	\$ -	\$ 9,851
Other outgo	\$ 191	\$ -

General Fund excess expenditures were offset by unexpended appropriations in other categories.

Cafeteria Special Revenue Fund expenditures were funded by greater than anticipated revenues.

**OTHER SUPPLEMENTARY INFORMATION SECTION**

**LOCAL EDUCATIONAL AGENCY  
ORGANIZATION STRUCTURE**

June 30, 2013

*Grant Elementary  
School District*

The Grant Elementary School District (the District) was established in 1885 and is located in Shasta County. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school.

**GOVERNING BOARD**

<b>Name</b>	<b>Office</b>	<b>Term Expires</b>
Chuck Aukland	President	2016
Sami Kader	Clerk	2014
Galen E. Schmidt	Member	2016
Brenda Meline	Member	2014
Camile Woodstrom	Member	2014

**ADMINISTRATION**

Michael Freeman  
Superintendent

Deborah Kogel  
Chief Business Official

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**

June 30, 2013

*Grant Elementary**School District*

	<b>Originally Reported</b>		<b>Final</b>	
	<b>Second Period Report</b>	<b>Annual Report</b>	<b>Second Period Report</b>	<b>Annual Report</b>
<b>ELEMENTARY</b>				
Kindergarten	74	74	74	74
Grades 1 through 3	195	193	195	193
Grades 4 through 6	204	205	204	205
Grades 7 and 8	111	112	111	112
Special education - special day class	3	3	3	3
<b>ADA Totals</b>	<b>587</b>	<b>587</b>	<b>587</b>	<b>587</b>

*See the accompanying note to the other supplementary information.*

**SCHEDULE OF INSTRUCTIONAL TIME**

Year Ended June 30, 2013

*Grant Elementary  
School District*

	<b>1986-87 Minutes Requirement</b>	<b>1986-87 Minutes As Reduced</b>	<b>1982-83 Actual Minutes</b>	<b>1982-83 Minutes As Reduced</b>	<b>2012-13 Actual Minutes</b>	<b>Traditional Calendar Days</b>	<b>Multitrack Calendar Days</b>	<b>Status</b>
Kindergarten	36,000	35,000	31,500	30,625	52,085	180	N/A	Complied
Grade 1	50,400	49,000	42,000	40,833	50,295	180	N/A	Complied
Grade 2	50,400	49,000	42,000	40,833	50,295	180	N/A	Complied
Grade 3	50,400	49,000	42,000	40,833	50,295	180	N/A	Complied
Grade 4	54,000	52,500	55,125	53,594	55,040	180	N/A	Complied
Grade 5	54,000	52,500	55,125	53,594	55,040	180	N/A	Complied
Grade 6	54,000	52,500	55,125	53,594	55,040	180	N/A	Complied
Grade 7	54,000	52,500	55,125	53,594	60,311	180	N/A	Complied
Grade 8	54,000	52,500	55,125	53,594	60,311	180	N/A	Complied

*See the accompanying note to the other supplementary information.*

**SCHEDULE OF FINANCIAL TRENDS  
AND ANALYSIS**

*Grant Elementary  
School District*

<u>Year Ended June 30</u>	<u>(Budget) 2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>GENERAL FUND</b>				
<b>Revenues and Other Financial Sources</b>	\$ 4,633,141	\$ 4,692,491	\$ 4,640,049	\$ 5,029,090
Expenditures	4,719,478	4,386,561	4,393,735	4,604,746
Other uses and transfers out	-	-	-	-
<b>Total Outgo</b>	<u>4,719,478</u>	<u>4,386,561</u>	<u>4,393,735</u>	<u>4,604,746</u>
<b>Change in Fund Balance</b>	\$ (86,337)	\$ 305,930	\$ 246,314	\$ 424,344
<b>Ending Fund Balance</b>	<u>2,440,715</u>	<u>2,527,052</u>	<u>2,221,122</u>	<u>1,974,808</u>
<b>Available Reserves</b>	<u>542,212</u>	<u>435,379</u>	<u>250,000</u>	<u>237,094</u>
<b>Designated for Economic Uncertainties</b>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>235,000</u>
<b>Undesignated Fund Balance</b>	<u>292,212</u>	<u>185,379</u>	<u>-</u>	<u>2,094</u>
<b>Available Reserves as a Percentage of Total Outgo</b>	<u>11%</u>	<u>10%</u>	<u>6%</u>	<u>5%</u>
<b>Total Long-Term Debt</b>	<u>2,011,987</u>	<u>2,033,748</u>	<u>2,044,172</u>	<u>2,050,468</u>
<b>Average Daily Attendance at P-2</b>	<u>595</u>	<u>587</u>	<u>582</u>	<u>581</u>

The General Fund balance has increased by \$552,244 over the past two years. The fiscal year 2013-14 budget projects a decrease of \$86,337 (3.4%). For a district this size, the State recommends available reserves of at least 4% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred an operating deficit in any of the past three years. An operating deficit is anticipated during the 2013-14 fiscal year. Total long-term debt has decreased by \$16,720 over the past two years.

Average daily attendance has increased by six over the past two years. Additional growth in ADA of eight is anticipated during fiscal year 2013-14.

*See the accompanying note to the other supplementary information.*

**RECONCILIATION OF ANNUAL FINANCIAL  
AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS**  
Year Ended June 30, 2013

*Grant Elementary  
School District*

	<u><b>General Fund</b></u>
<b>June 30, 2013 - Annual Financial and Budget Report Fund Balance</b>	\$ 2,536,003
ADJUSTMENT DECREASING THE FUND BALANCE	
Understatement of due to other funds	<u>(8,951)</u>
<b>June 30, 2013 - Audited Financial Statement Fund Balance</b>	<u>\$ 2,527,052</u>

*See the accompanying note to the other supplementary information.*

**SCHEDULE OF CHARTER SCHOOLS**

Year Ended June 30, 2013

*Grant Elementary  
School District*

The District is not the sponsoring local educational agency for any charter schools.

*See the accompanying note to the other supplementary information.*

**NOTE TO THE OTHER SUPPLEMENTARY  
INFORMATION**

June 30, 2013

*Grant Elementary  
School District*

**PURPOSE OF SCHEDULES**

**Schedule of Average Daily Attendance**

Average daily attendance 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 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 *California Education Code*, Sections 46201 through 46206.

**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.

**Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.

**Schedule of Charter Schools**

This schedule lists all charter schools sponsored by the District and indicates whether or not the charter school is included in the audit of the District.

**OTHER REPORTS SECTION**



MATSON  
& ISOM

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

To the Board of Trustees  
Grant Elementary School District  
Redding, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Grant Elementary School District (the District) as of and for the year ended June 30, 2013; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated November 26, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

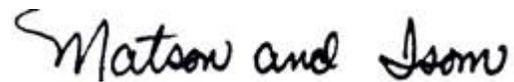
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

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

Continued

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Matson and Isom". The signature is written in a cursive, flowing style.

November 26, 2013  
Chico, California



MATSON  
& ISOM

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees  
Grant Elementary School District  
Redding, California

### **Compliance**

We have audited the Grant Elementary School District's (the District) compliance with the types of State compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, published by the Education Audit Appeals Panel, for the year ended June 30, 2013. The applicable State compliance requirements are identified in the table below.

### ***Management's Responsibility***

Compliance with the requirements referred to above is the responsibility of the District's management.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the District's compliance with the State laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, 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 compliance with the State laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

	<b>Procedures in Audit Guide</b>	<b>Procedures Performed</b>
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	No
Continuation education	10	No
Instructional time:		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional materials:		
General requirements	8	Yes
Ratios of administrative employees to teachers	1	Yes
Classroom teacher salaries	1	Yes
Early retirement incentive program	4	No
Gann limit calculation	1	Yes
School accountability report card	3	Yes
Juvenile court schools	8	Not applicable
Class size reduction (including charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No
Districts or charter schools with only one school serving kindergarten through grade 3	4	Not applicable
After school education and safety program:		
General requirements	4	No
After school	5	No
Before school	6	No
Charter schools:		
Contemporaneous records of attendance	1	No
Mode of instruction	1	No
Nonclassroom-based instruction/independent study	15	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes - classroom based	4	No

Testing was not performed for independent study because the ADA for this program was below the level which requires testing.

Since the District did not participate in the following programs during 2012-13, all steps related to them were not performed:

- Continuation education
- Early retirement incentive program
- Class size reduction option two classes
- After school education and safety program

## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

Since the District did not sponsor any charter schools during 2012-13, all steps related to the following were not performed:

- Contemporaneous records of attendance
- Mode of instruction
- Nonclassroom-based instruction/independent study
- Determination of funding for nonclassroom-based instruction
- Annual instructional minutes - classroom based

### *Opinion*

In our opinion, the District complied, in all material respects, with the State laws and regulations referred to above that are applicable to the District for the year ended June 30, 2013.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.

*Matson and Isom*

November 26, 2013  
Chico, California

**FINDINGS AND QUESTIONED COSTS SECTION**

**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

June 30, 2013

*Grant Elementary  
School District*

**SECTION I  
SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

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

**STATE AWARDS**

Internal control over state programs: Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for state programs:	Unmodified

**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

June 30, 2013

*Grant Elementary  
School District*

**SECTION II FINDINGS  
FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS  
FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS  
STATE AWARDS AUDIT**

None.

**CORRECTIVE ACTION PLAN**

June 30, 2013

*Grant Elementary  
School District*

Not applicable: there are no current-year findings related to federal awards.

**SUMMARY SCHEDULE OF  
PRIOR AUDIT FINDINGS**

June 30, 2013

*Grant Elementary  
School District*

**INTERNAL CONTROL (Student Body)**

30000 (12-1)

**Significant Deficiency**

**Condition**

One of seven student body cash disbursements tested was not supported by an invoice or other vendor documentation.

**Criteria**

Internal controls should be in place to ensure that all student body cash disbursements are supported by an invoice or other vendor documentation.

**Effect**

Without strengthening internal controls over cash disbursements, student body assets may not be properly safeguarded and expended for valid student body activities.

***Recommendation***

Procedures should be implemented to strengthen internal controls over student body accounting records.

***Current Status***

Fully implemented.

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**APPENDIX D**  
**COUNTY QUARTERLY INVESTMENT REPORT**

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March 31, 2014

PURCHASE DATE	SECURITY TYPE	PAR AMOUNT	COST AMOUNT	% OF TOTAL	PRINCIPAL	ACCRUED INTEREST	MATURITY	CUSIP	S&P / MOODY'S RATING	INT/DISC RATE	YIELD	BROKER	DAYS TO MAT	DAYS*COST	MARKET VALUE	UNREALIZED GAIN/LOSS	AVERAGE MATURITY
	Local Agency Investment Fund (max 50,000)	32,000,000.00	32,000,000.00	8.64%			04/01/14		not rated	0.23	0.23	LAIF	1	32,000,000.00	32,018,191.23	N/A	0.00
	Repo Agreement (10% max 20% limit)	0.00		0.00%			04/01/14		N/A	0.00	0.00	UBS	1	0.00	0.00	N/A	0.00
	LIR Treasury Fund - Mutual Fund (5.00%max)	0.00		0.00%			04/01/14			0.01	0.01	UBS	1	0.00	0.00	N/A	0.00
*****	Total Inactive Public Deposits (7.5% limit)	0.00	0.00	0.00%											0.00		
*****	Total Treasury Bill (50% limit)	0.00	0.00	0.00%											0.00	0.00	
10/07/13	Union Bank NCD	5,000,000.00	5,000,000.00				04/04/14	905269FY7	A-1 / P-1	0.21	0.21	Union Banc	4	20,000,000.00	5,000,050.00	50.00	0.01
12/06/13	Union Bank NCD	5,000,000.00	5,000,000.00				06/04/14	905269HY5	A-1 / P-1	0.22	0.22	Union Bank	65	325,000,000.00	5,000,550.00	550.00	0.09
*****	Total Negotiable Cert of Deposit (20% limit)	10,000,000.00	10,000,000.00	2.70%							0.22				10,000,600.00	600.00	
12/19/12	GE Medium Term Note	5,000,000.00	5,109,200.00		5,000,000.00	109,200.00	05/13/14	36962G4C5	AA+ / A1	5.90	0.52	UBS	43	219,695,600.00	5,031,250.00	(77,950.00)	0.02
12/18/12	JP Morgan Medium Term Note	5,000,000.00	5,056,229.17		5,000,000.00	56,229.17	06/01/14	46625HHN3	A / A2	4.65	0.80	UBS	62	313,486,208.54	5,034,900.00	(21,329.17)	0.02
12/14/12	Wells Fargo Inc. Med Term Note	5,000,000.00	5,143,620.83		5,143,620.83	0.00	10/01/14	94974BET3	A+ / A2	3.75	0.47	Morgan Stanley	184	946,426,232.72	5,085,250.00	(58,370.83)	0.07
11/26/12	Bank of Mellon Med Term Note	5,000,000.00	5,039,422.22		5,000,000.00	39,422.22	11/24/14	06406HBZ1	A+ / Aa3	1.70	0.45	UBS	238	1,199,382,488.36	5,038,950.00	(472.22)	0.08
04/22/13	Wells Fargo Inc. Med Term Note	5,000,000.00	5,021,429.17		5,021,429.17	0.00	02/13/15	94974BFA3	A+ / A2	1.25	0.45	Morgan Stanley	319	1,601,835,905.23	5,038,750.00	17,320.83	0.11
05/14/13	3M Medium Term Note	5,000,000.00	5,080,943.75		5,080,943.75	0.00	09/29/16	88579YAD3	AA- / Aa2	1.38	0.53	UBS	913	4,638,901,643.75	5,091,850.00	10,906.25	0.32
01/10/14	GE Medium Term Note	5,000,000.00	5,029,761.11		5,018,650.00	11,111.11	11/20/17	36962G6K5	AA+ / A1	1.60	1.50	UBS	1330	6,689,582,276.30	5,024,850.00	(4,911.11)	0.46
03/26/14	Berkshire Hathaway Med Term Note	5,000,000.00	4,940,152.78		4,916,500.00	23,652.78	05/15/18	084664BW0	AA / Aa2	1.30	1.72	UBS	1506	7,439,870,086.68	4,915,850.00	(24,302.78)	0.51
*****	Total Medium Term Notes (20% limit/ 3% ea)	40,000,000.00	40,420,759.03	10.92%							0.80				40,261,650.00	(159,109.03)	
07/09/13	UBS Finance Comm Paper	5,000,000.00	4,988,833.33				04/03/14	90262DD36	A-1 / P-1	0.30	0.30	UBS	3	14,966,499.99	4,999,950.00	11,116.67	0.00
07/12/13	Union Bank NA Comm Paper	5,000,000.00	4,990,250.00				04/08/14	90526ND85	A-1 / P-1	0.26	0.26	Union Banc	8	39,922,000.00	4,999,800.00	9,550.00	0.00
08/15/13	UBS Finance Comm Paper	5,000,000.00	4,989,687.50				05/12/14	90262DEC5	A-1 / P-1	0.28	0.28	UBS	42	209,566,875.00	4,999,150.00	9,462.50	0.01
08/28/13	Abbey National Comm Paper	3,000,000.00	2,988,163.33				05/23/14	0027A1EP0	A-1 / P-1	0.53	0.53	UBS	53	158,372,656.49	2,999,400.00	11,236.67	0.01
10/18/13	Abbey National Comm Paper	5,000,000.00	4,983,125.00				07/15/14	0027A1GF0	A-1 / P-1	0.45	0.45	Union Banc	106	528,211,250.00	4,997,100.00	13,975.00	0.04
02/07/14	HSBC Comm Paper	5,000,000.00	4,994,750.00				08/06/14	40427SH69	A-1 / P-1	0.21	0.21	UBS	128	639,328,000.00	4,995,950.00	1,200.00	0.04
11/12/13	HSBC Comm Paper	5,000,000.00	4,990,099.31				08/08/14	90262DH81	A-1 / P-1	0.27	0.27	UBS	130	648,712,910.30	4,995,900.00	5,800.69	0.04
12/27/13	Union Bank NA Comm Paper	5,000,000.00	4,989,875.00				09/23/14	90526NJP1	A-1 / P-1	0.27	0.27	Union Banc	176	878,218,000.00	4,993,450.00	3,575.00	0.06
01/08/14	Union Bank NA Comm Paper	5,000,000.00	4,991,066.67				10/03/14	90526NK38	A-1 / P-1	0.24	0.24	Morgan Stanley	186	928,338,400.62	4,992,300.00	1,233.33	0.06
02/07/14	UBS Finance Comm Paper	5,000,000.00	4,991,000.00				11/04/14	90262DL45	A-1 / P-1	0.24	0.24	UBS	218	1,088,038,000.00	4,990,350.00	(650.00)	0.07
*****	Total Comm Paper (20% limit)	48,000,000.00	47,896,850.14	12.94%							0.30				47,963,350.00	66,499.86	
10/01/13	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				10/01/15	3133ED3C4	AA+ / Aaa	0.39	0.39	UBS	549	2,745,000,000.00	5,005,900.00	5,900.00	0.12
11/30/12	Federal Farm Credit Bond(Callable)	5,000,000.00	4,997,500.00				08/26/16	3133EC3F9	AA+ / Aaa	0.55	0.56	UBS	879	4,392,802,500.00	4,985,750.00	(11,750.00)	0.19
12/12/12	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				12/12/16	3133EC6S8	AA+ / Aaa	0.60	0.60	Union Banc	987	4,935,000,000.00	4,937,900.00	(62,100.00)	0.21
09/11/12	Federal Farm Credit Bond(Callable)	5,000,000.00	4,998,750.00				02/15/17	3133EAK98	AA+ / Aaa	0.85	0.85	UBS	1052	5,258,685,000.00	4,970,350.00	(28,400.00)	0.22
03/25/14	Federal Farm Credit Bond(Callable)	5,000,000.00	4,995,645.83		4,995,000.00	645.83	03/20/17	3133EDHJ4	AA+ / Aaa	0.93	0.96	UBS	1085	5,420,275,725.55	4,992,850.00	(2,795.83)	0.23
03/20/13	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				03/20/17	3133ECJQ8	AA+ / Aaa	0.75	0.75	UBS	1085	5,425,000,000.00	4,966,400.00	(33,600.00)	0.23
12/05/12	Federal Farm Credit Bond(Callable)	5,000,000.00	4,993,750.00				06/05/17	3133EC5L4	AA+ / Aaa	0.77	0.80	Morgan Stanley	1162	5,802,737,500.00	4,933,800.00	(59,950.00)	0.25
12/19/12	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				06/19/17	3133ECAL8	AA+ / Aaa	0.73	0.73	Morgan Stanley	1176	5,880,000,000.00	4,927,200.00	(72,800.00)	0.25
07/17/13	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				07/17/17	3133ECUG7	AA+ / Aaa	1.48	1.48	Union Banc	1204	6,020,000,000.00	5,016,650.00	16,650.00	0.26
11/21/12	Federal Farm Credit Bond(Callable)	5,000,000.00	4,993,500.00				08/21/17	3133EC3G7	AA+ / Aaa	0.80	0.83	UBS	1239	6,186,946,500.00	4,921,600.00	(71,900.00)	0.26
04/02/13	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				10/02/17	3133ECKG8	AA+ / Aaa	0.90	0.90	Morgan Stanley	1281	6,405,000,000.00	4,930,600.00	(69,400.00)	0.27
12/04/13	Federal Farm Credit Bond(Callable)	5,000,000.00	5,000,000.00				12/04/17	3133EDB50	AA+ / Aaa	1.20	1.20	Morgan Stanley	1344	6,720,000,000.00	4,969,550.00	(30,450.00)	0.29
12/12/12	Federal Farm Credit Bond(Callable)	5,000,000.00	4,997,500.00				12/13/17	3133EC7B4	AA+ / Aaa	0.84	0.85	UBS	1353	6,761,617,500.00	4,908,250.00	(89,250.00)	0.29
*****	Total Federal Farm Credits (20% limit)	65,000,000.00	64,976,645.83	17.55%							0.84				64,466,800.00	(509,845.83)	
01/28/14	Federal Home Loan Bank Bond(Callable)	5,000,000.00	5,000,000.00				10/28/16	3130A0LJ7	AA+ / Aaa	0.80	0.80	Union Banc	942	4,710,000,000.00	4,993,250.00	(6,750.00)	0.24
03/24/17	Federal Home Loan Bank Bond(Callable)	5,000,000.00	4,992,750.00				03/24/17	3130A15J3	AA+ / Aaa	0.90	0.95	UBS	1089	5,437,104,750.00	4,986,600.00	(6,150.00)	0.27
04/01/13	Federal Home Loan Bank Bond(Callable)	5,000,000.00	5,000,000.00				03/27/17	313382HT3	AA+ / Aaa	0.75	0.75	UBS	1092	5,460,000,000.00	4,963,750.00	(36,250.00)	0.28
12/31/13	Federal Home Loan Bank Bond(Callable)	5,000,000.00	4,967,708.33				04/17/17	313382PX5	AA+ / Aaa	0.75	1.00	Morgan Stanley	1113	5,529,059,371.29	4,958,000.00	(9,708.33)	0.28
12/05/12	Federal Home Loan Bank Bond(Callable)	5,000,000.00	5,000,000.00				06/05/17	313381DD4	AA+ / Aaa	0.75	0.75	UBS	1162	5,810,000,000.00	4,933,350.00	(66,650.00)	0.29
01/02/14	Federal Home Loan Bank Bond(Callable)	5,000,000.00	4,981,944.44		4,981,250.00	694.44	06/27/17	3130A0HH6	AA+ / Aaa	1.00	1.11	UBS	1184	5,898,622,216.96	4,972,300.00	(9,644.44)	0.30
10/24/12	Federal Home Loan Bank Bond(Callable)	5,000,000.00	4,997,500.00				07/24/17	313380WR4	AA+ / Aaa	0.85	0.86	Morgan Stanley	1211	6,051,972,500.00	4,926,600.00	(70,900.00)	0.31
08/15/12	Federal Home Loan Bank Bond(Callable)	5,000,000.00	4,992,500.00				08/09/17	3133804V6	AA+ / Aaa	1.00	1.00	UBS	1227	6,125,797,500.00	4,960,150.00	(32,350.00)	0.31
10/16/12	Federal Home Loan Bank Bond(Callable)	5,000,000.00	5,000,000.00				10/16/17	313380TD9	AA+ / Aaa	1.00	1.00	UBS	1295	6,475,000,000.00	4,940,900.00	(59,100.00)	0.33
12/28/12	Federal Home Loan Bank Bond(Callable)	5,000,000.00	5,000,000.00				12/28/17	313381K95	AA+ / Aaa	0.84	0.84	Morgan Stanley	1368	6,840,000,000.00	4,894,350.00	(105,650.00)	0.35
12/28/12	Federal Home Loan Bank Bond(Callable)	5,000,000.00	5,000,000.00				12/28/17	313381LC7	AA+ / Aaa	0.95	0.95	UBS	1368	6,840,000,000.00	4,906,100.00	(93,900.00)	0.35
*****	Total Federal Home Loans (20% limit)	55,000,000.00	54,932,402.77	14.84%							0.91				54,435,350.00	(497,052.77)	
12/02/13	Federal National Mtg Note	5,000,000.00	5,006,195.42		5,006,195.64	0.00	12/21/15	3135G0SB0	AA+ / Aaa	0.38	0.31	Union Banc	630	3,153,903,114.60	5,002,900.00	(3,295.42)	0.13
12/06/13	Federal National Mtg Note-Callable	5,000,000.00	5,000,650.00</														

12/09/13	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			12/09/16	3136G1Y78	AA+ / Aaa	0.70	0.70	Morgan Stanley	984	4,920,000,000.00	4,968,550.00	(31,450.00)	0.21
10/09/13	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			01/09/17	3136G1W62	AA+ / Aaa	1.05	1.05	UBS	1015	5,075,000,000.00	5,001,050.00	1,050.00	0.22
12/28/12	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			06/28/17	3136G14N6	AA+ / Aaa	0.75	0.72	Union Banc	1185	5,925,000,000.00	4,933,350.00	(66,650.00)	0.25
10/11/12	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			10/11/17	3135G0PU1	AA+ / Aaa	1.00	1.00	UBS	1290	6,450,000,000.00	4,920,600.00	(79,400.00)	0.28
11/08/12	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			11/08/17	3135G0QW6	AA+ / Aaa	1.00	1.00	UBS	1318	6,590,000,000.00	4,933,600.00	(66,400.00)	0.28
12/03/12	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			11/27/17	3136G07M7	AA+ / Aaa	0.90	0.90	UBS	1337	6,685,000,000.00	4,916,800.00	(83,200.00)	0.29
04/30/13	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			04/30/18	3135G0WN9	AA+ / Aaa	1.00	1.00	Morgan Stanley	1491	7,455,000,000.00	4,881,850.00	(118,150.00)	0.32
05/15/13	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			05/15/18	3136G1LE7	AA+ / Aaa	1.01	1.01	UBS	1506	7,530,000,000.00	4,881,650.00	(118,350.00)	0.32
05/25/13	Federal National Mtge Note-Callable	5,000,000.00	5,000,000.00			05/25/18	3135G0XK4	AA+ / Aaa	1.05	1.05	Union Banc	1516	7,580,000,000.00	4,910,000.00	(90,000.00)	0.32
*****	Total Federal National Mtge. (20% limit)	65,000,000.00	65,006,845.42	17.56%										64,300,750.00	(706,095.42)	
03/27/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			09/18/15	3134G36F2	AA+ / Aaa	0.42	0.42	UBS	536	2,680,000,000.00	5,006,250.00	6,250.00	0.14
11/27/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,001,750.00		5,000,000.00	11/27/15	3134G4LD8	AAA/AA+	0.40	0.38	Union Banc	606	3,031,060,500.00	5,000,450.00	(1,300.00)	0.15
10/25/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00		1,750.00	04/25/16	3134G4HJ0	AA+ / Aaa	0.65	0.65	Union Banc	756	3,780,000,000.00	5,001,900.00	1,900.00	0.19
07/02/13	Federal Home Loan Mtge. Cp	5,000,000.00	4,980,150.00			05/13/16	3137EADQ9	AA+ / Aaa	0.50	0.64	UBS	774	3,854,636,100.00	4,999,300.00	19,150.00	0.19
03/14/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			09/14/16	3134G36J4	AA+ / Aaa	0.65	0.65	Morgan Stanley	898	4,490,000,000.00	4,993,700.00	(6,300.00)	0.23
07/25/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			10/25/16	3134G4DR6	AA+ / Aaa	1.00	1.00	Morgan Stanley	939	4,695,000,000.00	5,012,400.00	12,400.00	0.24
12/09/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			12/09/16	3134G4NK0	AA+ / Aaa	0.70	0.70	UBS	984	4,920,000,000.00	4,974,000.00	(26,000.00)	0.25
12/16/13	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			12/16/16	3134G4ME5	AA+ / Aaa	0.75	0.75	UBS	991	4,955,000,000.00	4,983,350.00	(16,650.00)	0.25
01/17/14	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			07/17/17	3134G4SQ2	AA+ / Aaa	1.25	1.25	UBS	1204	6,020,000,000.00	4,996,400.00	(3,600.00)	0.30
08/31/12	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			08/28/17	3134G3E55	AA+ / Aaa	1.00	1.01	Capital Securities	1246	6,230,000,000.00	4,966,600.00	(33,400.00)	0.32
09/28/12	Federal Home Loan Mtge. Cp(Callable)	5,000,000.00	5,000,000.00			09/28/17	3134G3M23	AA+ / Aaa	1.02	1.02	Morgan Stanley	1277	6,385,000,000.00	4,960,250.00	(39,750.00)	0.32
*****	Total Fed HM LN Mtge. Corp Disc Note (20%)	55,000,000.00	54,981,900.00	14.85%										54,894,600.00	(87,300.00)	
05/26/87	Gov't National Mortgage Association GNMA	1,162.73	0.00			05/15/17	36217KK64	AAA	8.00	8.10	Wedbush	1141	0.00	1,166.49	1,166.49	0.00
05/26/87	Gov't National Mortgage Association GNMA	3,874.13	0.00			05/15/17	362178EN1	AAA	8.00	8.10	Wedbush	1141	0.00	3,917.59	3,917.59	0.00
04/19/88	Gov't National Mortgage Association GNMA	433.66	0.00			08/15/17	36218MAA1	AAA	9.50	9.60	Underwood Neuhaus	1233	0.00	434.43	434.43	0.00
*****	Total Gov't. National Mtge. Assn. (60% limit)	5,470.52	0.00	0.00%										5,518.51	5,518.51	
TOTAL		370,005,470.52	370,215,403.19	100.00%										368,346,809.74		

Cost of Investments  
Cash in Treasury  
Return Checks  
Shasta Lake LAIF  
Active Deposits  
Adjustments  
Balance in Treasury

370,215,403.19  
7,840.03  
0.00  
252,314.22  
31,000,097.43  
0.00  
401,475,654.87

339,003,385.14  
32,000,000.00  
REPO  
LIR  
GNMA  
371,003,385.14  
(787,981.95)

TOTAL DAYS\*  
TOTAL COST AMOUNT  
WEIGHTED AVERAGE MATURITY  
WEIGHTED AVERAGE MATURITY

290,965,588.012.38  
370,215,403.19  
785.94  
2.18

I certify that this report accurately reflects the County Treasurers investments, and is in conformance with the adopted County Investment Policy Statement.  
Furthermore, I certify to the best of my knowledge, sufficient investment liquidity, and anticipated revenues are available to meet the County's budgeted expenditure requirements for the next six months.

## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

Board of Trustees of the  
Grant Elementary School District  
8835 Swasey Drive  
Redding, California 96001

**OPINION:** \$1,900,000\* Grant Elementary School District (Shasta County, California) 2014 General Obligation Refunding Bonds

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Members of the Board of Trustees:

We have acted as bond counsel to the Grant Elementary School District (the “District”) in connection with the issuance by the District of \$1,900,000\* principal amount of Grant Elementary School District (Shasta County, California) 2014 General Obligation Refunding Bonds (the “Bonds”), pursuant to provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code (the “Act”), and a resolution adopted by the Board of Trustees of the District on April 24, 2014 (the “Resolution”). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Bonds in its name and to perform its obligations under the Resolution and the Bonds.
2. The Resolution has been duly adopted by the District and creates a valid first lien on the funds pledged under the Board Resolution for the security of the Bonds.
3. The Bonds have been duly authorized, executed and delivered by the Board and are valid and binding general obligations of the District. The Board of Supervisors of Shasta County is required under the Act to levy a tax upon all taxable property in the District for the interest and redemption of all outstanding bonds of the District, including the Bonds. The Bonds are payable from an *ad valorem* tax levied without limitation as to rate or amount.

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\* Preliminary, subject to change.

4. Subject to the District's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. In addition, it is our opinion that the Bonds are a "qualified tax-exempt obligations" under section 265(b)(3) of the Code.

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

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

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

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

Respectfully submitted,

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the GRANT ELEMENTARY SCHOOL DISTRICT (the “District”) in connection with the issuance by the District of its \$1,900,000\* Grant Elementary School District (Shasta County, California) 2014 General Obligation Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on April 24, 2014 (the “Resolution”). The District covenants and agrees as follows:

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

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

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

“*Dissemination Agent*” shall mean KNN Public Finance or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. In the absence of such a designation, the District shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

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

“*Participating Underwriter*” shall mean the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

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

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\* Preliminary, subject to change.

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

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2013-14 Fiscal Year, which is due not later than March 31, 2015, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

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

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

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

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

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

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

- (i) The District's approved budget for the then current fiscal year;
- (ii) Assessed value of taxable property in the District as shown on the recent equalized assessment role; and
- (iii) Property tax levies, collections and delinquencies for the District, for the most recent completed fiscal year.

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

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

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

#### Section 5. Reporting of Listed Events.

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

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

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

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

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

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to

between the Dissemination Agent and the District from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

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

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

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

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

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

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

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Paying Agent under the Resolution. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: [Closing Date]

GRANT ELEMENTARY SCHOOL  
DISTRICT

By \_\_\_\_\_  
Authorized Officer

ACKNOWLEDGED:

KNN PUBLIC FINANCE, as Dissemination  
Agent

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Grant Elementary School District

Name of Issue: Grant Elementary School District (Shasta County, California) 2014 General  
Obligation Refunding Bonds

Date of Issuance: [Closing Date]

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

Dated: \_\_\_\_\_

KNN PUBLIC FINANCE, as Dissemination  
Agent

By \_\_\_\_\_  
Title \_\_\_\_\_

cc: Paying Agent

## APPENDIX G

### BOOK-ENTRY SYSTEM

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of

the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

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

DTC may discontinue providing its service as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a

successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

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

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

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