NEW ISSUE - FULL BOOK-ENTRY **RATING: Standard & Poor's: "AA-"**
BANK QUALIFIED **See "RATING" herein.**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Series A Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

$3,000,000
BAYSHORE ELEMENTARY SCHOOL DISTRICT
(San Mateo County, California)
General Obligation Bonds
Election of 2014, Series A
(Bank Qualified)

Dated: Date of Delivery **Due: August 1, as shown on inside front cover**

Authority and Purpose. The captioned bonds (the "Series A Bonds") are being issued by the Bayshore Elementary School District (the "District") pursuant to certain provisions of the California Government Code and a resolution of the Board of Trustees of the District adopted on July 15, 2014 (the "Bond Resolution"). The Series A Bonds were authorized at an election of the registered voters of the District held on June 3, 2014, which authorized the issuance of $6,000,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities. The Series A Bonds are the first series of bonds to be issued under this authorization. See "THE SERIES A BONDS – Authority for Issuance" and "THE FINANCING PLAN" herein.

Security. The Series A Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected by San Mateo County (the "County"). The County Board of Supervisors is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Series A Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates). The District currently has no series of general obligation bonds outstanding which are similarly secured by tax levies. See "SECURITY FOR THE SERIES A BONDS."

Book-Entry Only. The Series A Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Series A Bonds. See "THE SERIES A BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. The Series A Bonds are dated the date of delivery and are being issued as current interest bonds. The Series A Bonds bear interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity, commencing February 1, 2015. Payments of principal of and interest on the Series A Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as the designated paying agent, registrar and transfer agent (the "Paying Agent") for the San Mateo County Treasurer-Tax Collector, Redwood City, California, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Series A Bonds. See "THE SERIES A BONDS - Description of the Series A Bonds."

Redemption. The Series A Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES A BONDS – Optional Redemption" and " – Mandatory Sinking Fund Redemption."

MATURITY SCHEDULE
(See inside cover)

Cover Page. This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Series A Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series A Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, and subject to certain other conditions. Jones Hall, A Professional Law Corporation, is also serving as Disclosure Counsel to the District. Kutak Rock LLP is serving as Underwriter's Counsel. It is anticipated that the Series A Bonds, in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about August 6, 2014.

STIFEL

The date of this Official Statement is July 22, 2014.

MATURITY SCHEDULE

BAYSHORE ELEMENTARY SCHOOL DISTRICT
(San Mateo County, California)
General Obligation Bonds
Election of 2014, Series A
(Bank Qualified)

Base CUSIP†: 073113

$1,005,000 Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2015	$210,000	4.000%	0.200%	103.741	AC6
2016	145,000	4.000	0.430	107.052	AD4
2021	10,000	4.000	1.880	113.818	AE2
2022	15,000	4.000	2.120	113.744	AF9
2023	20,000	4.000	2.330	113.469	AG7
2024	30,000	4.000	2.500	113.183	AH5
2025	35,000	4.000	2.740	110.942 C	AJ1
2026	40,000	4.000	2.940	109.115 C	AK8
2027	45,000	3.000	3.180	98.096	AL6
2028	55,000	3.250	3.360	98.780	AM4
2029	60,000	3.375	3.540	98.093	AN2
2030	70,000	3.375	3.610	97.164	AP7
2031	80,000	3.500	3.680	97.741	AQ5
2032	90,000	3.500	3.750	96.750	AR3
2033	100,000	3.625	3.810	97.515	AS1

$665,000 - 4.000% Term Bonds due August 1, 2038; Yield: 4.050%; Price: 99.236%; CUSIP†: AT9

$1,330,000 - 5.250% Term Bonds due August 1, 2044; Yield: 3.740%; Price: 112.486%C; CUSIP†: AU6

____

C: Priced to call at first optional redemption date of August 1, 2024.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
(San Mateo County, California)

DISTRICT ADMINISTRATION

Audra Pittman, *Interim Superintendent*
Waly Ndiaye, *Business Manager*

PROFESSIONAL SERVICES

FINANCIAL ADVISOR

Isom Advisors, A Division of Urban Futures
Walnut Creek, California

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

UNDERWRITER'S COUNSEL

Kutak Rock LLP
Denver, Colorado

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT

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

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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 Series A 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.

Estimates and Forecasts**.** 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 or any other entity described or referenced herein, 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. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District or any other entity described or referenced herein since the date hereof.

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.

Stabilization of and Changes to Offering Prices. The Underwriter may overallot or take other steps that stabilize or maintain the market prices of the Series A Bonds at levels above those that might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Series A Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

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

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

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 Series A 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.

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

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$3,000,000
BAYSHORE ELEMENTARY SCHOOL DISTRICT
(San Mateo County, California)
General Obligation Bonds
Election of 2014, Series A
(Bank Qualified)

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the general obligation bonds captioned above (the **"Series A Bonds"**) by the Bayshore Elementary School District (the "**District**").

INTRODUCTION

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 and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of Series A Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District lies in portions of the City of Daly City and the City of Brisbane. The District provides educational services to the residents of the City of Daly City and the City of Brisbane in the County of San Mateo (the "**County**"), in the State of California (the "**State**"). The District is an elementary school district providing education for students in grades Transitional Kindergarten through eight. The District currently operates one elementary school (grades TK-4) and one intermediate school (grades 5-8). Total enrollment for the 2013-14 school year is estimated to be 371 students.

For general information regarding the District see "THE DISTRICT" herein and for information on the District's finances, see Appendix B attached hereto. See also Appendix C hereto for demographic and other statistical information regarding the County.

Purpose. The net proceeds of the Series A Bonds will be used to finance school construction and improvements to District facilities as approved by the voters at an election held in the District on June 3, 2014 (the **"Bond Election"**). See "THE FINANCING PLAN" herein.

Authority for Issuance of the Series A Bonds. Issuance of the Series A Bonds was approved by the requisite 55% of the voters of the District voting at the June 3, 2014 Bond Election and will be issued pursuant to certain provisions of the Government Code of the State, commencing with Section 53506 thereof (the **"Bond Law"**), and pursuant to a resolution adopted by the Board of Trustees of the District on July 15, 2014 (the "**Bond Resolution**"). See "THE SERIES A BONDS - Authority for Issuance" herein.

Payment and Registration of the Series A Bonds. The Series A Bonds are being issued as current interest bonds. The Series A Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series A 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 Series A

Bonds. See “THE SERIES A BONDS” and “APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

***Redemption*.** The Series A Bonds are subject to redemption prior to maturity as described herein. See “THE SERIES A BONDS – Optional Redemption” and “– Mandatory Sinking Fund Redemption.”

Security and Sources of Payment for the Series A Bonds. The Series A Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Series A Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See “SECURITY FOR THE SERIES A BONDS.”

Bank Qualified. The District has designated the Series A Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, which provides an exception to the prohibition against the ability of a “financial institution” (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to tax-exempt interest. See “TAX MATTERS” herein.

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Series A Bonds are available from the District from the Superintendent’s Office at 1 Martin Street, Daly City, California 94014, Telephone: (415) 467-5443. The District may impose a charge for copying, mailing and handling.

END OF INTRODUCTION

THE FINANCING PLAN

The proceeds of the Series A Bonds will be used to finance projects approved by the voters at the Bond Election, which was approved by 82.07% of voters of the District (the "**2014 Authorization**"). The abbreviated form of the ballot measure is as follows:

> *"To improve the quality of education; replace outdated heating, ventilation and air-conditioning systems; repair deteriorating plumbing systems; modernize classrooms, restrooms and school facilities; repair or replace leaky roofs; upgrade inadequate electrical systems; and improve student access to computers and modern technology; shall the Bayshore Elementary School District issue $6 million of bonds at legal interest rates, have an independent citizens' oversight committee and have NO money used for administrative salaries or be taken by the state?"*

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series A Bonds are as follows:

Sources of Funds	
Principal Amount of Series A Bonds	$3,000,000.00
Net Original Issue Premium	184,758.10
Total Sources	$3,184,758.10
Uses of Funds	
Deposit to Building Fund	$2,835,000.00
Debt Service Fund	154,758.10
Costs of Issuance(1)	195,000.00
Total Uses	$3,184,758.10

(1) All estimated costs of issuance including, but not limited to, Underwriter's discount, printing costs, and fees of Bond Counsel, Disclosure Counsel, Financial Advisor, Paying Agent and the rating agency.

THE SERIES A BONDS

Authority for Issuance

The Series A Bonds will be issued under the Bond Law and the Bond Resolution pursuant to the 2014 Authorization, which authorized the issuance of $6,000,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities. After the issuance of the Series A Bonds, $3,000,000 of authorization will remain under the 2014 Authorization.

Description of the Series A Bonds

The Series A Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series A 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 Series A Bonds. See "Book-Entry Only System" below and "APPENDIX F – DTC and the Book-Entry Only System."

The Series A Bonds shall be issued in the denomination of $5,000 principal amount each or any integral multiple thereof. Interest on the Series A Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2015 (each, an **"Interest Payment Date"**). Each Series A Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month preceding the Interest Payment Date (the **"Record Date"**), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to January 15, 2015, in which event it will bear interest from the date of delivery identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Series A Bond is in default at the time of authentication thereof, such Series A Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Series A Bonds will be paid by the Paying Agent (as defined below) to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Series A Bonds.

See the maturity schedules on the inside cover page of this Official Statement and "DEBT SERVICE SCHEDULE" herein.

Payment of the Series A Bonds

Interest on the Series A Bonds (including the final interest payment upon maturity or redemption) is payable by check, draft or wire of the Paying Agent mailed to the person in whose name the ownership of such Series A Bond is registered on the Registration Books (the "**Owner**") (which will be DTC so long as the Series A Bonds are held in the book-entry system of DTC) at such Owner's address as it appears on the Registration Books at the close of business on the preceding Record Date; except that at the written request of the Owner of at least $1,000,000 aggregate principal amount of the Series A Bonds, which written request is on file with the Paying Agent as of any Record Date, interest on such Series A Bonds will be paid by wire payment on the succeeding Interest Payment Date to such account as will be specified in such written request. Principal of and premium (if any) on the Series A Bonds is payable in lawful money of the United States of America upon presentation and surrender at the Office of the Paying Agent.

Book-Entry Only System

The Series A Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"). Purchasers of the Series A Bonds (the "**Beneficial Owners**") will not receive physical certificates representing their interest in the Series A Bonds. Payments of principal of and interest on the Series A Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as the designated paying agent, registrar and transfer agent (the "**Paying Agent**") for the San Mateo County Treasurer-Tax Collector, Redwood City, California to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Series A Bonds.

As long as DTC's book-entry method is used for the Series A Bonds, the Paying Agent will send any notice of redemption 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 redemption of the Series A Bonds called for redemption or of any other action premised on such notice. See "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Paying Agent, the District, and the Underwriter of the Series A Bonds 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 Series A Bonds.

Optional Redemption

The Series A Bonds maturing on or before August 1, 2024 are not subject to redemption prior to maturity. The Series A Bonds maturing on or after August 1, 2025, are subject to redemption prior to maturity, at the option of the District, in whole or in part, from any available source of funds, on August 1, 2024, or on any date thereafter, at a price equal to 100% of the principal amount thereof, without premium, together with accrued interest thereon to the redemption date.

Selection of Series A Bonds for Purpose of Redemption. For the purpose of selection for optional redemption, Series A Bonds will be deemed to consist of $5,000 principal amounts, and any such portion may be separately redeemed among maturities on such basis as shall be designated by the District and by lot within a maturity. Whenever less than all of the outstanding Series A Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series A Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. The Series A Bonds may all be separately redeemed.

Mandatory Sinking Fund Redemption

The Series A Bonds maturing on August 1, 2038 and August 1, 2044 (the **"Term Bonds"**), are subject to mandatory sinking fund redemption on August 1 of each year in accordance with the schedules set forth below. The Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments amounts and on the dates set forth below, without premium.

$665,000 Term Bonds Maturing August 1, 2038

Redemption Date (August 1)	Sinking Fund Redemption
2034	$110,000
2035	120,000
2036	130,000
2037	145,000
2038 (maturity)	160,000

$1,330,000 Term Bonds Maturing August 1, 2044

Redemption Date (August 1)	Sinking Fund Redemption
2039	$175,000
2040	190,000
2041	210,000
2042	230,000
2043	250,000
2044 (maturity)	275,000

If any Term Bonds are redeemed pursuant to optional redemption, the total amount of all future sinking fund payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of $5,000 principal amount (or on such other basis as the District may determined) as set forth in written notice given by the District to the Paying Agent.

Notice of Redemption

The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Series A Bonds designated for redemption, at their addresses appearing on the registration books. Such notice may be a conditional notice of redemption and subject to rescission as described below. Such mailing is not a condition precedent to such redemption and the failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Series A Bonds. In addition, the Paying Agent will give notice of redemption by telecopy or certified, registered or overnight mail to the Municipal Securities Rulemaking Board and each of the Securities Depositories (as such terms are defined in the Bond Resolution) at least two days prior to such mailing to the Series A Bond owners.

Such notice shall state the redemption date and the redemption price and, if less than all of the then outstanding Series A Bonds are to be called for redemption, shall designate the serial numbers of the Series A Bonds to be redeemed by giving the individual number of each Series A Bond or by stating that all Series A Bonds between two stated numbers, both inclusive, or by stating that all of the Series A Bonds of one or more maturities have been called for redemption, and shall require that such Series A Bonds be then surrendered at the office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Series A Bonds will not accrue from and after the redemption date.

Partial Redemption of Series A Bonds

Upon the surrender of any Series A Bond redeemed in part only, the Paying Agent shall execute and deliver to the Owner thereof a new Series A Bond or Bonds of like tenor and maturity and of authorized denominations equal in transfer amounts to the unredeemed portion of the Series A Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the County and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Right to Rescind Notice of Redemption

The District has the right to rescind any notice of the optional redemption of Series A Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Series A Bonds then called for redemption. The District and the Paying Agent have no liability to the Series A Bond owners or any other party related to or arising from such rescission of redemption. The Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Bond Resolution.

Registration, Transfer and Exchange of Series A Bonds

If the book entry system is discontinued, the District shall 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 Series A Bonds.

If the book entry system is discontinued, the person in whose name a Series A Bond is registered on the Bond Register shall be regarded as the absolute owner of that Bond. Payment of the principal of and interest on any Series A Bond shall be made only to or upon the order of that person; neither the District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided the Bond Resolution.

Bonds may be exchanged at the principal office of the Paying Agent in Los Angeles, California for a like aggregate principal amount of Series A Bonds of authorized denominations and of the same maturity. Any Series A Bond may, in accordance with its terms, but only if (i) the District determines to no longer maintain the book entry only status of the Series A Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Series A Bond certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Resolution, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series A Bond for cancellation at the office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

No exchanges of Series A Bonds shall be required to be made (a) fifteen days prior to an Interest Payment Date or the date established by the Paying Agent for selection of Series A Bonds for redemption until the close of business on the Interest Payment Date or day on which the applicable notice of redemption is given or (b) with respect to a Series A Bond after such Series A Bond has been selected or called for redemption in whole or in part.

Defeasance

The Series A Bonds may be paid by the District, in whole or in part, in any one or more of the following ways:

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

(b) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Resolution) to pay or redeem such Series A Bonds; or

(c) by delivering such Series A Bonds to the Paying Agent for cancellation by it.

Whenever in the Bond Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Series A Bonds, the money or securities so to be deposited or held may be held by the Paying Agent or by any other fiduciary. Such money or securities may include money or securities held by the Paying Agent in the funds and accounts established under the Bond Resolution and will be:

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

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

Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as described above) to pay or redeem any outstanding Series A Bond (whether upon or prior to its maturity or the redemption date of such Bond), then all liability of the County and the District in respect of such Series A Bond will cease and be completely discharged, except only that thereafter the owner thereof will be entitled only to payment of the principal of and interest on such Series A Bond by the District, and the District will remain liable for such payment, but only out of such money or securities deposited with the Paying Agent for such payment.

As used in the foregoing provisions, the term "**Federal Securities**" means United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations issued by any agency or department of the United States which are secured, directly or indirectly, by the full faith and credit of the United States.

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DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Series A Bonds, assuming no optional redemptions.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Series A Bonds Debt Service Schedule

Bond Year Ending August 1	Principal	Interest	Total Debt Service
2015	$210,000	$131,867.71	$341,867.71
2016	145,000	125,325.00	270,325.00
2017	-	119,525.00	119,525.00
2018	-	119,525.00	119,525.00
2019	-	119,525.00	119,525.00
2020	-	119,525.00	119,525.00
2021	10,000	119,525.00	129,525.00
2022	15,000	119,125.00	134,125.00
2023	20,000	118,525.00	138,525.00
2024	30,000	117,725.00	147,725.00
2025	35,000	116,525.00	151,525.00
2026	40,000	115,125.00	155,125.00
2027	45,000	113,525.00	158,525.00
2028	55,000	112,175.00	167,175.00
2029	60,000	110,387.50	170,387.50
2030	70,000	108,362.50	178,362.50
2031	80,000	106,000.00	186,000.00
2032	90,000	103,200.00	193,200.00
2033	100,000	100,050.00	200,050.00
2034	110,000	96,425.00	206,425.00
2035	120,000	92,025.00	212,025.00
2036	130,000	87,225.00	217,225.00
2037	145,000	82,025.00	227,025.00
2038	160,000	76,225.00	236,225.00
2039	175,000	69,825.00	244,825.00
2040	190,000	60,637.50	250,637.50
2041	210,000	50,662.50	260,662.50
2042	230,000	39,637.50	269,637.50
2043	250,000	27,562.50	277,562.50
2044	275,000	14,437.50	289,437.50
Total	$3,000,000	$2,892,230.21	$5,892,230.21

SECURITY FOR THE SERIES A BONDS

Ad Valorem Taxes

Bonds Payable from Ad Valorem Property Taxes**.** The Series A Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Series A Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

Other Bonds Payable from Ad Valorem Property Taxes. In addition to the Series A Bonds being issued by the District, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* taxes levied on parcels in the District. See “PROPERTY TAXATION – Tax Rates” and “- Direct and Overlapping Debt” below.

Levy and Collection. The County will levy and collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Series A Bonds, which is maintained by the County and which is irrevocably pledged for the payment of principal of and intereston the Series A Bonds when due.

District property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

Annual Tax Rates. The amount of the annual *ad valorem* tax levied by the County to repay the Series A 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 Series A Bonds. Fluctuations in the annual debt service on the Series A 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 economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

Debt Service Fund

The County will establish a Debt Service Fund (the “**Debt Service Fund**”) for the Series A Bonds, which will be established as a separate fund to be maintained distinct from all other funds of the County. All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Series A Bonds will be deposited in the Debt Service Fund by the County promptly upon the receipt. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Series A Bonds when and as the same become due. Pursuant to the Bond Resolution, the County will transfer amounts in the Debt

Service Fund to the Paying Agent to the extent necessary to pay the principal of and interest and premium (if any) on the Series A Bonds as the same becomes due and payable.

Not a County Obligation

The Series A Bonds are payable solely from the proceeds of an *ad valorem* tax levied and collected by the County, for the payment of principal and interest on the Series A Bonds. Although the County is obligated to collect the *ad valorem* tax for the payment of the Series A Bonds, the Series A Bonds are not a debt of the County.

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PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and real property, the taxes on which create a lien on such property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("**SBE**") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property", a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Assessed Valuation

Assessed Valuation History. The table below shows a recent history of the District's assessed valuation.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Assessed Valuations of All Taxable Property
Fiscal Years 2004-05 to 2013-14

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2004-05	$564,182,391	$1,852,555	$39,789,018	$605,823,964	--
2005-06	606,002,066	1,810,939	36,467,441	644,280,446	6.3%
2006-07	643,820,621	1,708,278	31,037,730	676,566,629	5.0
2007-08	690,259,581	1,357,330	29,405,711	721,022,622	6.6
2008-09	714,953,580	1,357,330	32,116,918	748,427,828	3.8
2009-10	691,257,522	1,357,330	34,327,593	726,942,445	(2.9)
2010-11	696,950,857	1,357,330	41,492,512	739,800,699	1.8
2011-12	690,168,746	2,038,605	52,256,841	744,464,192	0.6
2012-13	702,507,126	2,038,605	51,062,944	755,608,675	1.5
2013-14	731,151,860	2,038,605	51,389,804	784,580,269	3.8

Source: California Municipal Statistics, Inc.

Assessed Valuation by Jurisdiction. The District territory consists of portions of the Cities of Daly City and Brisbane. The following table shows the assessed valuation of the District, according to jurisdiction.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
2013-14 Assessed Valuation by Jurisdiction (1)

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Brisbane	$185,753,004	23.68%	$1,585,972,763	11.71%
City of Daly City	598,827,265	76.32	$9,279,642,855	6.45%
Total District	$784,580,269	100.00%		
San Mateo County	$784,580,269	100.00%	$157,016,393,571	0.50%

(1) Before deduction of redevelopment incremental valuation.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single Family Residential Parcels. The following table shows a breakdown of the assessed valuations of improved single-family residential parcels in the District, according to fiscal year 2013-14 assessed valuation.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Per Parcel 2013-14 Assessed Valuation of Single Family Homes

	No. of Parcels	2013-14 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	1,087	$411,559,014	$378,619	$391,458

2013-14 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	58	5.336%	5.336%	$ 2,541,837	0.618%	0.618%
$50,000 - $99,999	76	6.992	12.328	5,166,912	1.255	1.873
$100,000 - $149,999	54	4.968	17.295	6,712,917	1.631	3.504
$150,000 - $199,999	38	3.496	20.791	6,569,712	1.596	5.100
$200,000 - $249,999	78	7.176	27.967	17,590,063	4.274	9.374
$250,000 - $299,999	72	6.624	34.591	19,654,243	4.776	14.150
$300,000 - $349,999	52	4.784	39.374	17,005,073	4.132	18.282
$350,000 - $399,999	138	12.695	52.070	51,894,297	12.609	30.891
$400,000 - $449,999	138	12.695	64.765	58,113,053	14.120	45.011
$450,000 - $499,999	71	6.532	71.297	33,174,211	8.061	53.072
$500,000 - $549,999	51	4.692	75.989	26,762,383	6.503	59.575
$550,000 - $599,999	64	5.888	81.877	36,805,010	8.943	68.517
$600,000 - $649,999	76	6.992	88.868	47,387,574	11.514	80.032
$650,000 - $699,999	98	9.016	97.884	64,681,108	15.716	95.748
$700,000 - $749,999	10	0.920	98.804	7,145,574	1.736	97.484
$750,000 - $799,999	9	0.828	99.632	6,870,477	1.669	99.153
$800,000 - $849,999	0	0.000	99.632	0	0.000	99.153
$850,000 - $899,999	4	0.368	100.000	3,484,570	0.847	100.000
$900,000 - $949,999	0	0.000	100.000	0	0.000	100.000
$950,000 - $999,999	0	0.000	100.000	0	0.000	100.000
$1,000,000 and greater	0	0.000	100.000	0	0.000	100.000
Total	1,087	100.000%		$411,559,014	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table shows the land use of property in the District, as measured by assessed valuation and the number of parcels for fiscal year 2013-14. As shown, the majority of the District's assessed valuation is represented by residential property.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use
Fiscal Year 2013-14

Non-Residential:	**2013-14 Assessed Valuation (1)**	**% of Total**	**No. of Parcels**	**% of Total**
Commercial/Office	$15,552,302	2.13%	33	2.11%
Industrial	79,799,169	10.91	32	2.04
Government/Social/Institutional	398,389	0.05	12	0.77
Miscellaneous	941,524	0.13	31	1.98
Subtotal Non-Residential	$96,691,384	13.22%	108	6.90%
Residential:				
Single Family Residence	$411,559,014	56.29%	1,087	69.41%
Condominium/Townhouse	51,055,841	6.98	174	11.11
Mobile Home	9,000	0.00	1	0.06
Hotel/Motel	4,597,655	0.63	5	0.32
2-4 Residential Units	13,819,317	1.89	44	2.81
5+ Residential Units/Apartments	23,095,225	3.16	3	0.19
Subtotal Residential	$504,136,052	68.95%	1,314	83.91%
Vacant/Undeveloped	$130,324,424	17.82%	144	9.20%
Total	$731,151,860	100.00%	1,566	100.00%

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

Reassessments and Appeals of Assessed Value

There are general means by which assessed values can be reassessed or appealed that could adversely impact property tax revenues within the District.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIIIA of the California Constitution" in Appendix B.

Under California law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the County board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values, adjusted for inflation, when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Proposition 8 reductions may also be unilaterally applied by the County Assessor. The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers or by reductions initiated by the county assessor. 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 Series A Bonds to increase accordingly, so that the fixed debt service on the Series A Bonds (and other outstanding general obligation bonds, if any) may be paid.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in a representative tax rate area in the District during fiscal years 2004-05 through 2013-14. The fiscal year 2013-14 assessed valuation in Tax Rate Area 5-061 of $592,184,544 represents 75.5% of the total 2013-14 assessed valuation in the District.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Typical Tax Rates (TRA 5-061)
Dollars per $100 of Assessed Valuation
Fiscal Years 2004-05 through 2013-14

	2004-05	2005-06	2006-07	2007-08	2008-09
General Tax Rate	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000
Jefferson High School District Bonds	.0170	.0153	.0174	.0361	.0333
San Mateo Community College District Bonds	.0065	.0065	.0184	.0171	.0165
Total Tax Rate	$1.0235	$1.0218	$1.0358	$1.0532	$1.0498

	2009-10	2010-11	2011-12	2012-13	2013-14
General Tax Rate	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000
Jefferson High School District Bonds	.0360	.0416	.0422	.0430	.0574
San Mateo Community College District Bonds	.0182	.0193	.0199	.0194	.0194
Total Tax Rate	$1.0542	$1.0609	$1.0621	$1.0624	$1.0768

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. The District participates in the Teeter Plan, and thus receives 100% of secured property taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes. The District anticipates that the County will include the District's Series A Bond levies in its Teeter Plan.

So long as the Teeter Plan remains in effect and the County continues to include the District in the Teeter Plan, the District's receipt of revenues with respect to the levy of *ad valorem* property taxes on secured property will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors could terminate the Teeter Plan with respect to the District if the delinquency rate for all *ad valorem* property taxes levied within the District in any year exceeds 3%. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

Major Taxpayers

The following table shows the 20 largest taxpayers in the District as determined by their secured assessed valuations in fiscal year 2013-14. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below. A large concentration of ownership in a single individual or entity results in a greater amount of tax collections which are dependent upon that property owner's ability or willingness to pay property taxes.

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Largest 2013-14 Local Secured Taxpayers

	Property Owner	Primary Land Use	2013-14 Assessed Valuation	% of Total (1)
1.	Oyster Point Properties Inc.	Undeveloped	$104,379,421	14.28%
2.	Prologis LP	Warehouse	21,883,245	2.99
3.	MG Pacific Place Apartments LP	Apartments with Retail	20,757,000	2.84
4.	Security Public Storage Daly City II LLC	Public Storage	15,702,639	2.15
5.	SFPP	Undeveloped	11,395,824	1.56
6.	Tuntex (USA) Inc.	Industrial	10,510,782	1.44
7.	Brisbane Properties	Industrial	5,180,889	0.71
8.	Sanitary Fill Company	Industrial	5,107,344	0.70
9.	333 Schwerin Inc.	Warehouse	4,905,302	0.67
10.	Syufy Enterprises	Vacant	4,084,928	0.56
11.	Macor Inc.	Warehouse	3,810,148	0.52
12.	Sunset Properties Inc.	Industrial	2,940,976	0.40
13.	Richard A. Seramin, Trust	Warehouse	2,859,473	0.39
14.	Krieland Properties	Warehouse	1,917,492	0.26
15.	John C. and Dorothy J. Johnson	Industrial	1,831,293	0.25
16.	Linda T. Navin, Trust	Restaurant	1,600,773	0.22
17.	Manuben S. Patel, Trust	Hotel/Motel	1,501,245	0.21
18.	SB Domestic LLC	Warehouse	1,414,392	0.19
19.	M&E Brisbane	Warehouse	1,411,370	0.19
20.	2634 Bayshore LLC	Industrial	1,326,000	0.18
			$224,520,536	30.71%

(1) 2013-14 local secured assessed valuation: $731,151,860.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. for debt issued as of July 1, 2014. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

BAYSHORE ELEMENTARY SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
(Debt Issued as of July 1, 2014)

2013-14 Assessed Valuation: $784,580,269

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/14	
San Mateo Community College District	0.500%	$ 2,816,850	
Jefferson Union High School District	5.043	7,436,484	
Bayshore Elementary School District	**100.000**	**-**	(1)
City of Brisbane Marina Boulevard and Lagoon Road LID No. 79-1	13.379	328,980	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$10,582,314	
OVERLAPPING GENERAL FUND DEBT:			
San Mateo County Certificates of Participation	0.500%	$2,351,324	
San Mateo County Board of Education Certificates of Participation	0.500	54,750	
City of Brisbane Certificates of Participation and Pension Obligation Bonds	11.712	3,135,303	
City of Daly City Pension Obligation Bonds	6.453	1,831,361	
TOTAL OVERLAPPING GENERAL FUND DEBT		$7,372,738	
OVERLAPPING TAX INCREMENT DEBT:		$2,958,127	
COMBINED TOTAL DEBT		$20,913,179	(2)

(1) Excludes Series A Bonds described herein.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:
Direct Debt .... - %
Total Direct and Overlapping Tax and Assessment Debt 1.35%
Combined Total Debt 2.67%

Ratios to Redevelopment Incremental Valuation ($503,497,417):
Total Overlapping Tax Increment Debt 0.59%

Source: California Municipal Statistics, Inc.

THE DISTRICT

General Information

The boundaries of the Bayshore Elementary School District (the **"District"**) encompass an area of approximately six square miles within the central coastal area of San Mateo County (the **"County"**), near San Francisco. The District's territory consists of portions of the Cities of Daly City and Brisbane.

The District is an elementary school district providing education for students in grades kindergarten through eight. The District currently operates two traditional public schools, Bayshore Elementary School and Robertson Intermediate School. Total enrollment for the 2013-14 school year is estimated to be approximately 371 students.

Administration

Board of Trustees. 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 Board are held every two years. Current members of the Board of Trustees, together with their office and the date their term expires, are listed below:

Name	Office	Term Expires
Theresa Gerigk	President	December 2014
Cecil T. Owens	Vice-President	December 2014
Joy Gutierrez-Pilare	Clerk	December 2014
Theresa Fáapúáa	Member	December 2014
Edith Renderos	Member	December 2016

Superintendent and Administrative Personnel. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Audra Pittman is currently serving as the Interim Superintendent and has served in that capacity since June, 2013.

Audra Pittman, Interim Superintendent: Dr. Pittman earned her Ph.D. from Claremont Graduate University with an emphasis in Urban Leadership. She also holds a MA in Educational Administration and a BS in Mathematics with an emphasis in Secondary Education. She has 15 years of experience in public schools as a teacher, academic coach, assistant principal, principal, county coordinator, and director.

Waly Ndiaye, Business Manager: Mr. Ndiave has 9 years experience in school finance, and 7 years experience as an Auditor and Senior Accountant in the private sector. He has a Bachelor of Science in Accounting, and is a Certified Public Accountant in the state of California.

Recent Enrollment Trends

The following table shows enrollment and average daily attendance history for the District since fiscal year 2008-09 with estimates for fiscal year 2014-15 and 2015-16.

ANNUAL ENROLLMENT and AVERAGE DAILY ATTENDANCE
Fiscal Years 2006-07 through 2015-16
Bayshore Elementary School District

School Year	Enrollment	ADA
2008-09	429	421
2009-10	420	408
2010-11	398	389
2011-12	419	399
2012-13	389	379
2013-14	371	361
2014-15†	371	360
2015-16†	371	360

†Projection
Source: Bayshore Elementary School District.

The District anticipates that enrollment will continue to be stable in the near future.

Employee Relations

The District has 17.8 full time equivalent employees (**"FTE"**), 9.83 classified FTEs and 2.00 FTE management positions. The certificated employees of the District are represented by one bargaining unit, as set forth in the following table. Classified and certificated management are unrepresented.

BARGAINING UNITS
Bayshore Elementary School District

Employee Group	Representation	Number of Employees Represented	Contract Expiration Date
Certificated	Bayshore Teachers Association	17.8 FTE	June 30, 2015

Source: Bayshore Elementary School District.

District Retirement Systems

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

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teacher's Retirement Law. The current contribution requirement for active plan members with an enrollment date prior to

January 1, 2013 is 8.0% of salary. For active plan members with an enrollment date on or after January 1, 2013 the contribution rate is at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary. The fiscal year 2013-14 contribution requirement for the District is 8.25% of salary. The following table summarizes District contributions in recent fiscal years.

STRS Contributions
Bayshore Elementary School District

Fiscal Year	Amount
2010-11	$114,660
2011-12	92,592
2012-13	103,013
2013-14*	124,229
2014-15*	116,953

**Estimates from 2014-15 Adopted Budget.*
Source: Bayshore Elementary School District.

New Legislation Regarding STRS Contributions Implemented in FY 2014-15. In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 (**"AB 1469"**), which represents a legislative effort to address the unfunded liabilities of the STRS pension plan (see below section entitled "State Pension Trusts"). AB 1469 addresses the funding gap by increasing contributions of plan members, employers (including the District) and the State commencing in fiscal year 2014-15. Pursuant to AB 1469, employer contribution rates to the STRS plan will increase over the next seven years, from the contribution rate of 8.25% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046. STRS employer contribution rates under AB 1469 for fiscal years 2014-15 through 2020-21 are summarized in the following table.

AB 1469 STRS Employer Contribution Rates

Fiscal Year	% Increase From FY 2013-14 Rate* Under AB 1469	Total Contribution Rate
2014-15	0.63%	8.88%
2015-16	2.48	10.73
2016-17	4.33	12.58
2017-18	6.18	14.43
2018-19	8.03	16.28
2019-20	9.88	18.13
2020-21	10.85	19.10

**Fiscal year 2013-14 rate of 8.25%.*

PERS. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a "cost-sharing" pool within PERS. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate (11.771% for fiscal year 2014-15). One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each. The following table summarizes District contributions in recent fiscal years.

PERS Contributions
Bayshore Elementary School District

Fiscal Year	Amount
2010-11	$42,982
2011-12	43,362
2012-13	36,909
2013-14*	38,972
2014-15*	41,805

**Estimates from 2014-15 Adopted Budget..*
Source: Bayshore Elementary School District.

State Pensions Trusts. Both the PERS and STRS systems are operated on a statewide basis. District contribution rates to PERS can vary annually depending on changes in actuarial assumptions and other factors, such as liability. Contributions to STRS can only be changed legislatively. Both PERS and STRS have substantial State unfunded actuarial liabilities, being $57 billion for PERS as of June 30, 2012 (the date of the last actuarial valuation for PERS) and $73.7 billion for STRS as of June 30, 2013 (the date of the last actuarial valuation for STRS). As described above, AB 1469 was enacted in connection with the State's 2014-15 Budget in an attempt to reduce and eliminate the unfunded liability of the STRS pension plan.

Both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. However, information in the financial reports and on the websites is not incorporated in this Official Statement by reference. See also the following paragraph on recent pension reform legislation.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, enacting the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and amending various sections of the California Education and Government Codes. AB 340 (i) increased the retirement age for new State, school, and city and local agency employees depending on job function, (ii) capped the annual PERS and STRS pension benefit payouts, (iii) addressed numerous abuses of the system, and (iv) required State, school, and certain city and local agency employees to pay at least half of the costs of their PERS pension benefits. PEPRA applies to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with PERS.)

The provisions of AB 340 went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the District's, have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of PERS pension benefits, up to 8%of pay for civil workers and 11%or 12%for public safety workers.

PERS has predicted that the impact of AB 340 on employers, including the Districts and other employers in the STRS system, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, PERS has noted that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

With respect to STRS, the provisions of AB 1469 effective as of July 1, 2014 effectively address the contribution requirements of STRS members, employers and the State.

More information about AB 340 can be accessed through the PERS's web site at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST and through the STRS web site at http://www.calstrs.com/Newsroom/whats_new/AB340_detailed_impact_analysis.pdf. *The references to these internet websites are shown for reference and convenience only; the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

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Other Post-Employment Retirement Benefits

The District implemented GASB Statement No. 45 for fiscal year ended June 30, 2010.

Plan Description. As negotiated by contract, the District provides health benefits for retired/resigned/terminated employees who had at least ten years of full-time service to the District for five years or until the employee reaches the age of 65.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (**"ARC"**), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Funded Status and Funding Progress. A summary of the District's OPEB obligation, based on projected pay-as-you-go financing requirements, as shown in the District's audited financial statements as of June 30, 2013, is as follows:

OPEB FUNDING PROGRESS
Bayshore Elementary School District

Annual required contribution	$22,061
Interest on net OPEB obligation	5,631
Adjustment to ARC	(23)
Annual OPEB cost (expense)	27,669
Contributions for the fiscal year	(34,106)
Change in net OPEB obligation	(6,437)
Net OPEB obligation- June 30, 2012	$112,628
Net OPEB obligation- June 30, 2013	$106,191

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation were as follows:

NET OPEB OBLIGATION
Fiscal Years 2010-11 through 2012-13
Bayshore Elementary School District

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$167,295	51%	$96,917
2012	26,887	42	112,628
2013	27,669	123	106,191

As of June 30, 2013, the most recent actuarial valuation date, the plan was not funded. This results in an unfunded actuarial accrued liability (UAAL) of $144,496. The covered payroll (annual payroll of active employees covered by the plan) was $1,426,312, and the ratio of UAAL to the covered payroll was 10%.

For more information regarding the District's OPEB and assumptions used in the Actuarial Study, see Note 10 in the District's 2012-13 Audit in Appendix A hereto.

Insurance – Joint Powers Agreements

The District is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The District manages these risks through participation in public entity risk pools.

The San Mateo Schools Insurance Group (the "**SMCSIG**") provides health, workers' compensation, and property and liability insurance coverage. The relationship is such that the JPA is not a component unit of the District for financial reporting purposes.

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings, and the Series A Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Series A Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series A Bonds. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds, or may cause the Series A Bonds to not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Series 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 a Series A Bond 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.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series A Bonds who purchase the Series A Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series A Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series A Bond (said term being the shorter of the Series A Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series A Bond is amortized each year over the term to maturity of the Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Series A Bond premium is not deductible for federal income tax purposes. Owners of premium Series A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series A Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Series A Bonds is exempt from California personal income taxes.

Other Tax Considerations. Owners of the Series A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series A Bonds other than as expressly described above.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

Other Tax Considerations

Owners of the Series A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series A Bonds other than as expressly described above.

Future legislation, if enacted into law, or clarification of the Tax Code may cause interest on the Series A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series A Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Tax Code may also affect the market price for, or marketability of, the Series

A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

CERTAIN LEGAL MATTERS

Legality for Investment

Under provisions of the California Financial Code, the Series A Bonds are legal investments for commercial banks in California to the extent that the Series A 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, the Series A Bonds are eligible to secure deposits of public moneys in California.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Series A Bonds, and a certificate to that effect, executed by an authorized officer of the District, will be furnished to purchasers at the time of the original delivery of the Series A Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue and retire the Series A Bonds.

The District is routinely subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

Compensation of Certain Professionals

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel to the District, Isom Advisors, A Division of Urban Futures, Inc., as financial advisor to the District, and Kutak Rock LLP, as Underwriter's Counsel, is contingent upon issuance of the Series A Bonds.

CONTINUING DISCLOSURE

The District will execute a Continuing Disclosure Certificate in connection with the issuance of the Series A Bonds in the form attached hereto as Appendix E. The District has covenanted therein, for the benefit of holders and beneficial owners of the Series A Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an **"Annual Report"**) not later than nine months after the end of the District's fiscal year (which currently would be April 1), commencing April 1, 2015 with the report for the 2013-14 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter of the Series A Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the **"Rule"**).

The undertaking made in connection with the Series A Bonds is the first undertaking the District has made pursuant to the Rule. The District has engaged its financial advisor, Isom Advisors, A Divisions of Urban Futures, to serve as its dissemination agent.

Neither the County nor any other entity other than the District shall have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure.

RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") has assigned the Series A Bonds a rating of "AA-". The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement). Such rating reflects only the views of S&P, and explanations of the significance of such ratings may be obtained only from S&P. There is no assurance that any credit ratings given to the Series A Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P, in such agency's judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series A Bonds.

UNDERWRITING

The Series A Bonds are being purchased by Stifel Nicolaus & Company, Incorporated (the "**Underwriter**"). The Underwriter has agreed to purchase the Series A Bonds at a price of $3,154,758.10, which is equal to the initial principal amount of the Series A Bonds of $3,000,000.00, plus net original issue premium of $184,758.10, less an Underwriter's discount of $30,000.00. The purchase contract relating to the Series A Bonds provides that the Underwriter will purchase all of the Series A Bonds (if any are purchased), and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell Series A 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 by the Underwriter.

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Series A Bonds will be on file at the offices of the Paying Agent in Los Angeles, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series A Bonds.

The execution and delivery of this Official Statement have been duly authorized by the District.

BAYSHORE ELEMENTARY SCHOOL DISTRICT

By: *<u>/s/ Audra Pittman</u>*
Interim Superintendent

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APPENDIX A

BAYSHORE ELEMENTARY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2012-13

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BAYSHORE ELEMENTARY
SCHOOL DISTRICT

ANNUAL FINANICIAL REPORT

JUNE 30, 2013

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BAYSHORE ELEMENTARY SCHOOL DISTRICT

OF SAN MATEO COUNTY

DALY CITY, CALIFORNIA

JUNE 30, 2013

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mrs. Theresa Gerigk	President	December 2014
Mrs. Edith Renderos	Vice President	December 2016
Mr. Cecil Owens	Clerk	December 2014
Mrs. Anita Fletcher	Member	December 2016
Ms. Joy Gutierrez-Pilare	Member	December 2016

ADMINISTRATION

Audra Pittman	Superintendent (Current)
Toni Presta	Superintendent (Through June 30, 2013)
Waly Ndiaye	Business Manager (Current)
Julie McCarthy	Business Manager (Through June 30, 2013)

ORGANIZATION

Bayshore Elementary School District (District) was established under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides the educational services to grades K – 8 as mandated by the State and/or Federal agencies. The District operates one elementary school and one middle school site.

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FINANCIAL SECTION

Robert T. Dennis, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bayshore Elementary School District
Daly City, California

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

Bayshore Elementary School 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; 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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2012-13*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that I 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 auditor's 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

TEL. 909.689.8219
12223 Highland Avenue, Suite #106-625
Rancho Cucamonga, CA 91739

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Opinion

In my 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 Bayshore Elementary School 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, and OPEB funding progress, on pages 5 – 13 and 45 – 46 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bayshore Elementary School District 's basic financial statements. The accompanying supplementary information consisting of the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* the Local Education Agency Organization Structure, the Schedule of Average Daily Attendance, the Schedule of Instructional Time, the Schedule of Financial Trends and Analysis, the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements, the Schedule of Charter Schools, and the Note to Supplementary Information, as required by the *Standards and Procedures for Audits of California Local Educational Agencies 2012-13,* issued by the Education Audit Appeals Panel as regulations; and the Combining Statements of Non-Major Governmental Funds are all presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information consisting of the Local Education Agency Organization Structure, Schedule of Average Daily Attendance, Schedule of Instructional Time, the Schedule of Financial Trends and Analysis, the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements, Schedule of Charter Schools, and Note to Supplementary Information, as required by the Education Audit Appeals Panel, issued as regulations, the *Standards and Procedures for Audits of California Local Educational Agencies 2012-13*, 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 my opinion, Local Education Agency Organization Structure, Schedule of Average Daily Attendance, Schedule of Instructional Time, Reconciliation of Annual Financial and Budget Report with Audited Financial Statements, Schedule of Charter Schools, and Note to Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Combining Statements – Nonmajor Governmental Funds have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 26, 2013 on my consideration of Bayshore Elementary School District 's internal control over financial reporting and on my 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 my 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 Bayshore Elementary School District 's internal control over financial reporting and compliance.

Robert F. Dennis, C.P.A.

November 26, 2013

BAYSHORE SCHOOL DISTRICT
ONE MARTIN STREET
DALY CITY, CA 94014
TEL: 415-467-5443 FAX: 415-467-1542

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

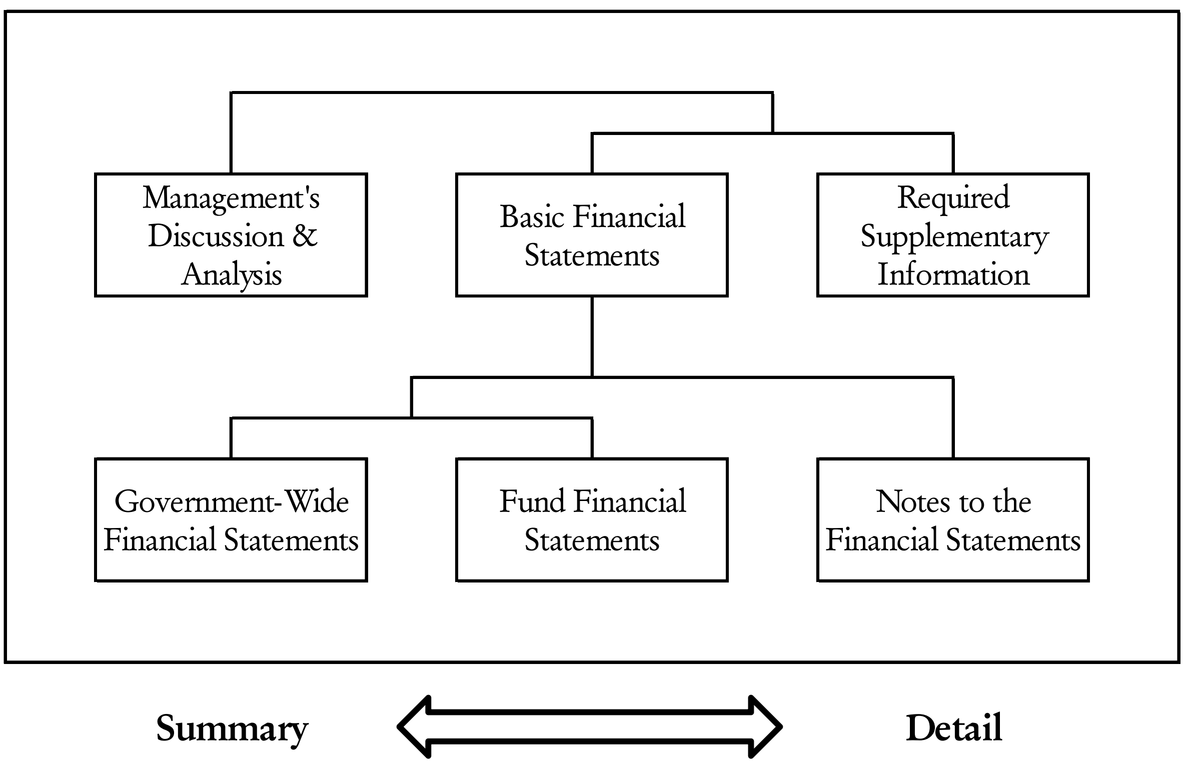
Our discussion and analysis of Bayshore Elementary School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position is $2,497,885 at June 30, 2013. This was an increase of $332,284 over the prior year.
- Overall revenues were $3,611,915, which exceeded expenses of $3,279,631.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  - **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively. While revenues have decreased by $19,000, expenditures increased by $119,000 resulting in a total net position amount of $2.498 million, an increase of $333,000 from Fiscal Year 2011-12.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position is $2.5 million at June 30, 2013.

TABLE 1 - NET POSITION

	Governmental Activities		
(amounts in thousands)	2013	2012	$ Change
ASSETS			
Current assets	$ 2,276	$ 2,914	$ (638)
Non-current assets, net	1,047	1,107	(60)
Total Assets	3,323	4,021	(698)
LIABILITIES			
Current liabilities	360	1,283	(923)
Non-current liabilities	465	573	(108)
Total Liabilities	825	1,856	(1,031)
NET POSITION			
Invested in capital assets, net of related debt	1,047	1,107	(60)
Restricted	179	242	(63)
Unrestricted	1,272	816	456
Total Net Position	$ 2,498	$ 2,165	$ 333

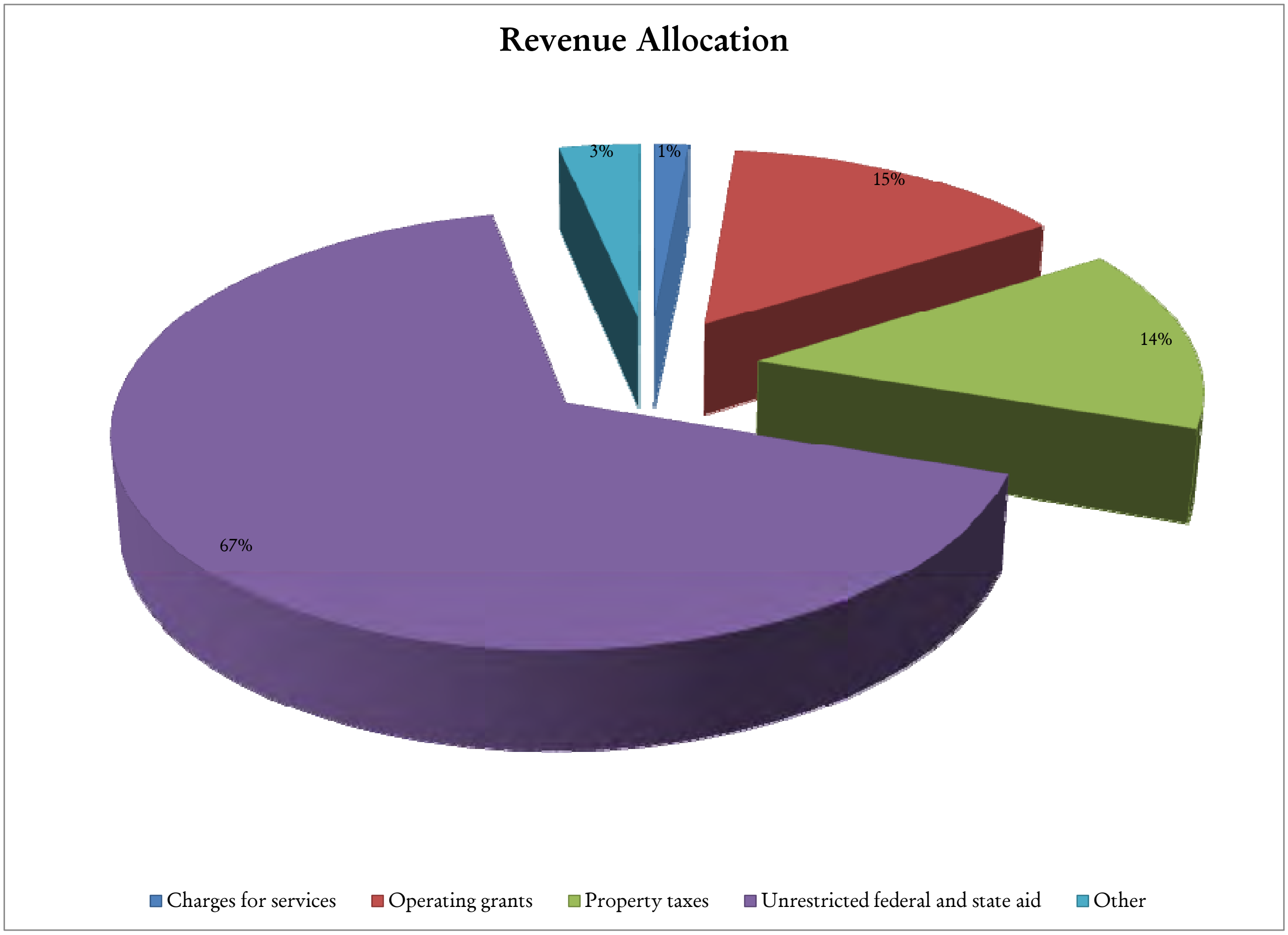
Changes in Net Position

Overall changes in net position at June 30, 2013 was an increase of $332 thousand.

TABLE 2 - CHANGES IN NET POSITION

	Governmental Activities		
(amounts in thousands)	**2013**	**2012**	**$ Change**
REVENUES			
Program revenues			
Charges for services	$ 54	$ 40	$ 14
Operating grants	525	397	128
General revenues			
Property taxes	509	537	(28)
Unrestricted federal and state aid	2,404	2,412	(8)
Other	121	246	(125)
Total Revenues	3,613	3,632	(19)
EXPENSES			
Instructional and instruction related	2,218	2,172	46
Pupil services	184	159	25
General administration	303	279	24
Plant services	213	190	23
Interest	26	25	1
Transfers to other agencies	276	274	2
Depreciation	61	63	(2)
Total Expenses	3,281	3,162	119
Excess (deficiency)	332	470	(138)
Net Position - Beginning	2,166	1,695	471
Net Position - Ending	$ 2,498	$ 2,165	$ 333

The District's total revenues were $3,611,915. The majority of the revenue comes from Revenue Limit and property taxes (64%). Other federal and state aid for specific programs accounted for another 20% of total revenues. Miscellaneous local sources accounted for the remaining 16%.



The total cost of all programs and services was $3,279,631. The District's expenses are predominately related to educating and caring for students (68%). Pupil Services (including transportation and food) account for 6% of expenses. Administrative activities accounted for just 9% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 6% of all costs. The remaining expenses were for depreciation and other outgo (11%).

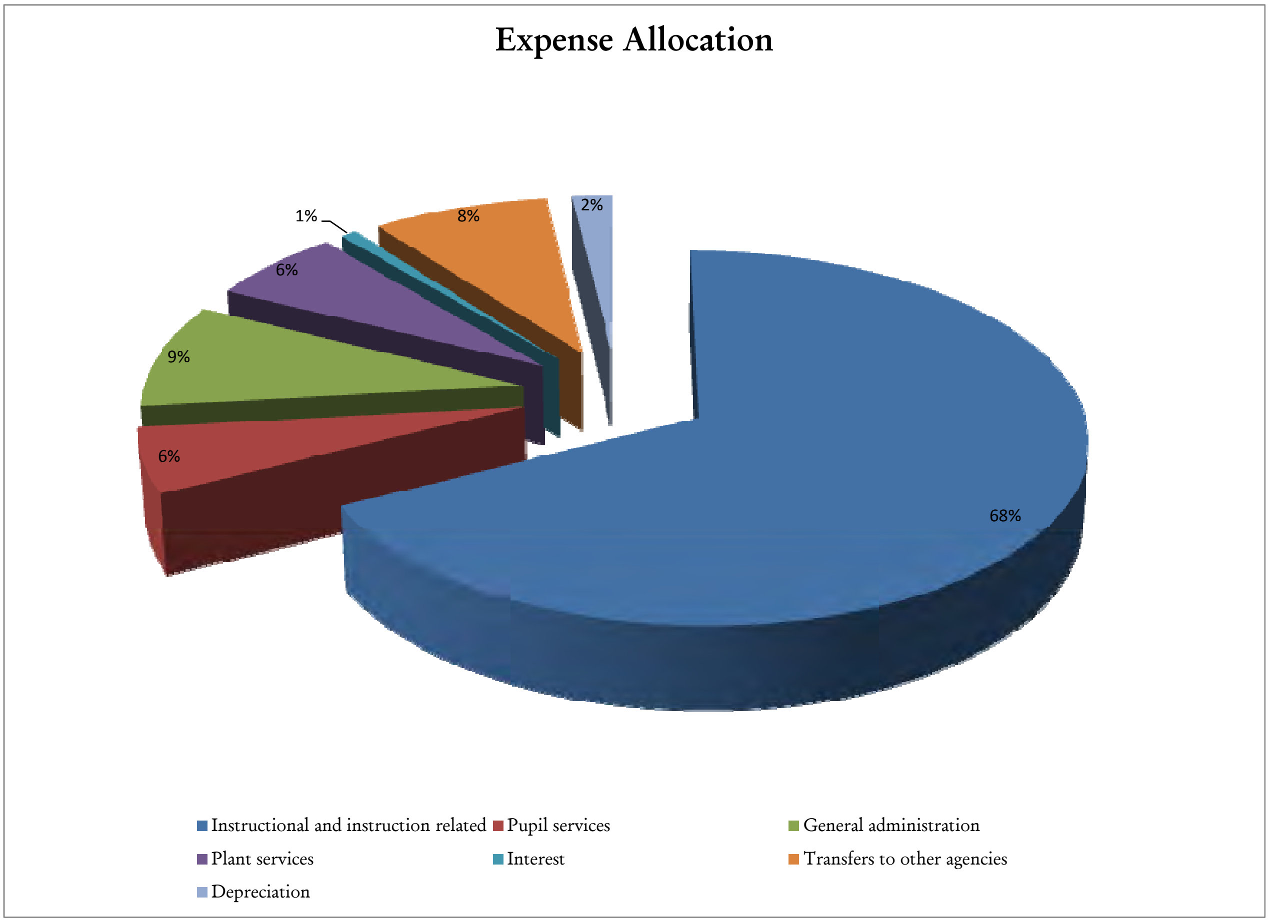


TABLE 3 - NET COST OF GOVERNMENTAL ACTIVITIES

	Total Cost of Services			Net Cost of Services		
(amounts in thousands)	2013	2012	% Change	2013	2012	% Change
Student related	$ 2,401	$ 2,330	3%	$ 1,964	$ 1,921	2%
Administrative and facilities related	515	468	10%	453	449	1%
Other	363	362	0%	357	354	1%
Total	$ 3,279	$ 3,160	4%	$ 2,774	$ 2,724	2%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Fund Financial Statement

The fund financial statements provide more detailed information about the District's governmental funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The governing board establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has one type of fund:

Governmental funds – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $303,876 above last year's ending fund balance of $1,735,226.

TABLE 5 - TOTAL GOVERNMENTAL FUNDS' PERFORMANCE

	Governmental Funds' Activity			Governmental Funds' Budget		
(amounts in thousands)	2013	2012	% Change	Original Budget	Final Budget	% Change
REVENUES						
Revenue limit	$ 2,296	$ 2,287	0%	$ 2,073	$ 2,206	-6%
Categorical	725	682	6%	582	651	-11%
Local	608	590	3%	322	400	-20%
Total Revenues	3,629	3,559	2%	2,977	3,257	-9%
EXPENSES						
Certificated	1,291	1,169	10%	1,241	1,298	-4%
Classified	370	437	-15%	465	375	24%
Benefits	529	625	-15%	657	602	9%
Other	1,100	885	24%	944	1,151	-18%
Total Expenditures	3,290	3,116	6%	3,307	3,426	-3%
Net Financing Activities	(36)	-		-	-	
NET CHANGE IN FUND BALANCE	$ 303	$ 443	-32%	$ (330)	$ (169)	95%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested $1,046,732 net of accumulated depreciation in a broad range of capital assets, including land, construction in progress, buildings and improvements, equipment and vehicles.

TABLE 6 - CAPITAL ASSETS

(amounts in thousands)	Governmental Activities		
	2013	2012	$ Change
CAPITAL ASSETS			
Land	$ 23	$ 23	$ -
Buildings and equipment	2,824	2,824	-
Accumulated depreciation	(1,800)	(1,740)	(60)
Total Capital Assets	$ 1,047	$ 1,107	$ (60)

Long-Term Liabilities

At year end, the District had $570,309 in long-term debt, consisting mainly of STRS golden handshakes.

TABLE 7 - LONG-TERM DEBT

(amounts in thousands)	Governmental Activities		
	2013	2012	$ Change
LONG-TERM LIABILITIES			
Net OPEB	$ 106	$ 113	$ (7)
Compensated absences	39	38	1
Other long-term liabilities	425	526	(101)
Less current portion	(105)	(104)	(1)
Total Long-term Liabilities	$ 465	$ 573	$ (108)

CURRENT YEAR BUDGET 2012-13

The District revises its annual budget over the course of the year. This is done to reflect any changes in expected revenues and expenditures. The final amendment to the budget was approved in April. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

TABLE 4 - GENERAL FUND PERFORMANCE

(amounts in thousands)	General Fund Activity 2013	General Fund Activity 2012	General Fund Activity % Change	General Fund Budget Original Budget	General Fund Budget Final Budget	General Fund Budget % Change
REVENUES						
Revenue limit	$ 2,296	$ 2,287	0%	$ 2,073	$ 2,206	-6%
Categorical	725	682	6%	582	651	-11%
Local	567	535	6%	271	357	-24%
Total Revenues	3,588	3,504	2%	2,926	3,214	-9%
EXPENSES						
Certificated	1,291	1,169	10%	1,241	1,298	-4%
Classified	337	415	-19%	431	338	28%
Benefits	520	620	-16%	644	577	12%
Other	1,100	885	24%	924	1,131	-18%
Total Expenditures	3,248	3,089	5%	3,240	3,344	-3%
Net financing activities	(36)	-		-	-	0%
NET CHANGE IN FUND BALANCE	$ 304	$ 415	-27%	$ (314)	$ (130)	142%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- Starting with Fiscal Year 2013-14, the state of California changed the funding methodology for school Districts with the new Local Control Funding Formula (LCFF). Under this new funding mechanism, School Districts receive base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The Local Control Funding Formula ensures that no School District regardless of its student population will lose funding.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs. The enrollment has been declining for several years and the district projects that such enrollment will remain flat for the next three years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have any questions about this report, or need additional financial information, contact Waly Ndiaye at 1 Martin Street, Daly City, CA 94014, (415) 467-1542.

BAYSHORE ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

		Governmental Activities
ASSETS		
Deposits and investments	$	1,460,316
Accrued receivables		816,404
Capital assets, non-depreciable		22,670
Capital assets, depreciable, net		1,024,062
TOTAL ASSETS	$	3,323,452
LIABILITIES		
Accrued liabilities	$	249,030
Deferred revenue		6,228
Long-term liabilities, current portion		104,891
Long-term liabilities, non-current portion		465,418
Total Liabilities		825,567
NET POSITION		
Invested in capital assets, net of related debt		1,046,732
Expendable, Restricted for		
Capital projects		80,202
Educational programs		98,781
Unrestricted		1,272,170
Total Net Position		2,497,885
TOTAL LIABILITIES & NET POSITION	$	3,323,452

The accompanying notes are an integral part of these financial statements

BAYSHORE ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	$ 1,988,681	$ 30,447	$ 423,365	$ (1,534,869)
Instruction-related services				
Instructional library, media, and technology	926	108	146	(672)
School site administration	228,145	-	11,252	(216,893)
Pupil services				
Home-to-school transportation	50,223	-	86	(50,137)
Food services	41,376	-	-	(41,376)
All other pupil services	92,062	2,140	43,244	(46,678)
General administration				
All other general administration	302,555	3,309	16,064	(283,182)
Plant services	212,516	18,216	24,771	(169,529)
Interest on long-term debt	25,984	-	-	(25,984)
Transfer to other agencies	276,408	-	6,062	(270,346)
Depreciation (unallocated)	60,755	-	-	(60,755)
Total Governmental Activities	$ 3,279,631	$ 54,220	$ 524,990	(2,700,421)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				240,169
Property taxes, levied for other specific purposes				267,339
Federal and state aid not restricted for specific purposes				2,403,516
Interest and investment earnings				20,389
Interagency revenues				18,734
Miscellaneous				82,558
Subtotal, General Revenue				3,032,705
CHANGE IN NET POSITION				332,284
Net Position - Beginning				2,165,601
Net Position - Ending				$ 2,497,885

The accompanying notes are an integral part of these financial statements

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	$ 1,068,699	$ 277,449	$ 114,168	$ 1,460,316
Accrued receivables	811,688	423	4,293	816,404
Due from other funds	247	-	-	247
Total Assets	$ 1,880,634	$ 277,872	$ 118,461	$ 2,276,967
LIABILITIES				
Accrued liabilities	$ 231,393	$ -	$ -	$ 231,393
Due to other funds	-	-	247	247
Deferred revenue	6,228	-	-	6,228
Total Liabilities	237,621	-	247	237,868
FUND BALANCES				
Non-spendable	87,652	-	-	87,652
Spendable				
Restricted	96,490	-	82,493	178,983
Assigned	932,263	277,872	35,721	1,245,856
Unassigned	526,608	-	-	526,608
Total Fund Balances	1,643,013	277,872	118,214	2,039,099
Total Liabilities and Fund Balances	$ 1,880,634	$ 277,872	$ 118,461	$ 2,276,967

The accompanying notes are an integral part of these financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balance - Governmental Funds			$ 2,039,099
Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:			
Capital assets:			
In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:			
	Capital assets	$ 2,846,594	
	Accumulated depreciation	(1,799,862)	1,046,732
Unmatured interest on long-term debt:			
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(17,637)
Long-term liabilities:			
In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	Net OPEB obligation	106,191	
	Compensated absences	38,816	
	STRS Golden handshake	317,672	
	RDA Payback	107,630	(570,309)
Total Net Assets - Governmental Activities			$ 2,497,885

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources				
State aid	$ 2,053,015	$ -	$ -	$ 2,053,015
Transfers	243,002	-	-	243,002
Federal sources	217,431	-	-	217,431
Other State sources	507,963	-	-	507,963
Other local sources	567,318	3,654	37,169	608,141
Total Revenues	3,588,729	3,654	37,169	3,629,552
EXPENDITURES				
Current				
Instruction	1,995,118	-	-	1,995,118
Instruction-related services				
Instructional library, media, and technology	926	-	-	926
School site administration	227,508	-	-	227,508
Pupil services				
Home-to-school transportation	50,223	-	-	50,223
Food services	-	-	41,376	41,376
All other pupil services	92,062	-	-	92,062
General administration				
All other general administration	302,555	-	-	302,555
Plant services	212,516	-	-	212,516
Transfers to other agencies	276,408	-	-	276,408
Debt service				
Principal	65,127	-	-	65,127
Interest and other	25,984	-	-	25,984
Total Expenditures	3,248,427	-	41,376	3,289,803
Excess (Deficiency) of Revenues Over Expenditures	340,302	3,654	(4,207)	339,749
OTHER FINANCING USES				
Other Uses	(35,876)	-	-	(35,876)
NET CHANGE IN FUND BALANCE	304,426	3,654	(4,207)	303,873
Fund Balance - Beginning	1,338,587	274,218	122,421	1,735,226
Fund Balance - Ending	$ 1,643,013	$ 277,872	$ 118,214	$ 2,039,099

The accompanying notes are an integral part of these financial statements

BAYSHORE ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Governmental Funds	$	303,873
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
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:		
Depreciation expense:		(60,755)
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:		65,127
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 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:		(17,637)
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 amount earned. The difference between compensated absences paid and compensated absences earned, was:		(637)
Postemployment benefits other than pensions (OPEB):		
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		6,437
Other liabilities not normally liquidated with current financial resources:		
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were the RDA payback to the state.		35,876
Change in net assets of Governmental Activities	$	332,284

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	ASB Agency Funds
ASSETS	
Deposits and investments	$ 3,765
LIABILITIES	
Due to other agencies/student groups	$ 3,765

The accompanying notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Bayshore Elementary School District (the "District") was established under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates one elementary school and one middle school.

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

B. Component Unit

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14. However, this district does not have any such entities.

C. Other Related Entities

Joint Powers Authority (JPA). The District is associated with one JPA. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 13 to the financial statements. This organization is the San Mateo County Schools' Insurance Group.

D. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue 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. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – *governmental* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the Local Educational Agency ("LEA") in a trustee or agency capacity for others that cannot be used to support the LEA's own programs.

Major Governmental Funds

General Fund. The general fund is the main operating fund of the LEA. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. An LEA may have only one general fund.

Special Reserve Fund for Capital Outlay Projects. This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

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

Cafeteria Special Revenue Fund. This fund is used to account separately for federal, state, and local resources to operate the food service program (Education Code sections 38090–38093). The Cafeteria Special Revenue Fund (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (Education Code sections 38091 and 38100).

Deferred Maintenance Fund. This fund is used to account separately for state apportionments and the LEA's contributions for deferred maintenance purposes (Education Code sections 17582–17587). In addition, whenever the state funds provided pursuant to Education Code sections 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the district (Education Code sections 17582 and 17583).

Capital Project Funds. Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund. This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (Education Code sections 17620–17626). The authority for these levies may be county/city ordinances (Government Code sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) is restricted to that fund (Government Code Section 66006).

Fiduciary Funds

Trust and Agency Funds. Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the LEA's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Student Body Fund. The Student Body Fund is an agency fund and, therefore, consists only of accounts such as Cash and balancing liability accounts, such as Due to Student Groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (Education Code sections 48930–48938).

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recoded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Governmental Funds
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after year-end. All other revenue items are considered to be measurable and available only when the District receives cash. Revenue limits, property taxes, and grant awards are recorded the same as what is described for Government-Wide Statements. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and postemployment healthcare benefits and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Revenues – Exchange and Non-Exchange Transactions
Revenue limits and other state apportionments are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. When the annual calculation of the revenue limit (Form K–12 Annual) is made, and the District's actual tax receipts as reported by the county auditor is subtracted, the result determines the annual state aid to which the LEA is entitled. If the difference between the calculated annual state aid and the state aid received on the second principal apportionment is positive a receivable is recorded, and if it is negative a payable is recorded.

The District recognizes property tax revenues actually received as reported on California Department of Education's Principal Apportionment Tax Software, used by county offices of education and county auditors to report school district and county taxes. The District makes no accrual for property taxes receivable as of June 30.

The District receives grant awards that are "reimbursement type" or "expenditure driven." The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

The District also receives funds for which they have fulfilled specific eligibility requirements or have provided a particular service. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

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

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

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

E. Assets, Liabilities, and Net Position

Deposits and Investments
The cash balances of substantially all funds are pooled and invested by the county treasurer for the purpose of increasing earnings though investment activities. The pool's investments are reported at fair value at June 30, 2013, based on market process. The individual funds' portions of the pool's fair value are presented as "Cash in County." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund. The District considers these balances to be cash on hand and demand deposits. In addition, because the Cash in County is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent. The District considers the deposits and investments in proprietary funds to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Assets
Restricted assets are a result of restricted programs or activities that are funded from revenue sources subject to constraints imposed by external resource providers or by law through constitutional provisions or enabling legislation. Programs funded by a combination of restricted and unrestricted sources, where the contribution of unrestricted resources is required as a condition of funding or is necessary to operate the program, are accounted for and reported as restricted.

Capital Assets
Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized. Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

Asset Class	Estimated Useful Life
Buildings & Improvements	25 – 50
Site Improvements	20
Equipment	5 – 15
Vehicles	8

Interfund Balances
On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

Compensated Absences
Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements.

Accrued Liabilities and Long-Term Obligations
All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

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

Fund Balance
Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the general fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the general fund, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position

Net Position represent the difference between assets and liabilities. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2013. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. The district-wide financial statements report $178,983 of restricted net position.

Estimates

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

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

F. New Accounting Pronouncements

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

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

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

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

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

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

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

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

	Governmental Activities	Fiduciary Funds	Total
Deposits in financial institutions	$ 1,000	$ -	$ 1,000
Cash in County	1,432,195	3,765	1,435,960
Investments	27,121	-	27,121
Total	$ 1,460,316	$ 3,765	$ 1,464,081

B. Policies and Practices

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

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

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U. S. Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper – Select Agencies	270 days	25%	"A-1" if the issuer has issued long- term debt it must be rated "A" without regard to modifiers
Commercial Paper – Other Agencies	270 days	25%	"A-1" if the issuer has issued long- term debt it must be rated "A" without regard to modifiers
Negotiable Certificates of Deposit	5 years	30%	None
CD Placement Service	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value of the portfolio	None
Medium-Term Notes	5 years	30%	"A" Rating
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool. See "Specific Identification" for various maturities of the District's investments.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The underlying investments owned by the district are listed in "Specific Identification."

F. Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type:	S & P Rating	Maturity (Years)	Reported Value	Fair Market Value
Local Agency Investment Fund (LAIF)	not rated	0.76 (average)	$ 27,121	$ 27,128
Cash in county:	AA- (average)	1.97 (average)		
U.S. Treasuries			$ 226,287	$ 225,479
Governmental Agencies			664,538	662,166
Commercial Paper			93,093	92,760
Corporate Securities			383,829	382,458
Repurchase Agreements			47,262	47,094
LAIF			17,186	17,125
Total			$ 1,432,195	$ 1,427,082

G. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District's bank balance of $9,647 was insured.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	$ 51,100	$ -	$ -	$ 51,100
State Government				
Deferrals	536,773	-	-	536,773
Categorical aid	104,215	-	-	104,215
Local Government				
Interest	455	423	165	1,043
Other Local Sources	119,145	-	4,128	123,273
Total	$ 811,688	$ 423	$ 4,293	$ 816,404

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 01, 2012	Additions	Balance June 30, 2013
Governmental Activities			
Capital assets not being depreciated			
Land	$ 22,670	$ -	$ 22,670
Capital assets being depreciated			
Land improvements	$ 74,584	$ -	$ 74,584
Buildings & improvements	2,652,668	-	2,652,668
Furniture & equipment	96,672	-	96,672
Total Capital Assets Being Depreciated	2,823,924	-	2,823,924
Less Accumulated Depreciation			
Land improvements	30,562	4,972	35,534
Buildings & improvements	1,618,969	52,002	1,670,971
Furniture & equipment	89,576	3,781	93,357
Total Accumulated Depreciation	1,739,107	60,755	1,799,862
Depreciable Capital Assets, net	$ 1,084,817	$ (60,755)	$ 1,024,062
Total Capital Assets, net	$ 1,107,487	$ (60,755)	$ 1,046,732

NOTE 5 – INTERFUND TRANSACTIONS, INTERFUND RECEIVABLES/PAYABLES (DUE FROM/DUE TO)

Due To Other Funds	Due From Other Funds General Fund
Non-Major Funds	$ 247
The Cafeteria Fund owes the General Fund for PERS reduction in the amount of	$ 247

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2013, consisted of the following:

	General Fund	District-Wide	Total Governmental Activities
Brisbane School District	$ 41,900	$ -	$ 41,900
Benefits payable	52,340	-	52,340
State of California	50,172	-	50,172
San Mateo County Office of Education	22,486	-	22,486
Vendors payable	64,495	-	64,495
Interest payable	-	17,637	17,637
Total	$ 231,393	$ 17,637	$ 249,030

NOTE 7 – DEFERRED REVENUE

The District periodically will receive grant money prior to making expenditures for that grant. The deferred revenue totals at June 30, 2013, consist of $6,228 in the General Fund from federal sources.

NOTE 8 – LONG-TERM DEBT

A. Long-Term Debt Summary

	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Balance Due In One Year	Long-Term Balance
Governmental Activities						
Compensated absences	$ 38,179	$ 637	$ -	$ 38,816	$ -	$ 38,816
Net OPEB obligations	112,628	27,669	34,106	106,191	-	106,191
Redevelopment agency payback	143,506	-	35,876	107,630	35,876	71,754
Early retirement incentive	382,799	-	65,127	317,672	69,015	248,657
Total	$ 677,112	$ 28,306	$ 135,109	$ 570,309	$ 104,891	$ 465,418

B. Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013, amounted to $38,816.

C. Other Post Employment Benefits

The District's OPEB cost for the year ended June 30, 2013, was $27,669 and contributions made by the District during the year were $34,106, which resulted in a net OPEB obligation of $106,191. See Note 10 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

D. Redevelopment Agency (RDA) Payback

In prior years the District received an overpayment of RDA funds which the state is now collecting. The state has allowed a repayment schedule of seven years to be automatically deducted from the District's Revenue Limit payment in the amount of $35,876 per year. The payment schedule is as follows:

Year Ending June 30,	RDA Payback
2014	$ 35,876
2015	35,876
2016	35,878
	$ 107,630

E Early Retirement Incentive

In years past the District offered an early retirement incentive benefit which was issued through the State's golden handshake program pursuant to Education Code § 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Currently the District has seven employees who have opted to participate under this program. The accumulated liability and payment schedule as of June 30, 2013 is as follows:

Year Ending June 30,	STRS Payments
2014	$ 86,652
2015	80,633
2016	80,633
2017	49,270
2018	41,594
2019 - 2021	83,188
Total	421,970
Less: Amount representing interest	(104,298)
Present value of minimum lease payments	$ 317,672

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Non-restricted				
Reserve for revolving cash	$ 1,000	$ -	$ -	$ 1,000
Reserve for encumbrance	86,652	-	-	86,652
Total Nonspendable	87,652	-	-	87,652
Spendable				
Restricted				
Educational programs				
State	-	-	2,291	2,291
Local	96,490	-	-	96,490
Capital projects	-	-	80,202	80,202
Total Restricted	96,490	-	82,493	178,983
Assigned				
School site carryover	21,057	-	-	21,057
CalSTRS Golden Handshakes	522,000	-	-	522,000
Deferred maintenance contribution	95,000	-	-	95,000
Computer upgrades and other capital outlay	150,000	277,872	-	427,872
RDA payback	144,206	-	-	144,206
Cafeteria	-	-	35,721	35,721
Total Assigned	932,263	277,872	35,721	1,245,856
Unassigned				
Reserve for economic uncertainties	126,849		-	126,849
Unassigned	399,759		-	399,759
Total Unassigned	526,608	-	-	526,608
Total	$ 1,643,013	$ 277,872	$ 118,214	$ 2,039,099

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 two months of general fund operating expenditures, or four percent of General Fund expenditures and other financing uses.

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The Postemployment Benefit Plan (the "Plan) is a single-employer defined benefit healthcare plan administered by the Bayshore Elementary School District. The Plan provides health benefits for retired/resigned/terminated employees who had at least ten(10) years of full time service to the district. The former employee will be covered by the district up to 50% of health insurance premium or up to 50% of the cap whichever is lesser. The coverage will be for 5 years or until the employee reaches 65 years of age whichever comes sooner.

B. Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the District contributed $34,106 to the Plan, all of which was used for current premiums.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$	22,061
Interest on net OPEB obligation		5,631
Adjustment to annual required contribution		(23)
Annual OPEB cost (expense)		27,669
Contributions made		(34,106)
Increase in net OPEB obligation		(6,437)
Net OPEB obligation, beginning of the year		112,628
Net OPEB obligation, end of the year	$	106,191

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is as follows:

Fiscal Year	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2010-11	$ 167,295	51%	$ 96,917
2011-12	26,887	42%	112,628
2012-13	27,669	123%	106,191

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was not funded. This results in an unfunded actuarial accrued liability (UAAL) of $144,496. The covered payroll (annual payroll of active employees covered by the plan) was $1,426,312, and the ratio of UAAL to the covered payroll was ten percent.

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

E. Actuarial Methods and Assumptions

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

In the July 10, 2010, actuarial valuation, the "projected unit credit" actuarial cost method was used. The actuarial assumptions included a discount rate of five percent per year; a five percent return on assets. For medical costs of between four and eight percent trend rate was used based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. A level dollar; open period method was used to allocate amortization cost by year. A 30 year amortization period was used.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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).

A. CalSTRS

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

Funding Policy
Active plan members are required to contribute 8.0% of their salary and the District is required to contribute a statutorily determined rate of 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 ending June 30, 2013, 2012, and 2011, were $103,013, $92,590, and $114,660, respectively, and equal 100 percent of the required contributions for each year.

B. CalPERS

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

Funding Policy
Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013 was 11.417% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and2011, were $36,909, $43,362, and $42,982, respectively, and equal 100 percent of the required contributions for each year.

C. Social Security

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

D. On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. The standard state contribution to the Defined Benefit (DB) Program in 2012–13 is 2.541 percent of creditable compensation earned for 2010–11, paid in four quarterly payments. There is, however, an additional contribution required under current law if certain criteria in the funding of the DB Program are met. Since these criteria were met, the total state contribution rate for 2012-13 is 5.291 percent, beginning in October 2012. These payments consist of State General Fund contributions to CalSTRS of approximately $73,535. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in these financial statements.

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of a joint powers authority (JPA). The San Mateo Schools Insurance Group (SMCSIG) provides health, workers' compensation, and property and liability insurance coverage. The relationship is such that the JPA is not a component unit of the District for financial reporting purposes.

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

During the year ended June 30, 2013, the District made payments of $104,773.

REQUIRED SUPPLEMENTARY INFORMATION

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GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variances - Positive / (Negative)
	Original	Final	Actual	Final to Actual
REVENUES				
Revenue limit sources				
State aid	$ 1,847,017	$ 2,003,787	$ 2,053,015	$ 49,228
Transfers	225,487	201,873	243,002	41,129
Federal sources	180,795	229,180	217,431	(11,749)
Other State sources	401,697	421,984	507,963	85,979
Other local sources	270,968	357,260	567,318	210,058
Total Revenues	2,925,964	3,214,084	3,588,729	374,645
EXPENDITURES				
Certificated salaries	1,241,278	1,297,508	1,290,818	6,690
Classified salaries	430,517	338,095	336,879	1,216
Employee benefits	644,314	576,648	520,342	56,306
Books and supplies	57,701	99,405	114,148	(14,743)
Services and other operating expenditures	677,582	772,057	619,343	152,714
Other outgo				
Excluding transfers of indirect costs	188,752	259,488	366,897	(107,409)
Total Expenditures	3,240,144	3,343,201	3,248,427	94,774
Excess (Deficiency) of Revenues				
Over Expenditures	(314,180)	(129,117)	340,302	469,419
Other Financing Uses:				
Other Uses	-	-	(35,876)	(35,876)
NET CHANGE IN FUND BALANCE	(314,180)	(129,117)	304,426	433,543
Fund Balance - Beginning	1,338,587	1,338,587	1,338,587	
Fund Balance - Ending	$ 1,024,407	$ 1,209,470	$ 1,643,013	$ 433,543

BAYSHORE ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS AND EMPLOYER CONTRIBUTION
FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Valuation of Plan Assets (a)	Actuarial Accrued Liability (ALL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 10, 2010	$ -	$ 144,496	$ 144,496	$ -	$ 1,426,312	10.1%

SUPPLEMENTARY INFORMATION

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:				
Passed through California Department of Education (CDE):				
No Child Left Behind:				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$	92,460
Title II, Part A, Teacher Quality	84.367	14341		25,584
Title III, Limited English Proficient (LEP) Student Program	84.365	10084		12,895
Sub-Total				130,939
Special Ed: IDEA				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379		84,799
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430		571
Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682		1,089
Preschool Staff Development, Part B, Sec 619	84.173A	13431		33
Total Special Ed: IDEA				86,492
Total Federal Expenditures			$	217,431

See accompanying note to supplementary information

SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2013

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	29	30
First through third	135	136
Fourth through sixth	120	120
Seventh through eighth	95	95
Special education - nonpublic	0	0
Average Daily Attendance Total	379	381

See accompanying note to supplementary information

BAYSHORE ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982 - 83 Actual Minutes	1982 - 83 Actual Minutes Reduced	1986 - 87 Minutes Requirement	1986 - 87 Minutes Requirement Reduced	2012 - 13 Actual Minutes	Number of Days	Status
Kindergarten	31,680	30,800	36,000	35,000	54,780	180	Complied
Grade 1	46,640	45,344	50,400	49,000	51,180	180	Complied
Grade 2	46,640	45,344	50,400	49,000	51,180	180	Complied
Grade 3	46,640	45,344	50,400	49,000	51,180	180	Complied
Grade 4	49,280	47,911	54,000	52,500	53,880	180	Complied
Grade 5	49,280	47,911	54,000	52,500	54,780	180	Complied
Grade 6	49,280	47,911	54,000	52,500	54,780	180	Complied
Grade 7	51,920	50,478	54,000	52,500	54,780	180	Complied
Grade 8	51,920	50,478	54,000	52,500	54,780	180	Complied

See accompanying note to supplementary information

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

	2014 (Budget)	2013	2012	2011
GENERAL FUND:				
Revenues	$ 3,157,192	3,588,729	3,503,829	4,015,753
Transfers in	-	-	-	58,968
Total	3,157,192	3,588,729	3,503,829	4,074,721
Expenditures	3,248,677	3,248,427	3,088,054	3,455,759
Other uses and transfers out	-	35,876	-	-
Total	3,248,677	3,284,303	3,088,054	3,455,759
INCREASE/(DECREASE) IN FUND BALANCE	$ (91,485)	$ 304,426	$ 415,775	$ 618,962
ENDING FUND BALANCE	$ 1,551,528	$ 1,643,013	$ 1,338,587	$ 922,812
AVAILABLE RESERVES [1]	$ 129,947	$ 526,608	$ 996,966	$ 887,672
AVAILABLE RESERVES AS A PERCENTAGE OF OUTGO	4.0%	16.0%	32.3%	25.7%
LONG-TERM DEBT	NA	570,309	677,112	765,821
AVERAGE DAILY ATTENDANCE AT P-2	380	379	399	392

The General Fund balance has increased by $720,201 over the past two years. The fiscal year 2013-2014 budget projects a decrease of $91,485 (six percent). For a district this size, the State recommends available reserves of at least four percent of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years, but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long term obligations have decreased by $195,512 over the past two years.

Average daily attendance has decreased by thirteen ADA over the past two years. An increase of one ADA is anticipated during fiscal year 2013-2014.

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[1] Available reserves consist of all unassigned fund balance within the General Fund

See accompanying note to supplementary information

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

		General Fund
FUND BALANCE		
Balance June 30, 2013, Unaudited Actuals	$	1,556,193
Decrease in:		
Accrued liabilities		86,820
Audited financial statement	$	1,643,013

See accompanying note to supplementary information

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013

There are NO charter schools sponsored by this District.

See accompanying note to supplementary information

COMBINING STATEMENTS – NON-MAJOR FUNDS
JUNE 30, 2013

BALANCE SHEET

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Non-Major Governmental Funds
ASSETS				
Deposits and investments	$ 31,799	$ 2,288	$ 80,081	$ 114,168
Accrued receivables	4,169	3	121	4,293
Total Assets	$ 35,968	$ 2,291	$ 80,202	$ 118,461
LIABILITIES				
Due to other funds	$ 247	$ -	$ -	$ 247
FUND BALANCES				
Spendable				
Restricted	-	2,291	80,202	82,493
Assigned	35,721	-	-	35,721
Total Fund Balances	35,721	2,291	80,202	118,214
Total Liabilities and Fund Balances	$ 35,968	$ 2,291	$ 80,202	$ 118,461

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Non-Major Governmental Funds
REVENUES				
Other local sources	$ 33,704	$ 1,196	$ 2,269	$ 37,169
EXPENDITURES				
Current:				
Food services	41,376	-	-	41,376
NET CHANGE IN FUND BALANCE	(7,672)	1,196	2,269	(4,207)
Fund Balance - Beginning	43,393	1,095	77,933	122,421
Fund Balance - Ending	$ 35,721	$ 2,291	$ 80,202	$ 118,214

See accompanying note to supplementary information

NOTE 1 – PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

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

B. Schedule of Average Daily Attendance (ADA)

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

C. Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code § 46201. Education Code §s 46201.2(a) and 4201.3(a) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal year 2012-13.

D. Schedule of Financial Trends and Analysis

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

E. Schedule of Annual Financial and Budget Report with Audited Financial Statements

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

F. Schedule of Charter Schools

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

G. Combining Statements – Non-Major Governmental Funds

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

H. Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the report)

OTHER INDEPENDENT AUDITORS' REPORTS

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Robert T. Dennis, CPA

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

Board of Trustees
Bayshore Elementary School District
Daly City, California

I 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 Bayshore Elementary School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Bayshore Elementary School District's basic financial statements, and have issued my report thereon dated November 26, 2013.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Bayshore Elementary School 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bayshore Elementary School District 's internal control. Accordingly, I do not express an opinion on the effectiveness of Bayshore Elementary School 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 entity'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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be significant deficiencies 2013-01, 2013-02, and 2013-03

TEL. 909.689.8219
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Rancho Cucamonga, CA 91739

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bayshore Elementary School District ’s financial statements are free from material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Bayshore Elementary School District ’s Response to Findings

Bayshore Elementary School District’s response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Bayshore Elementary School District ’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robert J. Dennis, C.P.A.

November 26, 2013

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Robert T. Dennis, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Bayshore Elementary School District
Daly City, California

REPORT ON STATE COMPLIANCE

I have audited Bayshore Elementary School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-13*, issued by the California Audit Appeals Panel as regulations, applicable to Bayshore Elementary School District's state programs as listed on the next page for the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on Bayshore Elementary School District's compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13,* issued by the Education Audit Appeals Panel as regulations. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs listed on the next page. An audit includes examining, on a test basis, evidence about Bayshore Elementary School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Bayshore Elementary School District's compliance with those requirements.

Opinion

In my opinion, Bayshore Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted on the next page that were audited for the year ended June 30, 2013.

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Rancho Cucamonga, CA 91739

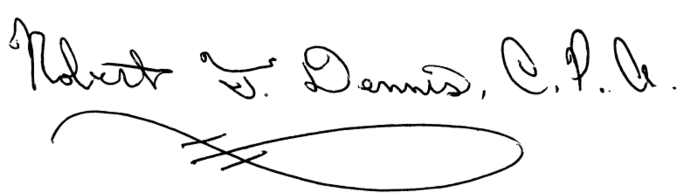
In connection with the audit referred to on the previous page, I selected and tested transactions and records to determine the Bayshore Elementary School District's compliance with the State laws and regulations applicable to the following items:

PROGRAM NAME	PROCEDURES IN AUDIT GUIDE	PROCEDURES PERFORMED
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time for:		
School Districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or charter schools with only one school serving K - 3	4	Not Applicable

PROGRAM NAME	PROCEDURES IN AUDIT GUIDE	PROCEDURES PERFORMED
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Contemporaneous Records of Attendance; for charter schools	1	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	4	Not Applicable

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the audit requirements of 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.



November 26, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted?	Yes
STATE AWARDS	
Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for State programs:	Unqualified

Five Digit Code	AB 3627 Finding Type
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2013-01 30000

CASH DISBURSEMENTS

Criteria or Specific Requirements
Controls over disbursements include appropriate levels of approval for expenditures and appropriate documentation to support the payments made.

Condition
While there was an improvement to the prior year, several purchase orders (POs) were not issued prior to the purchase. While some of the expenditures may not have been approved prior to the purchase, it was observed there was an approval prior to payment of the expenditure.

Questioned Costs
None

Cause
Unknown

Effect
When a PO is not issued prior to the purchase the District runs several risks such as fictitious or unauthorized vendors being paid, there may not be enough of a budget for the expenditures being charged, or, in the case of a categorical expenditure, an inappropriate expenditure may be made that could put a program out of compliance.

Recommendation
We recommend the District continue to make improvements to its purchasing procedures to prevent purchases from occurring prior to approval of said purchases.

District Response
The district will continue to improve purchasing procedures by making sure that POs are issued and approved prior to all purchases and that the proper accounts are charged.

2013-02 30000

ASSOCIATED STUDENT BODY (ASB)/FUNDRAISING ACCOUNT

Criteria
Strong internal controls over receipting include evidence of the receipt, collection and deposit of funds received and timely reconciliation of bank accounts. Controls over disbursements include appropriate levels of approval for expenditures and appropriate documentation to support the payment made.

Condition
During our testing of student body account, we noted that in a few instances, supporting documents for the cash receipts and disbursements were not maintained. Additionally, cash receipting, or some form of tracking revenues, needs to occur for the various fundraisers the District and/or sites participate in.

Questioned Costs
Unknown

Cause
There has been a lot of turn-over in the administration of the District for the last two years.

Effect
Many problems can occur from a lack of controls over Student Body funds. Some examples of problems would be the accounting for Student Body funds is inaccurate, fraud or embezzlement could occur undetected, or inappropriate purchases could occur through the ASB.

Recommendation
We recommend that the District should strengthen its control over the maintenance of the student body accounts to ensure that supporting documents are maintained for the receipts and disbursements.

District Response
The district is developing written procedures for student body accounts to ensure that proper supporting documents are maintained for all receipts and disbursements and that the accounts are reconciled in a timely manner.

2013-03 30000

INTERNAL CONTROLS OVER BANK ACCOUNTS

Criteria
Education Code §41010 requires LEAs to follow the policies and procedures in the California School Accounting Manual (CSAM). According to CSAM, *Procedure 201 – Books of Accounts*, accounts are the device used to classify and summarize the full effects of financial transactions and are used as the basis of preparing financial statements.

Condition
The District did not properly reconcile the revolving bank account back to the imprest amount of $1,000. Additionally, there were some un-deposited funds in the Cafeteria Clearing Account.

Questioned Costs
None noted.

Cause
The District had some staff turnover issues which created a situation where the cash in banks for various funds were not properly reconciled and reported.

Effect
While the District's financial statements are not materially misstated, the General Fund cash in county was understated by $1,740 which were in the revolving bank account. The Cafeteria Fund was understated by $4,028 in the food sales and cash accounts due to funds being shown as an outstanding deposit.

Recommendation
The District should establish and follow policies and procedures to properly reconcile accounts on a timely basis to the imprest balance and general ledger in a timely manner.

District Response
The District is developing procedures to ensure that deposits are made in a timely manner to the cafeteria clearing account and that the petty cash bank account is cleared on a regular basis back to the imprest amount of $1,000. Both accounts will be reconciled to the district cash in banks general ledger accounts on a regular basis.

STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

There were no State Award Findings this year.

2012-01 30000

CASH DISBURSEMENTS

Criteria or Specific Requirements
Controls over disbursements include appropriate levels of approval for expenditures and appropriate documentation to support the payments made.

Condition
Purchase orders (POs) were not consistently issued prior to various purchases. However, noted improvements were made this year over last. While some of the expenditures may not have been approved prior to the purchase, it was observed there was an approval prior to payment of the expenditure.

Questioned Costs
None

Cause
Unknown

Effect
When a PO is not issued prior to the purchase the District runs several risks such as fictitious or unauthorized vendors being paid, there may not be enough of a budget for the expenditures being charged, or, in the case of a categorical expenditure, an inappropriate expenditure may be made that could put a program out of compliance.

Recommendation
We recommend the District continue to make improvements to its purchasing procedures to prevent purchases from occurring prior to approval of said purchases.

Status
Partially Implemented, see finding 2013-01

2012-02 30000

ASSOCIATED STUDENT BODY (ASB)/FUNDRAISING ACCOUNT

Criteria
Strong internal controls over receipting include evidence of the receipt, collection and deposit of funds received and timely reconciliation of bank accounts. Controls over disbursements include appropriate levels of approval for expenditures and appropriate documentation to support the payment made.

Condition
During our testing of student body account, we noted that in a few instances, supporting documents for the cash receipts and disbursements were not maintained.

Questioned Costs
Unknown

Cause
Due to lack of supervision, internal controls were not implemented effectively.

Effect
Due to lack of controls over Student Body funds, the accounting for Student Body funds could be inaccurate.

Recommendation
We recommend that the District should strengthen its control over the maintenance of the student body accounts to ensure that supporting documents are maintained for the receipts and disbursements.

Status
Partially Implemented, see finding 2012-02

2012-03 30000

INTERNAL CONTROLS OVER BANK ACCOUNTS

Criteria
Education Code §41010 requires LEAs to follow the policies and procedures in the California School Accounting Manual (CSAM). According to CSAM, *Procedure 201 – Books of Accounts*, accounts are the device used to classify and summarize the full effects of financial transactions and are used as the basis of preparing financial statements.

Condition
The District did not properly reconcile the revolving bank account back to the imprest amount of $1,000. Additionally, there were some un-deposited funds in the Cafeteria Clearing Account.

Questioned Costs
None noted.

Cause
The District had some staff turnover issues which created a situation where the cash in banks for various funds were not properly reconciled and reported.

Effect
While the District's financial statements are not materially misstated, the General Fund cash in county was understated by $1,740 which were in the revolving bank account. The Cafeteria Fund was understated by $4,028 in the food sales and cash accounts due to funds being shown as an outstanding deposit.

Recommendation
The District should establish and follow policies and procedures to properly reconcile accounts on a timely basis to the imprest balance and general ledger in a timely manner.

Status
Not Implemented, see finding 2013-03

APPENDIX B

FINANCIAL INFORMATION
FOR BAYSHORE ELEMENTARY SCHOOL DISTRICT

The information in this and other sections concerning the District's operations and operating budget 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 Series A Bonds is payable from the general fund of the District. The Series A Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE SERIES A BONDS" in the front half of the Official Statement.

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.

District 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 fund placement. The District's fiscal year begins on July 1 and ends on June 30.

District 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. 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 Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting, (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2013 Audited Financial Statements were prepared by Robert T. Dennis, CPA, Rancho Cucamonga, California and are attached hereto as Appendix A. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the office of the Business Manager of the District, Bayshore Elementary School District, One Martin Street, Daly City, California 94014, Telephone: (415) 467-5443. The District has not requested, and the auditor has not provided, any review or update of such Financial Statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. This District may impose a charge for copying, mailing and handling.

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General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the District for the fiscal years 2009-10 through 2012-13.

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2009-10 through 2012-13 (Audited)
Bayshore Elementary School District

Revenues	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13
Total Revenue Limit Sources	$2,299,491	$2,697,330	$2,287,113	$2,296,017
Federal Revenues	304,590	377,051	211,194	217,431
Other State revenues	526,592	573,825	470,698	507,963
Other local revenues	554,781	367,547	534,824	567,318
Total Revenues	3,685,454	4,015,753	3,503,829	3,588,729
Expenditures				
Instruction	2,719,936	2,348,810	1,911,377	1,995,118
Instruction-related services:				
Library, media and technology	--	--	--	926
School site administration	110,866	255,518	279,153	227,508
Pupil services:				
Home-to-school transportation	61,730	54,325	15,562	50,223
Food services	13,625	23,864	21,699	--
All other pupil services	6,321	75,309	93,745	92,062
General administration:				
All other general administration	553,342	383,609	278,422	302,555
Plant services	225,650	169,931	188,591	212,516
Facilities acquisition and maintenance	6,133	--	--	--
Transfers to other agencies	42,408	136,540	274,100	276,408
Debt service: principal[1]	--	--	--	65,127
Debt service: interest[1]	--	7,853	25,405	25,984
Total Expenditures	3,740,011	3,455,759	3,088,054	3,248,427
Excess of Revenues Over/(Under) Expenditures	(54,557)	559,994	415,775	340,302
Other Financing Sources (Uses)				
Total Other Financing Sources (Uses)	--	58,968	--	(35,876)
Net change in fund balance	(54,557)	618,962	415,775	304,426
Fund Balance, July 1 [2]	358,407	303,850	922,812	1,338,587
Fund Balance, June 30	$303,850	$922,812	$1,388,587	$1,643,013

(1) Debt service includes early retirement incentives and other employee obligations.
(2) In fiscal year 2010-11 the general fund beginning balance was restated due to GASB No. 54 and the reclassification of the Special Reserve Fund to the General Fund because it functions effectively as an extension of the General Fund.
Source: District Audit Reports for fiscal years 2009-10 through 2012-13.

District's Budget Figures. The following table shows a summary of the Adopted Budget and the Estimated Actuals for fiscal year 2013-14, and a summary of the Adopted Budget for fiscal year 2014-15.

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Year 2013-14 (Adopted Budget and Unaudited Actuals)
and Fiscal Year 2014-15 (Adopted Budget)
Bayshore Elementary School District

Revenues	Adopted Budget 2013-14	Estimated Actuals 2013-14	Adopted Budget 2014-15
LCFF/ Revenue Limits Sources	$2,283,725	$2,621,625	$2,847,198
Federal Revenues	220,772	200,796	201,305
Other State Revenues	385,471	244,340	60,384
Other Local Revenues	267,224	360,201	243,139
Total Revenues	3,157,192	3,426,692	3,352,026
Expenditures			
Certificated Salaries	1,282,807	1,353,486	1,412,465
Classified Salaries	346,841	363,575	382,815
Employee Benefits	531,997	535,430	542,935
Books and Supplies	70,269	114,370	73,077
Contract Services & Operating Exp.	714,275	1,059,213	690,692
Capital Outlay	0	0	0
Other Outgo (excluding indirect costs)	302,488	245,965	258,488
Other Outgo – Transfers of Indirect Costs	0	0	0
Total Expenditures	3,248,677	3,672,040	3,360,472
Excess of Revenues Over/(Under) Expenditures	(91,485)	(245,078)	(8,445)
Other Financing Sources (Uses)			
Operating transfers in	0	0	0
Operating transfers out	0	245,000	(25,000)
Total Other Financing Sources (Uses)	0	(245,000)	(25,000)
Net change in fund balance	(91,485)	(490,072)	(33,445)
Fund Balance, July 1	1,556,193	1,556,193	1,152,936
Fund Balance, June 30	$1,464,708	$1,152,936	$1,119,490

Source: District Fiscal Year 2013-14 Adopted Budget and Fiscal Year 2014-15 Adopted Budget.

District Reserves. The State requires the District to maintain a general fund reserve for economic uncertainties of at least 4% of general fund expenditures. However, the District's Board has adopted a policy of requiring a minimum of three months' worth of expenditures in reserve. In fiscal year 2012-13, this reserve was funded at 34.9% of general fund expenditures, and is estimated to be 33.3% in fiscal year 2013-14.

In connection with the State's fiscal year 2014-15 Budget, a constitutional amendment will be presented to State voters at the November 4, 2014 general election. See "2014-15 State Budget" In this Appendix B. The amendment establishes a rainy day fund at the State level, as well as a Proposition 98 reserve to attempt to minimize large fluctuations from year to year in the State's education spending. If the constitutional amendment is approved by voters, related legislation contained in Senate Bill 858 will become effective which could limit the amount of reserves maintained at the District level. The District cannot predict how this legislation will impact its reserves and future spending.

Local Control Funding Formula. The adoption of the 2013-14 State Budget and its related implementing legislation included significant reforms to education finance in the State with the adoption of a funding formula known as the "Local Control Funding Formula" ("LCFF"). Under the LCFF, the emphasis in education funding shifted from a State-controlled system with funding based largely on ADA and the revenue limit with numerous State-mandated categorical programs, to a locally-controlled system with a funding formula which attempts to better meet the needs of students, particularly those students which come from low-income families or are English language learners which may require more support for success in school, and which provides local school officials with the ability to decide how best to meet the needs of their students.

Funding under the LCFF consists of the following:

1. Base grant per ADA of:

    $7,675 for students in grades K-3,
    $7,056 for students in grades 4-6,
    $7,266 for students in grades 7-8, and
    $8,638 for students in grades 9-12.

2. 20% supplemental funding for English language learners, students from low-income families and foster youth, plus

3. A concentration grant for districts with enrollment of more than 55 percent of English learners, students from low-income families and foster youth of up to 22.5% of a local education agency's base grant, based on the number of such students, plus

4. An economic recovery target, to bring local agencies back to pre-recession funding levels.

The new legislation includes a "hold harmless" provision which provides that a district or charter school will maintain total revenue limit and categorical funding at its 2012-13 level, unadjusted for changes in ADA, or cost of living adjustments.

The District hasa high proportion (78%) of English language learners, students from low-income families and foster youth, and as a result expects to receive the base grant funding plus a slight supplemental add-on. There are many variables which still remain to be finalized with respect to the LCFF model of education finance and the District isunable to predict at this time all of the impacts that this change in education funding will have on its finances.

District Budget and Interim Financial Reporting

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

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county 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 August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

Interim Certifications Regarding Ability to Meet Financial Obligations. 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 the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

Under California law, any school district and office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the applicable county superintendent of schools determines that the district's repayment of indebtedness is probable.

District's Budget Approval/Disapproval and Certification History. The District has not received any qualified or negative certifications of its financial reports in the past five years, nor have any of its budgets been disapproved. The District's most recent interim report, the Second Interim Report for fiscal year 2013-14, received a positive certification.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at One Martin Street, Daly City, California 94014, Telephone: (415) 467-5443. The District may impose charges for copying, mailing and handling.

State Funding of Education - Revenue Limits

Historically, annual State apportionments of basic and equalization aid to school districts for general purposes have been computed up to a revenue limit per unit of average daily attendance (**"ADA"**). Such apportionments have, generally speaking, amounted to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts. As described in the preceding section and herein under the heading "STATE FUNDING OF EDUCATION - Recent State Budgets," with the implementation of the LCFF, commencing in fiscal year 2013-14, school districts will receive base grant funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target.

A schedule of the District's ADA and total revenue limit income received by the District during the past five fiscal years is set forth below under "Revenue Sources."

Revenue Sources

The District categorizes its general fund revenues into four primary sources:

PERCENTAGE OF TOTAL DISTRICT GENERAL FUND REVENUES BY SOURCE
Bayshore Elementary School District

Revenue Source	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13	Estimated Actuals 2013-14
Revenue limit sources[1]	62.4%	67.2%	65.3%	64.0%	76.5%
Federal revenues	8.3	9.4	6.0	6.1	5.9
Other State revenues	14.3	14.3	13.4	14.2	7.1
Other local revenues	15.1	9.2	15.3	15.8	10.5
Totals	100.00%	100.0%	100.0%	100.0%	100.0%

(1) Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues; LCFF for fiscal year 2013-14.
Source: Bayshore Elementary School District.

Each of these revenue sources is described below.

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

Funding of the District's revenue limit is accomplished by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amount to the difference between the District's revenue limit and its local property tax revenues. See "State Funding of Education and Recent State Budgets" below.

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

The principal component of local revenues is the school district's property tax revenues, i.e., the district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. Historically, the more local property taxes a district received, the less State equalization aid it is entitled to.

As described in this Official Statement, with the implementation of the LCFF in fiscal year 2013-14, the amount of State funding provided to school districts will now be determined with a funding model which attempts to better meet the needs of students, particularly those students which come from low-income families or are English language learners which may require more support for success in school, and which provides local school officials with the ability to decide how best to meet the needs of their students. The LCFF affects how much funding a district will receive, but generally not the source of such funding, being its share of local property taxes together with the State funding provided in the LCFF.

***Federal Revenues**.* The federal government provides funding for several District programs, including special education programs.

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

These other State revenues have historically been primarily restricted revenues funding items such as the Special Education Master Plan, home-to-school transportation, Economic Impact Aid, and mandated cost reimbursements. Funds from two existing programs- the Targeted Instructional Improvement Block Grant and Home–to–School Transportation program- are treated as add–ons to the LCFF. Districts, such as the District, that received funding from these programs in 2012–13 will continue to receive that same amount of funding in addition to what the LCFF provides each year. With the implementation of the LCFF, school districts will have more control of how additional State revenues are allocated.

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in lottery revenues over 1997-98 levels must be restricted to use on instructional materials. Lottery revenues generally comprise approximately 2% of general fund revenues.

***Other Local Revenues**.* General*.* In addition to property taxes, the District receives additional local revenues from items such as interest earnings, leases and rentals, and other local sources.

Voter-approved Parcel Tax. On November 4, 2008, the qualified voters in the District approved Measure Y, that authorized by more than two-thirds vote a parcel tax of $96 per taxable parcel in the District for a period of six years, with annual adjustments for inflation. The parcel tax, which generates about $150,000 annually, has a final collection in fiscal year 2014-15. However, the District has placed a parcel tax renewal measure on the November 4, 2014 ballot.

Long-Term Debt

The Series A Bonds are the only long-term obligations of the District, other than compensated absences, net OPEB obligations, redevelopment agency payback and early retirement incentives, as described in Note 8 in the District's 2012-13 Audit in Appendix A hereto.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq*., the San Mateo County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq*. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See "APPENDIX G - SAN MATEO COUNTY INVESTMENT POLICY."

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55 percent of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "– State Funding of Education – Revenue Limits" above). State funds typically make up the majority of a district's revenue limit.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District, the County, nor the Underwriter are responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.

The Budget Process. The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each House of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets

Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Subject Area – Budget (State)".

Prior Years' Budgeting Techniques. Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2014-15 Budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 30 at the November 6, 2012 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State Budget again be stressed and if projections included in such budget do not materialize.

2013-14 State Budget: Change in Education Funding. The 2013-14 State Budget and its related implementing legislation enacted significant reforms to the State's system of K-12 education finance with the enactment of the LCFF. The LCFF attempts to move from an existing school funding system characterized as overly complex and inequitable to a locally-controlled system, which responds to research and practical experience indicating that students from low income families and English language learners often require supplemental services and support to be successful in school.

State Funding under the LCFF. The LCFF changes the State funding system for school districts, charter schools and county offices of education by, among other changes, consolidating most categorical programs with the existing revenue limit structure to provide a new student formula which will be phased in over seven years, and implementing supplemental and concentration grants to English language learners and economically disadvantaged students. The LCFF includes the following components:

- A base grant for each local education agency per unit of A.D.A of $7,675 for students in grades K-3, $7,056 for students in grades 4-6, $7,266 for students in grades 7-8, and $8,638 for students in grades 9-12. These figures include a cost-of-living adjustment for 2013-14. This base grant is $2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases

- A 20% supplemental grant for English learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional concentration grant of up to 22.5% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.

- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

The LCFF was implemented for fiscal year 2013-14 and will be phased in gradually. Based on revenue projections, districts will reach what is called "full funding" in eight years—in 2020-21. Until full funding is reached, each year districts will get additional funds based on A.D.A. and the percentage of a district's students who are low-income, English learners, and foster youth. This projection assumes that the State's economy will improve each year; if the economy falters it could take longer to reach full funding.

The target LCFF amounts for State school districts and charter schools based on grade levels and Targeted Students is shown below.

Grade Span Funding at Full LCFF Implementation (Target Amount)

Grade Span	Base Grant	K-3 Class Size Reduction and 9-12 Adjustments	Average Assuming 0% Targeted Students	Average Assuming 25% Targeted Students	Average Assuming 50% Targeted Students	Average Assuming 100% Targeted Students
K-3	$6,845	$712	$7,557	$7,935	$8,313	$10,769
4-6	6,947	N/A	6,947	7,294	7,642	9,899
7-8	7,154	N/A	7,154	7,512	7,869	10,194
9-12	8,289	$216	8,505	8,930	9,355	12,119

Source: California Department of Education

Accountability under the LCFF. The LCFF moves from a State‑controlled system that emphasized inputs (largely in the form of categorical funding which required funds to be spent on specific projects and programs) to a locally‑controlled system in which local agencies decide the best way to spend funds, focused instead on improved outcomes. However, districts will be required to increase or improve services for English language learners, low income, and foster youth students in proportion to supplemental and concentration grant funding received. 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.

County superintendents will review and provide support to the districts under their jurisdiction, and the Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition, the 2013-14 Budget creates the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans.

The State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

2014-15 Adopted State Budget

On June 20, 2014, Governor Brown approved the 2014-15 Budget Act (the **"2014-15 Budget"**), projecting $108 billion in general fund revenues, which is $7.3 million more in general fund revenues than in fiscal year 2013-14. The 2014-15 Budget is balanced and projects paying down more than $10 billion in unprecedented amounts of budgetary debt from past years, including paying down deferral payments to schools by $5 billion, paying off Economic Recovery Bonds, repaying various special fund loans, and funding $100 million in mandate claims that have been owed to local governments since 2004. The budgetary deficit is projected to be reduced to below $5 billion by the end of 2016-17. The fiscal year begins with a 2014-15 State Budget reserve of $2 billion dollars, including $1.6 billion in the State's Budget Stabilization Account, also known as the State's rainy day fund. Temporary revenues provided by the passage of Proposition 30 (Sales and Income Tax Revenue Increase approved by State voters at an election held on November 8, 2011) and spending cuts have allowed for continued economic growth in the State. The 2014-15 State Budget also contains triggers allowing for additional spending, if various revenue benchmarks are exceeded. If revenues surpass certain estimates, then the Budget calls for more funds to be applied to higher education and to pay down debt. Certain highlights of the 2014-15 Budget are described below.

Plan for Reducing STRS Unfunded Liability. The California State Teachers' Retirement System ("**STRS**") has a significant unfunded liability. Without changes to how the system is funded, STRS is expected to run out of money in approximately 33 years. To prevent this, the 2014-15 Budget sets forth a plan that shares responsibility among the school districts, the state, and teachers to better fund STRS. Contributions for the first year from all three of these sources will total $275 million. Contributions will increase in subsequent years, reaching more than $5 billion annually. This plan is projected to eliminate unfunded liability by 2046.

Constitutional Amendment on November, 2014 Ballot: Rainy Day Fund. The 2014-15 State Budget includes a proposed constitutional amendment which will be placed before State voters in November, 2014. The measure, upon approval, would alter the State's existing requirements for the Budget Stabilization Account, the State's existing rainy day account. If approved, this amendment would:

- Require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8%of general fund tax revenues, and would set the maximum size of the Rainy Day Fund at 10%of the general fund revenues.

- Require half of each year's deposit for the next 15 years be used for supplemental payments of debt or other long-term liabilities.

- Allow for withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years. The maximum amount that could be withdrawn in the first year of a recession would be limited to half of the Rainy Day Fund's balance.

- Require that the state provide a multiyear budget forecast to better manage the state's long-term finances.

- Create a Proposition 98 reserve, known as the Public School System Stabilization Account, where spikes in funding would be saved for future years. This is intended to smooth school spending and minimize future cuts to education funding.

In addition, if approved in November 2014, additional legislation contained in Senate Bill 858 will become effective which could limit the amount school districts may maintain in reserves. Specifically, the legislation provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the Public School System Stabilization Account, a school district may not adopt a budget that contains a reserve in excess of twice the applicable minimum reserve amount.

K - 12 Budget Adjustments. The 2014-15 State Budget includes total funding of $76.6 billion ($45.3 billion General Fund and $31.3 billion other funds) for all K-12 education programs. Prop. 98 funding has contributed $10 billion to the total funding amount and the 2014-15 State Budget provides $1,954 more per K-12 student in 2014-15 than was provided in 2011-12. The 2014-15 State Budget also provides $4.7 billion for the second year of implementing the LCFF and continues to commit most new funding to districts serving English language learners, students from low-income families, and youth in foster care. The Education Budget Trailer Bill ("**SB 858**") is included in the 2014-15 State Budget and contains two separate provisions that have the potential to affect district reserve funds. In addition, the 2014-15 State Budget includes the following:

- Local Control Funding Formula. The 2014-15 State Budget contains an increase of $4.75 billion in the Proposition 98 General Fund to continue the State's transition to the LCFF. This increase will close the remaining funding implementation gap by more than 29 percent. Additionally, the 2014-15 State Budget addresses an administrative problem related to the collection of income eligibility forms that are used to determine student eligibility for free or reduced-price meals.

- K-12 Deferrals. The 2014-15 State Budget repays nearly $4.7 billion Proposition 98 general fund for K-12 expenses that had been deferred from one year to the next during the past few years. This repayment will leave an outstanding balance of less than $900 million in K-12 deferrals. The 2014-15 State Budget also contains a trigger mechanism that will appropriate any additional funding resources attributable to the 2013-14 and 2014-15 fiscal years subsequent to the enactment of the 2014-15 State Budget for the purpose of retiring the remaining $900 million in K-12 deferrals.

- Independent Study. The 2014-15 State Budget reduces administrative burdens and frees up time for teachers to spend on student instruction and support, making it easier for schools to offer and expand instructional opportunities available to students through non-classroom based instruction.

- K-12 Mandates. The 2014-15 State Budget provides $400.5 million in one-time Proposition 98 general fund to reimburse K-12 local educational agencies for the costs of state-mandated programs. These funds will make a significant down payment on outstanding mandate debt, while providing school districts, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.

- K-12 High-Speed Internet Access. The 2014-15 State Budget increases the one-time Proposition 98 general fund for the K-12 High Speed Network by $26.7 million. This fund provides technical assistance and grants to local educational agencies to address the technology requirements necessary for Common Core implementation.

- Career Technical Education Pathways Program. The 2014-15 State Budget increases by $250 million the one-time Proposition 98 general fund to support a second cohort of competitive grants for participating K-12 local educational agencies. Established in the 2013 Budget Act, the Career Pathways Trust Program provides grant awards to improve career technical programs and linkages between employers, schools and community colleges.

Higher Education and Healthcare. The 2014-15 State Budget includes total funding of $26.2 billion ($14.7 billion General Fund and local property tax and $11.5 billion other funds). It also provides for up to a 20 percent increase in general fund appropriations over a four-year period. The 2014-15 Budget includes a 5% increase in 2014-15 for each university system, which equals $284 million total. Regarding healthcare, the state's adoption of the optional expansion of Medi-Cal under federal law known as the Affordable Care Act created major new spending commitments. The 2014-15 Budget assumes an additional Medi-Cal caseload of 2.5 million individuals and a rise in costs of $2.4 billion over fiscal year 2012-13.

Emergency Drought Response. On January 17, 2014, Governor Brown proclaimed a state of emergency due to the severe drought conditions faced by the state. Legislation was enacted in February which provided $687.4 million to support drought relief. The 2014-15 Budget includes additional one-time resources to continue immediate drought-related efforts started in 2014, such as an increase of $53.8 million General Fund and $12.2 million other funds for firefighting efforts, and an increase of $18.1 million General Fund to aid in assessing water conditions and provide public outreach regarding water conservation.

Numerous Factors Affecting Budget and Projections. The execution of the 2014-15 State Budget may be affected by numerous factors, including but not limited to: (i) shifts of costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risk associated with spending reductions, including the elimination of redevelopment agencies, (iv) rising health care costs (v) large unfunded liabilities for retired State employee's pensions and healthcare, (vi) deferred maintenance of State's critical infrastructure and (vii) other factors, all or any of which could cause the revenue and spending projections made in 2014-15 State Budget to be unattainable. The District cannot predict the impact that the 2014-15 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the District cannot predict the accuracy of any projections made in the State's 2014-15 State Budget.

The complete 2014-15 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets.

The State has not entered into any contractual commitment with the District, the County, or the Owners of the Series A Bonds to provide State budget information to the District or the owners of the Series A Bonds. Although they believe the State sources of information listed above are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein. However, the Series A Bonds are secured by *ad valorem* taxes levied and collected on taxable property in 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.

Legal Challenges to State Funding of Education

The application of Proposition 98 and other statutory regulations has been the subject of various legal challenges in recent years, and is likely to be further challenged in the future. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "-State Funding of Education" and "-Recent State Budgets" above.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Series A Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIIIA, XIIIB, XIIIC, and XIIID of the State Constitution, Propositions 62, 98, 111 and 218, 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 District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Series A Bonds. The tax levied by the County for payment of the Series A Bonds was approved by the District's voters in compliance with Article XIIIA and all applicable laws.

Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues, there shall be first set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. School districts receive a significant portion of their funding from State appropriations. As a result, decreases and increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIIIA of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIIIA to the State Constitution ("**Article XIIIA**"). Article XIIIA 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 (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) 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, and (iii) (as a result of an amendment to Article XIIIA approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. The Series A Bonds were authorized pursuant to the amendment to Article XIIIA discussed in (iii) above. Article XIIIA 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". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA 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 XIIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. 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.

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.

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year's assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the "recapture" provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

Article XIIIB of the California Constitution

Article XIIIB (**"Article XIIIB"**) 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. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIB 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 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 XIIIB 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. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

Article XIIIB 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 shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (**"unitary property"**). Under the State Constitution, such property is assessed by the State Board of Equalization (**"SBE"**) as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Articles XIIIC and XIIID

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID (respectively, **"Article XIIIC"** and **"Article XIIID"**), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIIIC 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 XIIID. 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.

Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

While the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the District's revenues.

Proposition 98

On November 8, 1988, California 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.

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 XIIIB 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.

Proposition 111

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 XIIIB 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:

Annual Adjustments to Spending Limit. The annual adjustments to the Article XIIIB 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.

Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIIIB 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.

Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIIIB 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.

Recalculation of Appropriations Limit. The Article XIIIB 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.

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 XIIIB 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 (the **"third test"**). 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.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as **"Proposition 39"**) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for an elementary school district or high school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Proposition 30

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. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and 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 $680,000 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 "Proposition 98" and "Proposition 111" above. 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.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, a constitutional initiative entitled the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," approved on November 2, 2010, superseded many of the provision of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

Because Proposition 22 reduces the State's authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 98, 111, 22, 26, 30 and 39 were each adopted as measures that qualified for the ballot under the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

APPENDIX C

GENERAL INFORMATION ABOUT THE CITY OF DALY CITY AND THE COUNTY OF SAN MATEO

*The following information regarding the City of Daly City (the "**City**") 'and the surrounding area is presented as general background data. The Series A Bonds are payable solely from the sources described herein (see "SECURITY FOR THE SERIES A BONDS"). The taxing power of the City, the County of San Mateo, the State of California or any political subdivision thereof is not pledged to the payment of the Series A Bonds.*

General

The City. The City is bordered by the cities of San Francisco, Brisbane, Pacifica, South San Francisco, and the town of Colma. Daly City also borders several unincorporated areas of San Mateo County. It surrounds Broadmoor, borders San Bruno Mountain State Park, the Olympic Club, and unincorporated Colma. Seismic faults in and near Daly City include the San Andreas Fault, Hillside Fault and Serra Fault. Daly City's highway infrastructure includes State Routes 1, 35 and 82, and Interstate 280. Interstate 280, which bisects Daly City, is a primary transportation corridor linking San Francisco with San Mateo and Santa Clara counties.

The U.S. Census Bureau has identified Daly City as among the cities with the highest transit ridership. Public transportation is provided by SamTrans, BART (at the Daly City Station and the Colma Station, which abuts the Daly City limits), and some San Francisco Muni lines. Daly City is approximately eight miles south-west of downtown San Francisco and the San Francisco International Airport is nine miles southeast of Daly City; both are easily accessible by freeway or BART.

The County. The County of San Mateo (the "**County**") is located on the California coast approximately 15 miles south of the City of San Francisco. The County is a major employment base, and is also accessible to the San Jose and Silicon Valley areas approximately 30 miles south via Interstate 280 or U.S. Highway 101. The County has an area of approximately 448 square miles of land and 293 square miles of water. It is the third-smallest county in California by land area.

Population

The following table summarizes the City's, the County's and the State's populations in 1990, 2000 and from 2005 to 2014.

Table 1
CITY OF DALY CITY, SAN MATEO COUNTY AND STATE OF CALIFORNIA
Population Estimates
(As of January 1)

Year	City of Daly City	San Mateo County	State of California
1990[1]	92,088	649,623	29,758,213
2000[1]	103,625	707,163	33,873,086
2005	100,403	700,350	35,869,173
2006	100,010	699,347	36,116,202
2007	100,131	701,838	36,399,676
2008	100,156	707,820	36,704,375
2009	100,692	713,818	36,966,713
2010	101,235	718,614	37,223,900
2011	101,493	722,372	37,427,946
2012	102,593	729,443	37,678,563
2013	103,458	736,647	37,984,138
2014	105,076	745,193	38,340,074

(1) As of April 1.
Source: California Department of Finance.

Employment and Industry

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2008 through 2012. Annual figures for year 2014 are not yet available. The unemployment rates in the County were lower than the rates in the State and in the United States for each of the years below.

SAN MATEO COUNTY
Annual Average Civilian Labor Force, Employment and Unemployment
(March 2013 Benchmark)

	2009	2010	2011	2012	2013
Civilian Labor Force [(1)]	374,300	377,800	385,300	397,500	403,600
Employment	342,900	344,900	355,000	371,000	381,800
Unemployment	31,400	32,900	30,300	26,500	21,800
Unemployment Rate	8.4%	8.7%	7.9%	6.7%	5.4%
Wage and Salary Employment: [(2)]					
Agriculture	1,700	1,700	1,600	1,600	1,600
Manufacturing	26,700	26,300	25,500	24,400	25,700
Wholesale Trade	11,300	11,200	11,100	11,500	11,200
Retail Trade	33,300	32,800	33,200	33,200	34,100
Trans., Warehousing, Utilities	25,300	24,400	24,100	25,500	27,100
Information	18,100	17,500	17,900	20,900	23,600
Financial and Insurance	13,500	13,200	13,500	13,800	13,900
Real Estate, Rental & Leasing	5,600	5,400	5,900	6,200	6,300
Professional and Business Services	60,900	60,000	64,000	69,500	71,000
Educational and Health Services	36,700	35,300	36,400	37,400	39,700
Leisure and Hospitality	33,500	33,800	35,400	36,800	39,500
Other Services	11,500	11,200	12,200	12,900	13,300
Federal Government	3,500	4,000	3,800	3,700	3,600
State Government	600	600	600	600	600
Local Government	27,300	26,700	26,200	26,000	26,200
Total All Industries [(3)]	323,000	317,000	325,500	339,100	354,100

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

Major Employers

The following table lists the major employers within the City and County.

CITY OF DALY CITY
Major Employers
(As of June 2013)

Employers	Number of Employees	Industry
Seton Medical Center	1,288	Hospitals
Jefferson Elementary School District	754	Schools
City of Daly City	657	Government
Jefferson High School District	497	Schools
Cow Palace	407	Indoor Arena
Genesys Telecommunications Laboratories	400	Telecommunications Software
Target Stores – Serramonte	337	Retail
McDonald's (4 stores)	250	Fast Food
Walgreens (3 stores)	244	Retail
St. Francis Convalescent Pavilion	203	Hospitals

Source: City of Daly City Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013.

COUNTY OF SAN MATEO
Major Employers
(As of June 2013)

Employer	Industry
Genentech Inc.	Biotechnology
Oracle Corp.	Software
County of San Mateo	Government
Kaiser Permanente	Health Care
Visa USA/Visa International	Global Payments Technology
Mills-Peninsula Health Services	Health Care
San Mateo County Community College District	Public Education
Safway Inc.	Retail Grocer
Electronic Arts Inc.	Interactive Entertainment
Facebook Inc.	Social Network
SLAC National Accelerator Laboratory	Scientific Research
Seton Medical Center	Hospital
United Airlines	Airline
Applied Biosystems	Biotechnology
United States Postal Service	Postal Service

Source: County of San Mateo Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years. A summary of historic taxable sales within the City and County are shown in the following tables.

Total taxable sales during during the first quarter of calendar year 2013 in the City were reported to be $223,480,000, a 4.41% increase from the total taxable sales of $214,035,000 reported during the first quarter of calendar year 2012. A summary of historic taxable sales within the City during the past five years for which data is available is shown in the following table. Annual figures are not yet available for 2013.

CITY OF DALY CITY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	**Taxable Transactions**	**Number of Permits**	**Taxable Transactions**
2008	780	$822,327	1,383	$886,828
2009(1)	897	709,017	1,310	774,360
2010(1)	970	725,488	1,378	786,034
2011(1)	982	782,617	1,383	844,326
2012(1)	983	857,861	1,372	924,908

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
Source: State Board of Equalization.

Total taxable sales during during the first quarter of calendar year 2013 in the County were reported to be $3,274,856,000, a 4.39% increase from the total taxable sales of $3,137,230,000 reported during the first quarter of calendar year 2012. A summary of historic taxable sales within the County during the past five years for which data is available is shown in the following table. Annual figures are not yet available for 2013.

COUNTY OF SAN MATEO
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	**Taxable Transactions**	**Number of Permits**	**Taxable Transactions**
2008	9,098	$8,421,727	19,853	$13,137,913
2009[(1)]	11,143	7,455,767	18,840	11,327,022
2010[(1)]	11,340	7,846,274	18,979	11,966,338
2011[(1)]	11,470	8,536,043	18,995	13,020,643
2012[(1)]	11,748	9,277,144	19,189	13,906,978

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: State Board of Equalization.

Effective Buying Income

Effective buying income ("**EBI**") is designated by Sales and Marketing Management Magazine as personal income less personal tax and non-tax payments. Personal income is the aggregate of wages and salaries, other labor income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, personal interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, non-tax payments (such as fines, fees, penalties), and personal contributions for social insurance. Effective buying income is a bulk measure of market potential. It indicates the general ability to buy and is essential in comparing, selecting and grouping markets on that basis.

The following table summarizes the Median Household Effective Buying Income for the City, the County, the State of California and the United States for the period 2009 through 2013. Data is not yet available for calendar year 2014.

CITY OF DALY CITY AND COUNTY OF SAN MATEO
Median Effective Buying Income
2009 through 2013

	2009	**2010**	**2011**	**2012**	**2013**
City of Daly City	$61,311	$58,758	$59,235	$59,596	$62,027
County of San Mateo	69,276	66,508	66,434	66,434	70,427
State of California	49,736	47,177	47,062	47,307	48,340
United States	43,252	41,368	41,253	41,358	43,715

Source: The Nielsen Company (US), Inc.

Construction Activity

Building activity for the calendar years 2009 through 2013 in the City and the County are shown in the following tables.

CITY OF DALY CITY
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$1,740.2	$2,484.2	$3,464.1	$2,188.8	$ 436.9
New Multi-family	49,396.2	6,257.4	7,149.1	2,357.8	1,216.7
Res. Alterations/Additions	11,628.4	13,546.0	10,611.6	8,854.4	12,770.1
Total Residential	62,764.7	22,287.6	$21,224.80	13,401.00	14,423.7
New Commercial	1,460.0	0.0	0.0	252.1	4,118.5
New Industrial	0.0	0.0	0.0	23.4	0.0
New Other	360.1	1,376.6	52.0	0.0	246.5
Com. Alterations/Additions	10,053.1	14,225.6	6,810.9	5,751.1	14,703.8
Total Nonresidential	$11,873.2	$15,602.2	$6,862.9	$6,026.6	$19,068.7
New Dwelling Units					
Single Family	5	5	8	5	1
Multiple Family	212	36	40	13	7
TOTAL	217	41	48	18	8

Source: Construction Industry Research Board, Building Permit Summary.

COUNTY OF SAN MATEO
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$147,515.5	$189,296.6	$194,950.1	$245,163.9	$292,893.4
New Multi-family	74,329.6	21,309.0	107,040.0	171,390.4	151,019.5
Res. Alterations/Additions	204,482.0	262,592.1	289,619.5	201,543.1	299,830.5
Total Residential	426,327.0	473,197.6	591,609.6	618,097.4	743,743.4
New Commercial	17,942.0	62,510.5	28,247.6	83,374.0	165,578.7
New Industrial	5,000.0	0.0	3,359.4	2,021.6	15,724.2
New Other	70,410.1	66,274.8	26,029.4	1,975.6	58,726.5
Com. Alterations/Additions	235,373.3	283,752.5	244,089.0	167,438.8	263,460.8
Total Nonresidential	$328,725.5	$412,537.8	$301,725.4	$254,810.0	$503,490.2
New Dwelling Units					
Single Family	236	216	213	264	350
Multiple Family	393	111	545	671	840
TOTAL	629	327	758	935	1,190

Source: Construction Industry Research Board, Building Permit Summary.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

August 6, 2014

Board of Trustees
Bayshore Elementary School District
One Martin Street
Daly City, California 94014

OPINION: $3,000,000 Bayshore Elementary School District (San Mateo County, California) General Obligation Bonds Election of 2014, Series A

Members of the Board of Trustees:

We have acted as bond counsel to the Bayshore Elementary School District (the "District") in connection with the issuance by the District of $3,000,000 principal amount of Bayshore Elementary School District (San Mateo County, California) General Obligation Bonds Election of 2014, Series A, dated the date hereof (the "Bonds"), under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act"), and a resolution of the Board of Trustees (the "Board") adopted on July 15, 2014 (the "Bond 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 Bond Resolution and in the certified proceedings and other certifications furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is a duly created and validly existing school district with the power to issue the Bonds, and to perform its obligations under the Bond Resolution and the Bonds.

2. The Bond Resolution has been duly adopted by the Board, and constitutes a valid and binding obligation of the District enforceable upon the District in accordance with its terms.

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

4. The Board of Supervisors of San Mateo County is required under the Act to levy an *ad valorem* tax upon the property in the District, unlimited as to rate or amount, for the payment of principal of and interest on the Bonds.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$3,000,000
BAYSHORE ELEMENTARY SCHOOL DISTRICT
(San Mateo County, California)
General Obligation Bonds
Election of 2014, Series A
(Bank Qualified)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "**Disclosure Certificate**") is executed and delivered by the Bayshore Elementary School District (the "**District**") in connection with the execution and delivery of the captioned bonds (the "**Bonds**"). The Bonds are being executed and delivered pursuant to a resolution adopted by the Board of Trustees of the District on July 15, 2014 (the "**Resolution**"). The Bank of New York Mellon Trust Company, N.A., is initially acting as paying agent for the Bonds (the "**Paying Agent**").

The District hereby covenants and agrees as follows:

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

Section 2. Definitions. In addition to the definitions set forth above and in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the District under and as described in Sections 3 and 4.

"*Annual Report Date*" means the date not later than nine months after the end of each fiscal year of the District (currently June 30th), commencing March 31, 2015.

"*Dissemination Agent*" means, initially, Isom Advisors, A Division of Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Paying Agent a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a).

"*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.

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

“*Paying Agent*” means The Bank of New York Mellon Trust Company, or any successor thereto.

“*Participating Underwriter*” means the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing not later than March 31, 2015 with the report for the 2013-14 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. 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). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Paying Agent and Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided under this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, 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) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the fiscal year with respect to such Annual Report, as follows:

(i) The District's adopted Budget;

(ii) Assessed value of taxable property in the jurisdiction of the District as shown on the equalized assessment roll for such fiscal year, together with assessed valuation of the top twenty secured property taxpayers in the District for such fiscal year;

(iii) Changes, if any, in the operation of San Mateo County's Teeter Plan affecting the District;

(iv) Changes, if any, in the operation of San Mateo County Investment Pool which would affect the District's access to property taxes used to pay debt service on the Bonds;

(v) Property tax collection delinquencies for the District, for the most recently completed Fiscal Year, if the District is no longer a participant in San Mateo County's Teeter Plan;

(vi) In addition to any of the information expressly required to be provided under paragraphs (i) through (v), of this Section, 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.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material 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.

(d) 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 the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) 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.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District.

(13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, 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, if material.

(14) Appointment of a successor or additional Member or the change of name of a Member, if material.

(b) 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 the MSRB, 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)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Bond Resolution.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the 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 legal 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. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Isom Advisors, A Division of Urban Futures, Inc. Any Dissemination Agent may resign by providing 30 days' written notice to the District and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

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

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and 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**.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent will have no duty or obligation to review any information provided to it by the District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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

Date: August 6, 2014

BAYSHORE ELEMENTARY SCHOOL DISTRICT

By ________________________________
Name:
Title:

ACCEPTANCE OF DUTIES
AS DISSEMINATION AGENT

Isom Advisors, A Division of Urban Futures, Inc.

By ________________________________
Name:
Title:

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Bayshore Elementary School District (the "District")
Name of Bond Issue:	Bayshore Elementary School District General Obligation Bonds, Election of 2014, Series A
Date of Issuance:	August 6, 2014

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of August 6, 2014. The District anticipates that the Annual Report will be filed by ______________.

Dated:___________________

DISSEMINATION AGENT:

By: ____________________________
Its: ____________________________

cc: Paying Agent and Participating Underwriter

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Series A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC 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.

Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series A Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Series A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series A Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (in this Appendix, 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, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

5. 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 transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

7. 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 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).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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APPENDIX G

SAN MATEO COUNTY INVESTMENT POLICY

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SAN MATEO COUNTY

Investment Policy Statement

Calendar Year 2014

Approved by the
San Mateo County Board of Supervisors
Date: February 11, 2014
Resolution: 073016

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SAN MATEO COUNTY

Investment Policy Statement

Calendar Year 2014

I. Introduction

It is the policy of the San Mateo County Treasurer to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants, achieving the highest yield while conforming to all applicable statutes and resolutions governing the investment of public funds.

To meet liquidity and long term investing needs, the County has established the County Investment Pool. This fund is suitable for planned expenditures or capital funds.

II. Delegation of Authority

By Resolution #073015, effective February 11, 2014, the County Board of Supervisors has delegated to the Treasurer authority to invest and reinvest the funds of the County and other depositors as specified in California Government Code Sections §27000.1 and §53607 for the period calendar year 2014. The Treasurer may delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

III. Policy Statement

This Investment Policy establishes cash management and investment guidelines for the Treasurer, and those to whom he/she delegates investment authority, who are responsible for the stewardship of the San Mateo County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code and this Policy. All portfolio activities will be monitored and judged by the standards of this Policy and its investment objectives. Activities that violate its spirit and intent will be considered contrary to policy.

The Treasurer will annually render to the Board of Supervisors and any Oversight Committee a statement of investment policy, which the Board shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the Board at a public meeting.

IV. Standard of Care

The Treasurer is a fiduciary of the pooled investment fund and therefore subject to the prudent investor standard. The Treasurer, employees involved in the investment process and members of the San Mateo County Treasury Oversight Committee shall refrain from all personal business activities that could conflict with the management of the investment program.

All individuals involved will be required to report all gifts and income in accordance with California state law. (See Section XXI)

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the Treasurer, and those to whom he/she delegates investment authority, shall act with due professional care, skill, prudence and diligence taking into consideration circumstances then prevailing, including, but limited to, general economic conditions and anticipated needs of the County and other depositors. This should be accomplished with the care that a prudent person acting in a like capacity would use to safeguard the principal and maintain the liquidity needs of the County and other depositors.

As outlined in the California Government Code Section §27000.3, the standard of prudence to be used by the County investment officers shall be the “prudent investor” standard and shall be applied in the context of managing the portfolio. Investment officers shall act in accordance with written procedures and the investment policy, exercise due diligence, report in a timely fashion, and implement appropriate controls for adverse development.

V. Investment Objectives

The San Mateo County Pool shall be prudently invested in order to preserve principal while earning a reasonable rate of return while awaiting application for governmental purposes. Investments should be made with precision and care considering the safety of the principal investment, as well as the income to be derived from the investment. The specific objectives for the program are ranked in order of importance:

A. Safety of Principal - The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

Credit Risk - Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be minimized by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants. Credit rating evaluations for all securities are monitored on a consistent basis.
Market Risk - Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities; market risk will be minimized by establishing the maximum Weighted Average Maturity of the pool at three years. The maximum allowable maturity for any instrument in the pool at time of purchase is 7 years (Treasuries and Agencies only). Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

B. Liquidity

The Treasurer’s Office attempts to match maturities with its 15 month projected cash flow. The nature of the planning process behind the cash flow of the pool is relatively predictable and less volatile than is the case of discretionary money.

This allows leeway for some of the underlying investments in the County Pool to maintain a somewhat longer duration.

C. Yield

The County Pool is designed as an income fund to maximize the return on investable funds over various market cycles, consistent with the pool's first priority of safeguarding principal. Yield will be considered only after the basic requirements of safety and liquidity have been met. The County Pool is managed as an income fund whose purpose is to provide its investors with a reasonably predictable level of income, as opposed to a growth fund or fund measured on the basis of total return.

VI. Management Style and Strategy

This policy describes the County's strategic investment objective, risk tolerance and investment constraints. The County Treasurer or designee, at the Treasurer's discretion, prepares an economic outlook and evaluates the capital markets environment. The investment programs reflect a common strategy that is based on conservative principles of fixed income portfolio management consistently applied in a disciplined fashion.

VII. Authorized Investments

Subject to the limitations set forth in California Government Code §53600 et seq. which may be amended from time to time, the Treasurer may invest in the following instruments, subject to the limits described in the following sections. Long-term credit ratings, where shown, specify the minimum credit rating category required at time of purchase without regard to modifiers (e.g. +/- or 1,2,3) if any. As noted previously, all securities purchased shall be regularly monitored and re-evaluated should their ratings be downgraded below the minimum investment grade level required of the Pool. The Treasury Oversight Committee will be notified, within 10 days of any security downgrades that fall below the pool's investment standards and the course of action to be taken if any. In addition the information will be posted on the Treasurer's website within the same time frame. Decisions regarding the holding of, or the potential sale of, securities are based on factors such as remaining time to maturity and the need for liquidity in the Pool.

Where a percentage limitation of eligible security percentages and maximum maturity is established, for the purpose of determining investment compliance, that maximum amount will be applied on the date of trade settlement. Therefore, depending on the liquidation of other securities and the performance of other securities in the pool, the percentage of the pool of any given security or instrument could exceed the initial percentage limitations without violating the Investment Policy.

A. U.S. Treasury Securities

United States Treasury bills, notes, bond or certificates of indebtedness, for which the full faith and credit of the United States is pledged for the payment of principal and interest. The maximum maturity of U.S. Treasury Securities is 7 years.

B. U.S. Government Agency/GSE (Government Sponsored Enterprise)

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government sponsored enterprise. The maximum percent of the fund per issuer is 40%. The maximum percent of the fund for U.S. Agencies Callables Securities is 25%. U.S. Government Agency/GSE securities must be rated AA, long-term, or A-1, Short-term, or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). The maximum maturity for Agency Securities is 7 years.

C. Commercial Paper

At the time of purchase, commercial paper must be rated either A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better when applicable. Eligibility is limited to U.S. organized and operating corporations. Corporations must have assets in excess of $5 Billion, and have an A rating or better on the issuer's debt other than commercial paper by at least two of the three nationally recognized rating services. Maturities may not exceed 270 days. Purchases of commercial paper will not exceed 40% of the pool's investable money.

D. Negotiable Certificates of Deposit

Negotiable certificates are negotiable money market instruments that trade on the open market. At the time of purchase, negotiable certificates of deposit must be rated either A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better when applicable. These certificates must be issued by a U.S. National or State chartered bank or state or federal association (as defined by section 5102 of the California Financial Code) or by a state licensed branch of a foreign bank. Eligible foreign banks must have branches or agencies in the U.S. Issuers must be a corporation with total assets in excess of $5 Billion. Purchases of Negotiable Certificates of Deposit will not exceed 30% of the pool.

E. Bankers Acceptance

A Bankers Acceptance (BA) is a draft drawn and accepted by banks that is based upon funds that will pay its face value at maturity. The security is normally traded at a discounted price. Because the accepting institution is obligated to pay for the bill, a Bankers Acceptance is considered less risky than commercial paper.

At the time of purchase, BAs must be rated A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better if applicable. BAs are primarily used to finance international trade. BAs are timed drafts (bills of exchange) drawn on and accepted by a commercial bank Issuers must be a corporation with total assets in excess of $5 Billion. Purchases of Bankers Acceptances will not exceed 15% of the pool for domestic commercial banks and 15% of the pool for foreign commercial banks.

F. Certificates of Deposit

Collateralized Certificates of Deposit must comply with Bank Deposit Law. Purchases of Collateralized Certificates of Deposit will not exceed 15% of the pool.

G. Asset Backed Securities

The issuer of these securities must be rated "AAA" by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Securities shall have a maximum remaining maturity of five years. Purchases of Asset Backed Securities will not exceed 20% of the pool.

The allowable types of Asset Backed Securities include the following:

1. U.S. Government Agency Mortgage pass-through securities.
2. Collateralized Mortgage Obligations (CMO) where the underlying mortgages have U.S. government backing.
3. Equipment lease back certificates.
4. Consumer receivable backed bonds.
5. Auto loan receivable backed bonds.

H. Corporate Securities

The maximum maturity for corporate securities is five years. Eligible securities shall be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. At the time of purchase, corporate securities must be rated A or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Securities in this classification must be dollar denominated and registered with the Securities and Exchange Commission and be publicly traded or at least have undergone shelf registration. If a security is owned and downgraded below the pool's investment standards, the Treasury Oversight Committee will be notified within 10 days of any security downgrades that fall below the pool's investment standards and the course of action to be taken if any. In addition, the information will be posted on the Treasurer's website within the same time frame.

Purchases of Corporate Securities shall not exceed 30% of the pool. At the time of purchase, a maximum of 25% of the entire core position of 30% can be rated single A. The remaining 75% must be AA rated or higher. There is a 5% limitation of the fund in any single issuer of Corporate Securities, however, the Pool has a target of holding no more than 3%. The 3% target may be exceeded under exceptional circumstances. (i.e.: peak tax collection periods, G.O. Bond issuances, etc.) when there is a large influx of cash.

I. Repurchase Agreements

Repurchase Agreements must be executed with dealers with whom the County has written agreements and are either banking institutions that meet the rating requirements of this policy or dealers who report to the Market Reports Division of the Federal Reserve Bank of N.Y. (Primary Dealers). All transactions must be collateralized at 102% of current value plus accrued interest and must be marked to market daily. The only acceptable collateral for these transactions include Treasuries or Agencies with a maximum maturity of seven years.

For purposes of this authorized investments section, the term “Repurchase Agreement” means a purchase of a security by the County pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified dollar amount and will deliver the underlying securities to the County by book entry. All County pool transactions are conducted through the County custodian on a payment vs. delivery basis. When the transaction is unwound, the transfer of the underlying securities will revert to the counter party’s bank account by book entry. The term “Counter party” means the other party to the transaction with the County. The Counter Party, or its parent, must have a short-term rating of A-1, P-1 or F1 by at least two of the three nationally recognized rating services (S&P, Moody’s and Fitch). The maximum allowable term of a repurchase agreement shall not exceed 92 days.

J. Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is an investment fund run by the Treasurer of the State of California to pool local agency monies. LAIF will be used as a comparative fund to the County’s pool. The maximum percent of the fund that can be invested is up to the current State limit.

K. Registered Warrants

In accordance with Government Code §17202 **–** All registered warrants issued by the state are legal investments for all:

1. Trust funds.
2. Funds of all insurers.
3. Funds of savings and loan associations.
4. Funds of all banks, including any legal combination of commercial banks, savings banks and trust companies.
5. Funds of all counties, municipal corporations, districts, public corporations, political subdivisions, or state agencies.

L. Mutual Funds

Shares of beneficial interest issued by diversified management companies as defined in Government Code Section § 53601. Purchases of Mutual Funds will not exceed 10%.

VIII. Security Lending

Security Lending is a temporary exchange of portfolio assets for acceptable collateral between a lender and an approved borrower. The additional income generated from this transaction can be used to enhance portfolio performance. This process can be summarized in three key steps:

A. The Security Lending agent lends securities from our portfolio to an approved borrower at a negotiated rate. The negotiated rate is dependent upon the level of demand for the securities.

B. The Security Lending agent invests the cash collateral in highly liquid, short duration, high credit quality instruments approved by our investment policy.

C. The earnings generated net of rebates from these transactions are split between the third party agent and the County based on the contract agreement.

Our contract with The Bank of New York requires daily reporting of the securities borrowed, the borrowers, and the short term investments made with the collateral. The County retains the right to recall securities at any given time; cutoffs are 9:30 a.m. eastern standard time for same day recalls of treasuries/agencies and 1:30 p.m. eastern standard time on trade date for corporates. We also require acknowledgement of the County Investment Policy, and check the adherence to that policy daily.

All securities purchased with any funds received as a result of such lending shall be regularly monitored and re-evaluated. Should their ratings fall below the pool's investment standards, the Treasury Oversight Committee will be notified within 10 days of any security downgrades that fall below the pool's investment standards and the course of action if any. In addition the information will be posted on the Treasurer's website within the same time frame.

Additionally, the percentage of the Fund's market value in any one issuer's securities shall be regularly monitored and the Treasury Oversight Committee will be notified within 10 days, and the information posted on the Treasurer's website, of any instances where the percentage of the Fund's market value in any one issuer's securities exceeds the percentage limitations set forth herein or where there is any change in diversification and the course of action, if any.

There are always risks in any financial transaction. The three most common risks in Security Lending are as follows:

A. Borrower Default Risk – Although rare, a borrower may not return a security in a timely manner. To protect against this risk, we require 102% cash collateral, which is marked to market and monitored daily. In the event of borrower default, the Security Lending agent is responsible for replacing the securities or providing the cash value of the securities. In other words, The Bank of New York indemnifies the County of San Mateo against borrower default.

B. Collateral Investment Risk – The value of the securities in which we invest the cash collateral may decline due to fluctuations in interest rates or other market related events. This risk is controlled by investing in a huge investment pool with highly liquid short duration, high credit quality instruments identified in this investment policy.

C. Operational Risks – critical operations, such as maintaining the value of the collateral, collecting interest and dividend payments are essential to a smooth running Security Lending operation. Operational risks are the responsibility of the Security Lending agent. We further mitigate this risk by reviewing all transactions and collateral requirements on a daily basis.

Schedule 1 – Securities Lending

Securities Loans

- No more than 5% of the Pool can be on loan to any single counterparty.
- A single loan shall not exceed 3% of the total portfolio.
- The maximum maturity of a securities loan shall not exceed 92 days.

Collateral

Acceptable Collateral
U.S. Treasuries and Agencies and cash

Collateral Investment
The only authorized investments are shown in the following table. No floating or reset notes are permitted.

"Fund" means actual market value of all securities lending collateral.

INSTRUMENT	RATING	-------------	LIMITATIONS	----------
		% of Fund	% of Fund per Issuer	Maturity
U.S. Treasury Obligations		100	100%	1 year
Obligations of U.S. Agencies or government sponsored enterprises	AA or A-1	100	40% per issuer	1 year
Repurchase agreements secured by U.S. Treasury or agency obligation (102% collateral)	A-1	100	50%	overnight
Bankers Acceptances Domestic Foreign	A-1 / P-1/ F1	 15 15	 5% Aggregate 5% Aggregate	 180 days 180 days
Commercial paper	A-1 / P-1 / F1	40	5% Aggregate	270 days or less

Other

Agent Qualifications
The only acceptable Agent is the Pool's custodian bank.

Contract Provisions
The Agent must indemnify the Pool against borrower default.

The Agent must acknowledge and accept the Policy in writing. A copy of this acceptance will be attached to future policies.

The Agent must submit monthly reports showing securities out on loan (terms and borrowers), defaults, earnings, and the percent by sector of Pool assets out on loan as well as information on the collateral investments (including market values, income and realized and unrealized gains and losses).

Oversight
The Treasurer shall include copies of the Agent's most recent report with his reports to the Treasury Oversight Committee.

IX. Community Reinvestment Act Program

A. This policy sets aside up to $5 million dollars for investment in banks whose primary operations are located in San Mateo County. Investments from this fund must meet the requirements of this investment policy. Eligible banks must have Community Reinvestment Act performance ratings of "satisfactory" or "outstanding" from each financial institution's regulatory authority. In addition, deposits greater than the federally-insured amount must be collateralized. Banks must place securities worth between 110% and 150% of the value of the deposit with a custodial bank.

X. Diversification and Maturity Restrictions

It is the policy of the Treasurer to diversify the Fund's portfolios. Investments are diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer or a specific class of securities. Diversification strategies shall be established by the Treasurer and Assistant Treasurer.

INSTRUMENT	RATING	% of Fund	LIMITATIONS % of Fund per Issuer	Maturity
U.S. Treasury Obligations		100%	100%	7 years
Obligations of U.S. Agencies or government sponsored enterprises	AA or A-1	100%	40%	7 years
U.S. Agencies Callables	AA		25%	7 years

INSTRUMENT	RATING	% of Fund	LIMITATIONS % of Fund per Issuer	Maturity
Bankers Acceptances *Domestic: ($5 billion minimum assets) *Foreign: ($5 billion minimum assets)	A-1 / P-1/ F1	15% 15%	5% Aggregate 5% Aggregate	180 days 180 days
Collateralized Time Deposits within the state of CALIFORNIA	A-1/P-1/ F1	15%	5% Aggregate	1 year
Negotiable Certificates of Deposit ($5 billion minimum assets)	A-1/P-1/ F1	30%	5% Aggregate	5 years
Commercial paper	A-1/P-1/ F1	40%	5% Aggregate	270 days or less
Repurchase Agreements secured by U.S. Treasury or agency obligation (102% collateral)	A-1	100%	See limitations for Treasuries and Agencies above	92 days
Corporate bonds, Medium Term Notes & Covered Bonds (two agencies)	AA/A A	30% 25% of the 30% above	5% Aggregate	5 years
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code Section§ 53601(Mutual Funds)	Money Market A-1/P-1	10%	5% Aggregate	
Mortgage Backed Securities/CMO's: No Inverse Floaters No Range Notes No Interest only strips derived from a pool of Mortgages	A	20%	5% Aggregate	5 Years
Asset Backed Securities	AAA	20%		5 Years

XI. Average Life

The maximum dollar weighted average maturity of the fund will be 3 years. The focus of this fund is in order of priority: preservation of principal, liquidity and then yield. The policy of maintaining a maximum dollar weighted maturity or weighted average maturity (WAM) of 3 years leaves open the flexibility to take advantage of interest rate trends to maximize the return on investment. The imposed maximum 3 year average maturity limits the market risk to levels appropriate to a short, intermediate income fund. The word “Maturity” refers to the instrument’s stated legal final redemption date - not coupon reset, put or call dates.

Securities purchased specifically to match the maturity of a bond issue and/or a contractual arrangement must be authorized by California Government Code §53601 and §53635 but are not included in the requirements listed above. Such securities shall be clearly designated in the appropriate investment journals and reports.

XII. Prohibited Transactions

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy and with California Government Code Sections §53601, §53601.1, §53601.2, §53601.6, and §53635, as may be amended from time to time. No investment prohibited by California Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Investment Policy **at time of purchase** must be documented and approved by the Treasurer in writing. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

The Treasurer shall not leverage the County pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy.

Security Lending is authorized by this policy and will be limited to a maximum of 20% of the portfolio.

The following transactions are prohibited:

A. Borrowing for investment purposes (“Leverage”)

B. Inverse floaters, leveraged floaters, equity-linked securities, event-linked securities, structured investment vehicles (SIV)

Simple “floating rate notes” whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value at par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips or other callable securities which otherwise meet quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.

C. Derivatives (e.g. swaptions, spreads, straddles, caps, floors, collars, etc.) shall be prohibited.

D. Trading of options and futures are prohibited.

XIII. Method of Accounting:

A. For earnings calculations, investments will be carried at original purchase cost (plus purchased accrued interest, if applicable). Premiums or discounts acquired in the purchase of securities will be amortized or accreted over the life of the respective securities. For GASB purposes, investments will be carried at cost and marked to market.

B. Gains or losses from investment sales will be credited or charged to investment income at the time of sale. All interest income, gains/ losses are posted quarterly.

C. Premiums paid for callable securities will be amortized to the 1st call date after purchase.

D. Purchased accrued interest will be capitalized until the first interest payment is received. Upon receipt of the first interest payment, the funds will be used to reduce the investment to its principal cost with the remaining balance credited to investment income.

E. Yield is calculated on an accrual basis using a 365-day calendar year. Earnings are calculated as follows:

$$\frac{(\text{Earnings* + Capital Gains}) - (\text{Banking Cost +Fees+Amortized Premiums + Capital Losses})}{\text{Average Daily Pool Balance}}$$

* Earnings equal net interest payments + accrued interest + accreted discounts.

F. The County Pool is operated as a single investment pool in which the banking and reporting services, required by the participant, will determine level of charges assigned to the account. Funds that generate specific volume of related banking charges such as payroll, extra reporting, etc. (variable costs) will be charged both fixed and variable banking costs as well as administrative fees before interest allocation and will be designated as Pool 1. Those funds that do not generate excessive banking cost but utilize the basic banking services (fixed costs) will be designated as Pool 2 and charged fixed banking costs and administrative fees. The final classification is designated as Pool 3 and represents those funds that have only an incidental use of the County banking system and therefore only pay administrative fees.

G. Effective July 1, 2014, the 3-pool accounting methodology will be eliminated. The County Pool will be operated as a single investment pool. Banking and reporting services required by a participant will be charged directly to the participant. All participants will be charged an administrative fee.

F. The administrative fee is 11.5 basis points and will be evaluated annually.

XIV. Safekeeping

All deliverable security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a Delivery-versus-Payment basis (DVP)

All deliverable securities shall be held by a third party custodian designated by the Treasurer. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.

XV. Performance Evaluation

The Treasurer shall submit monthly, quarterly and annual reports, in compliance with Government Code Sections §53607, §53646 and §27134, to the Treasury Oversight Committee, Pool participants and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. This includes the type of investments, name of issuer, maturity date, par and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Policy and a statement of the Pooled Investments Fund's ability to meet the expected expenditure requirements for the next 6 months. In accordance with GASB Statements 31 and 40, the Treasurer shall provide financial information on the treasury for the County's Comprehensive Annual Financial Report.

XVI. Withdrawal Requests for Pool Participants

A. Any request to withdraw funds shall be released at no more than 20% per month.

B. April and December current secured tax apportionments and property tax revenue which had previously been distributed to redevelopment agencies prior to their dissolution, and which, effective as of February 1, 2012, shall be distributed to Redevelopment Property Tax Trust Funds will be exempt from the 20% withdrawal rule.

C. Any additional withdrawal requests will be considered on a case-by-case basis.

D. All requests for withdrawals must first be made in writing to the Treasurer, at a minimum, 24 hours in advance.

In accordance with the California Government Code § 27136 et seq, and 27133 (h) et seq, these requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled investment fund.

XVII. Internal Controls

The County Treasurer shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. The County Treasurer shall also be responsible for ensuring that all investment transactions comply with the County's investment policy and the California Government Code.

The County Treasurer shall establish a process for daily, monthly, quarterly and annual review and monitoring of investment program activity.

Daily, the County Treasurer or authorized treasury personnel shall review the investment activity, as well as corresponding custodial and commercial bank balances and positions for compliance with the investment policy and guidelines. The County Controller's Office shall conduct an annual audit of the investment program's activities. It is to be conducted to determine compliance with the County's investment policy and the Government Code. The audit shall be conducted by staff with experience in auditing large, complex investment programs consistent with industry standards as promulgated by the Global Investment Performance Standards (GIPS) adopted by the CFA Institute Board of Governors.

A. Investment Authority and Responsibility

The responsibility for conducting the County's investment program resides with the Treasurer, who supervises the investment program within the guidelines set forth in this policy. The Treasurer may delegate the authority for day-to-day investment activity to the Assistant Treasurer.

B. County Treasury Oversight Committee

The Board of Supervisors, in consultation with the Treasurer, hereby establishes the County Treasury Oversight Committee pursuant to California Government Code § 27130 et seq. Members of the County Treasury Oversight Committee shall be selected pursuant to California Government Code §27131. The Treasury Oversight Committee will meet at least three times a year to evaluate general strategies and to monitor results and shall include in its discussions the economic outlook, portfolio diversification, maturity structure and potential risks to the County pool's funds. All actions taken by the Treasury Oversight Committee are governed by rules set out in § 27131 et seq. of the California Government Code.

Members of the County Treasury Oversight Committee must pay particular attention to the California Government Code § 27132.1, 27132.2, 27132.3 and 27132.4, which read as follows:

27132.1 A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

27132.2 A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

27132.3 A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms, with whom the Treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

27132.4 Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (chapter 9 (commencing with section 54950) of Part 1 of Division 2 of Title 5).

C. Reporting

The Treasurer will prepare a monthly report for the County pool participants and members of the County Treasury Oversight Committee stating, for each investment: the type of investment, name of the issuer, maturity date, par value of the investment, current market value and the securities S&P/Moody's rating. For the total pooled investment fund, the report will list average maturity, effective duration, cost, the current market value, net gains/losses and the sector and issuer concentrations. In addition, the report will break down distribution by maturities, coupon, duration and both S&P/Moody's ratings. The Treasurer shall prepare a monthly cash flow report which sets forth projections for revenue inflows, and interest earnings as compared to the projections for the operating and capital outflows of depositors. This projection shall be for a minimum of 12 months. All Reports will be available on the County Treasurer's website at www.sanmateocountytreasurer.org

D. Annual Audit of Compliance

The County Treasury Oversight Committee shall cause an annual audit to be conducted of the portfolio, procedures, reports and operations related to the County pool in compliance with the California Government Code § 27134.

E. Pool Rating

The Pool strives to maintain the highest credit rating at all times. Annually, a contract may be requested for a rating from one of the three leading nationally recognized credit rating organizations (S&P, Moody's or Fitch).

F. External Investment Advisor

An external investment advisor will be contracted to conduct independent monthly compliance reviews of the County's portfolio holdings and provide a monthly written report which will:

1. Verify the accuracy of holdings information
2. Provide summary level information about the portfolio
3. Verify compliance with California Government Code
4. Verify compliance with the County's written Investment Policy
5. List any exceptions or discrepancies identified

G. Loss Control

While this Investment Policy is based on "the Prudent Investor Rule", the Treasurer shall seek to enhance total portfolio return by means of actively managing the portfolio. In any professionally managed portfolio, occasional controlled losses are inevitable and must be realized and judged within the context of overall portfolio performance. Losses shall be allocated as otherwise described in this policy in section XIII, entitled "Method of Accounting".

H. Credit Quality

Should any investment or financial institution represented in the portfolio, be downgraded by any of the major rating services to a rating below those established in this investment policy, the Treasurer must immediately make an informed decision as to the disposition of that asset and will so advise the County Treasury Oversight Committee. The situation will be monitored daily by the Treasurer until final disposition has been made.

I. Approved Brokers

The Treasurer will maintain a current list of Approved Brokers and Dealers who may conduct business with the County. All financial institutions on the approved list will be evaluated individually, with preference given to primary dealers, who possess a strong capital and credit base appropriate to their operations. The Treasurer will forward a copy of the County Investment Policy to all approved brokers and require written acknowledgment of the policy from the broker.

No broker, brokerage, dealer or securities firm is allowed on the approved list if, within any consecutive 48-month period, they have made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local Treasurer, any member of the governing board of the local agency or any candidate for those offices.

J. Transaction Settlement

Payment of settlement in a securities transaction will be against delivery only. A due bill or other substitution will not be acceptable. All securities purchased from the brokers/dealers must be held in safekeeping by the County's safekeeping agent or designated third party.

K. Internal Controls

The Treasurer has established a system of controls designed to prevent losses of pooled funds due to fraud, employee error, and misrepresentations by third parties, and unanticipated changes in financial markets or imprudent actions by employees of the County. The controls include:

1. Procedures for investment activity which includes separation of duties for transaction authority, accounting and operations and requires clear documentation of activity.
2. Custodial safekeeping as prescribed in California Government Code § 53601.
3. Independent audit, both external and internal.
4. Clear delegation of authority.
5. Written confirmations of all telephone transactions.
6. Establishment of written ethical standards and rules of behavior.

XVIII. Execution of Investment Authority

A. All transactions are documented as to date, time and vendor, signed by the originator and include the following information:

1. Buy or sell
2. Specific description of security involved (CUSIP)
3. Settlement date
4. Price
5. The total amount of funds involved
6. On non-treasury or agency transactions a notation will be made on the transaction ticket of competitive bids and offers
7. Broker/dealer

B. Information in "A" must be provided to the Investment Specialist for the following purpose:

1. To contact the dealer to verify the information on the trade with the dealer's instructions. Any misunderstanding must be clarified prior to settlement.
2. To provide the County's custodian bank with the specifics of the pending transaction to assure a smooth settlement.
3. To compare with the daily custodian transaction report to assure there are no errors.
4. To generate the internal entries necessary for the movement of funds to complete the transaction.
5. To compare with the broker's confirmations when received.

C. At the end of each day, the Investment Specialist summarizes all of the current day transactions in a “Daily Cash Flow Report” available immediately the following morning. This report includes:

1. A summary of all the day’s investment transaction
2. A listing of the day’s incoming and outgoing wires
3. A listing of the day’s state automatics and other deposits received
4. If the pool has “Repos” out, the current earnings rate statement
5. An estimate of the total anticipated clearings for the day

D. A best effort will be made to obtain a minimum of three prices from different brokers before executing a security transaction whenever possible. Exceptions will occur with Treasuries. In those cases the Bloomberg screen will be printed as close to the actual executed price as possible. In the case of money market, agencies or corporate securities, a best effort will be made to obtain differential bids and offers.

E. Repurchase Agreements All Repurchase Agreements with approved dealers will be governed by a Public Securities Association (PSA) agreement that has been approved in writing by the Treasurer.

F. Confirmations resulting from securities purchased or sold under a Repurchase Agreement shall state the exact and complete nomenclature of the underlying securities bought or sold, as well as the term structure (i.e. maturity) of the transaction.

G. Securities on loan and their corresponding investments under the County Security Lending Program must be monitored daily by the Investment Specialist to assure the Assistant Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank.

H. The assets of the County shall be held in safekeeping by the County’s safekeeping agent, or secured through third-party custody and safekeeping procedures. A due bill or other substitution will not be acceptable.

I. Safekeeping procedures shall be reviewed annually by the Treasurer’s office and an external auditor. Surprise audits of safekeeping and custodial procedures must be conducted at least once a year.

J. Security Lending: The custodial bank may be authorized to lend out up to 20% of the portfolio within the guidelines of this policy. Guidelines for securities lending and the investment of collateral are attached to this policy as Schedule 1. Securities on loan must be monitored daily by the Treasurer’s office to assure that the Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank.

K. Voluntary Participants will be accepted for participation in the San Mateo County Pooled Fund if they meet the following requirements:

1. A public agency
2. Domiciled in the County of San Mateo.
3. Agree to abide by the approved San Mateo County Pooled Fund Investment Policy Statement.
4. Acknowledge changes to the policy annually in writing and meet the minimum balance requirements (250K).

L. Agencies whose jurisdiction includes San Mateo County, but are not domiciled in San Mateo County, may participate in the San Mateo County Pooled Fund with the approval of the Treasurer and the County Treasury Oversight Committee.

XIX. Disaster Recovery

The San Mateo County Treasurer's Disaster Recovery Plan includes critical phone numbers and addresses of key personnel as well as active bankers and brokers/dealers. Portable devices have been issued to key personnel for communicating between staff, banks and broker/dealers. The plan includes an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event investment staff is unable to invest the portfolio, the custodial bank will automatically sweep all un-invested cash into a collateralized account at the end of the business day. Union Bank is currently the pools bank.

Should this guarantee program not be extended, a collateralized account will be set up. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy.

XX. Ethics and Conflict of Interest

The Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with San Mateo County and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of San Mateo County's investment portfolio.

XXI. Limits on Honoraria, Gifts and Gratuities

In accordance with California Government Code Section 27133, this policy establishes limits for the Treasurer; individuals responsible for management of the portfolios; and members of the Treasury Oversight Committee; select individual investment advisors and broker/dealers who conduct day-to-day investment trading activity.

Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of $50 in a calendar year from a broker/dealer,bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

No individual designated in a conflict of interest code may receive aggregate gifts, honoraria and gratuities in a calendar year in excess of the amount specified in Section 18940.2(a) of Title 2, Division 6 of the California Code of Regulations. Gifts from a single source are subject to a $420 limit. Any violation must be reported to the State Fair Political Practices Commission.

Comparison and Interpretation of Credit Ratings[1]

Long Term Debt Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Best-Quality grade	Aaa	AAA	AAA
High-Quality Grade	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
Upper Medium Grade	A1 A2 A3	A+ A A-	A+ A A-
Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
Speculative Grade	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
Low Grade	B1 B2 B3	B+ B B-	B+ B B-
Poor Grade to Default	Caa	CCC+	CCC
In Poor Standing	- -	CCC CCC-	- -
Highly Speculative Default	Ca C	CC -	CC -
Default	- - -	- - D	DDD DD D

Short Term/Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Superior Capacity	P-1	A-1+/A-1	F1+/F1

Strong Capacity	P-2	A-2	F2
Acceptable Capacity	P-3	A-3	F3

[1] **These are general credit rating guidelines and are for information only**

GLOSSARY OF TERMS

ACCRUED INTEREST
Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

BANKERS' ACCEPTANCE
A time bill of exchange drawn on and accepted by a commercial bank to finance the exchange of goods. When a bank "accepts" such a bill, the time draft becomes, in effect, a predated, certified check payable to the bearer at some future specified date. Little risk is involved for the investor because the commercial bank assumes primary liability once the draft is accepted.

BASIS POINT
One basis point is equal to 1/100 of one percent. For example, if interest rates increase from 4.25% to 4.50%, the difference is referred to as a 25-basis-point increase.

BENCHMARK
A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID
The price at which a buyer offers to buy a security.

BOND
A bond is essentially a loan made by an investor to a division of the government, a government agency or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is the called the maturity date or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk and rate of income.

BOOK VALUE
The value of a held security as carried in the records of an investor. May differ from current market value of the security.

BROKER/DEALER
Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

CALLABLE SECURITIES
An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

COMMERCIAL PAPER
Short-term, unsecured promissory notes issued in either registered or bearer form and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

COUPON RATE
The annual rate of interest payable on a security expressed as a percentage of the principal amount.

COVERED BOND
A covered or mortgage bond is an on-balance sheet obligation of the issuing institution.

Typically, a covered bond receives the legal structure, the issuer's backing and the pledge of quality assets, should the issuer fail to qualify for a higher rated bond.

CREDIT RISK

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CURRENT YIELD

The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSIP NUMBERS

CUSIP is an acronym for Committee on Uniform Security Identification Procedures. CUSIP numbers are identification numbers assigned each maturity of a security issue and usually printed on the face of each individual security in the issue. The CUSIP numbers are intended to facilitate identification and clearance of securities.

DISCOUNT

The amount by which the par value of a security exceeds the price paid for the security.

DIVERSIFICATION

Dividing investment funds among a variety of securities offering independent returns.

DURATION

The weighted average time to maturity of a bond where the weights are the present values of future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates.

EARNINGS APPORTIONMENT

The quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

FAIR VALUE

The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL FUNDS

Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE

Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC)

This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FIDUCIARY

An individual who holds something in trust for another and bears liability for its safekeeping.

FLOATING RATE NOTE

A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, etc.).

FUTURES

Commodities, which are sold to be delivered at a future date

INTEREST

The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INVERSE FLOATING RATE NOTES
Variable-rate notes whose coupon and value increase as interest rates decrease.
LIQUIDITY
The ease with which investments can be converted to cash at their present market value. Liquidity is significantly affected by the number of buyers and sellers trading a given security and the number of units of the security available for trading.
LOCAL AGENCY INVESTMENT FUND (LAIF)
The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.
MARKET RISK
Market risk is the risk that investments will change in value based on changes in general market prices.
MARKET VALUE
The price at which a security is trading and could presumably be purchased or sold.
MASTER REPURCHASE AGREEMENT
A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transaction. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.
MATURITY
The date upon which the principal of a security becomes due and payable to the holder.
MONEY MARKET MUTUAL FUND
A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.
MUNICIPAL BOND
Debt obligation of a state or local government entity
OPTION
A contract that provides the right, but not the obligation, to buy or to sell a specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.
PAR
The stated maturity value, or face value, of a security.
PAR VALUE
The stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.
PREMIUM
The amount by which the price paid for a security exceeds the security's par value.
PRIME RATE
A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.
RATE OF RETURN
The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond and the current income return.
REPURCHASE AGREEMENT OR RP OR REPO
An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer and the bank or dealer agrees to repurchase the securities at

the same price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. Reverse repurchase agreements are the mirror image of the RPs when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

SAFEKEEPING

A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank in the customer's name.

SECURITIES LENDING

A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SETTLEMENT DATE

The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

STRIPs

Bonds, usually issued by the U.S. Treasury, whose two components, interest and repayment of principal, are separated and sold individually as zero-coupon bonds. Strips are an acronym for Separate Trading of Registered Interest and Principal of Securities.

TRADE DATE

The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. AGENCY OBLIGATIONS

Federal agency or United States government-sponsored enterprise obligations, participants, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include: Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, Resolution Trust Funding Corporation, World Bank, Inter-American Development Bank and PEFCO.

U.S. TREASURY OBLIGATIONS (TREASURIES)

Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

WEIGHTED AVERAGE MATURITY

The remaining average maturity of all securities held in a portfolio.

YIELD

The rate of annual income return on an investment, expressed as a percentage. Yield does not include capital gains. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ZERO-COUPON BOND

A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-coupon bonds are typically issued at a discount and repaid at par upon maturity.