NEW ISSUE – BOOK-ENTRY ONLY RATINGS: S&P: "**A+**"
(See "MISCELLANEOUS – Ratings" herein.)

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "**TAX MATTERS.**"*

$11,670,000
MILPITAS UNIFIED SCHOOL DISTRICT
(County of Santa Clara, State of California)
2010 GENERAL OBLIGATION REFUNDING BONDS
(BANK QUALIFIED)

Valued ⭑ Challenged ⭑ Successful

Dated: Date of Delivery **Due: See Maturity Schedule below**

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Milpitas Unified School District 2010 General Obligation Refunding Bonds (the "Bonds") are issued by the Milpitas Unified School District (the "District"), located in the County of Santa Clara (the "County") (i) to refund outstanding bonds of the District, and (ii) to pay costs of issuance of the Bonds. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

Interest on the Bonds is payable commencing on September 1, 2010, and thereafter on each March 1 and September 1 to maturity. Principal of the Bonds is payable on September 1 in each of the years and in the amounts set forth in the Maturity Schedule below. Payments of principal of and interest on the Bonds will be made by the Paying Agent, initially U.S. Bank National Association, to The Depository Trust Company, New York, New York ("DTC"), for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Payment of Principal and Interest" herein.

The Bonds will be issued in book-entry form only, and initially will be issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive certificates representing their interests in the Bonds. See "THE BONDS – Form and Registration" herein.

The Bonds are not subject to redemption prior to maturity.

MATURITY SCHEDULE

(Base CUSIP Number: 601670*)

Maturity (Sept. 1)	Principal Amount	Interest Rate	Price or Yield†	CUSIP Suffix	Maturity (Sept. 1)	Principal Amount	Interest Rate	Price or Yield†	CUSIP Suffix
2010	$ 945,000	2.000%	0.500%	HK1	2016	$1,150,000	3.250%	2.800%	HR6
2011	745,000	3.000	0.850	HL9	2017	1,190,000	4.000	3.150	HS4
2012	830,000	4.000	1.150	HM7	2018	1,245,000	4.000	3.500	HT2
2013	860,000	3.000	1.400	HN5	2019	1,295,000	4.000	3.700	HU9
2014	945,000	4.000	1.850	HP0	2020	1,350,000	4.000	3.810	HV7
2015	1,115,000	3.000	2.350	HQ8					

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC in New York, New York, on or about February 18, 2010.

This Official Statement is dated January 28, 2010.

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† Prices and yields certified by the Underwriter. The District takes no responsibility therefor.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption under Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

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

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

MILPITAS UNIFIED SCHOOL DISTRICT
Board of Education

Marsha Grilli
President

Michael Mendizabal
Vice President

Gunawan Alisantosa
Member

William (Bill) Foulk
Member

Daniel Bobay
Clerk

Vicky Tu
Student Representative

District Administration

Dr. Karl Black
Superintendent

Phuong Le
Assistant Superintendent-Business Services

SANTA CLARA COUNTY

County Administration

John V. Guthrie
Director of Finance

PROFESSIONAL SERVICES

Financial Advisor

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

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Paying Agent

U.S. Bank National Association
San Francisco, California

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$11,670,000
MILPITAS UNIFIED SCHOOL DISTRICT
(County of Santa Clara, State of California)
2010 GENERAL OBLIGATION REFUNDING BONDS
(BANK QUALIFIED)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the Milpitas Unified School District 2010 General Obligation Bonds (the "Bonds"), as described more fully herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be executed by the Milpitas Unified School District (the "District"), the District has no obligation to update the information in this Official Statement. See "OTHER LEGAL MATTERS – Continuing Disclosure" herein.

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 Underwriter or the owners of any of the Bonds.

Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement providing for the issuance of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

The District

The District is a unified school district providing public education in kindergarten through grade 12 and adult education to the residents of the City of Milpitas, located in Santa Clara County, California. The District was formed in 1968 out of the Milpitas Elementary School District. The District borders the southeast corner of San Francisco Bay, approximately ten miles due north of San Jose, the Santa Clara County seat. Milpitas is economically and culturally part of what is known worldwide as "Silicon Valley", and is home to numerous high-tech company headquarters and manufacturing facilities. The District is served by interstate highways 680 and 880.

The District operates nine elementary schools, two middle schools, one comprehensive high school, an alternative high school, an adult education program, and early child development programs. Enrollment in the District for grades K-12 in the 2008-09 school year was 9,651 students. In Fiscal Year 2009-10, the District has budgeted for approximately 754 full-time equivalent employees, which include certificated (credentialed teaching) staff, classified (non-teaching) staff, and management personnel. The District has budgeted general fund expenditures of approximately $80.7 million in Fiscal Year 2009-10. Total assessed valuation of taxable property in the District in Fiscal Year 2009-10 is approximately $11.9 billion. The District operates under the jurisdiction of the Santa Clara County Superintendent of Schools.

The District is governed by a five-member Board of Education, each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between two and three available positions. The District's day-to-day operations are managed by a board-appointed Superintendent of Schools. Dr. Karl Black has served as Superintendent of the District since 2003.

For additional information about the District's operations and finances, see APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION."

THE BONDS

Authority for Issuance; Purpose

The Bonds are issued pursuant to the Constitution and laws of the State (the "State"), including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and applicable provisions of the Education Code of the State and other applicable provisions of law. The Bonds are authorized by a resolution adopted by the Board of the District on December 8, 2009, and issued pursuant to a Paying Agent Agreement dated as of February 1, 2010 (the “Paying Agent Agreement”), between the District and U.S. Bank National Association, as paying agent (the “Paying Agent”). The Government Code permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds, provided that the total debt service to maturity on the refunding bonds not exceed the total debt service to maturity on the bonds being refunded.

The bonds to be refunded constitute all of the Milpitas Unified School District 2001 General Obligation Refunding Bonds, issued on November 13, 2001 in order to provide funds to refund other outstanding bonds of the District, maturing on September 1, 2010 through September 1, 2020 (the “Prior Bonds”). Approximately $11,950,000 aggregate principal amount of the 2001 Refunding Bonds currently remain outstanding.

Proceeds of the Bonds will be applied (i) to pay all principal of and interest and redemption premiums on the Prior Bonds, and (ii) to pay costs of issuance of the Bonds. See **“**PLAN OF REFUNDING” herein.

Form and Registration

The Bonds will be issued in fully registered book-entry form only, as current interest bonds without coupons, in denominations of $5,000 principal amount each or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Registered ownership of the Bonds may not be transferred except as described in Appendix F. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds or any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX F: “BOOK-ENTRY ONLY SYSTEM.”

Payment of Principal and Interest

The Bonds will be dated the date of their delivery, and bear interest at the rates set forth on the cover page hereof, on March 1 and September 1 of each year, commencing on September 1, 2010 (each, an “Interest Payment Date”), until payment of the principal amount thereof, computed using a year of 360 days consisting of twelve 30-day months. Bonds authenticated and registered on any date prior to the close of business on August 15, 2010, will bear interest from the date of their delivery. Bonds authenticated during the period between the 15th day of the calendar month immediately preceding an Interest Payment Date (the “Record Date”) and the close of business on that Interest Payment Date will bear interest from that Interest Payment Date. Any other Bond will bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Payment of interest on any Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) will be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof as of the preceding Record Date, such interest to be paid by check or draft mailed to such owner at such owner’s address as it appears on such registration books or at such other address as the owner may have filed with the Paying Agent for that purpose on or before the Record Date. The owner of an aggregate principal amount of $1,000,000 or more of Bonds may request in writing to the Paying Agent that such owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the applicable Record Date.

Principal will be payable at maturity, as shown on the cover hereof, or upon redemption prior to maturity, upon surrender of Bonds at the principal office of the Paying Agent or at such other location as the Paying Agent shall designate. The interest, principal and premiums, if any, on the Bonds will be payable in lawful money of the United States of America from moneys on deposit in the interest and sinking fund of the District (the "Interest and Sinking Fund") within the County treasury, consisting of *ad valorem* taxes collected and held by the Director of Finance of the County (the "Director of Finance"), together with any net premium and accrued interest received upon issuance of the Bonds.

So long as all outstanding Bonds are held in book-entry form and registered in the name of a securities depository or its nominee, all payments of principal of, premium, if any, and interest on the Bonds and all notices with respect to such Bonds will be made and given, respectively, to such securities depository or its nominee and not to beneficial owners. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer.

Redemption

The Bonds are not subject to Optional or Mandatory Redemption prior to maturity.

Defeasance of Bonds

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

If at any time the District pays or causes to be paid or there is otherwise paid to the Owners of any or all outstanding Bonds all of the principal, interest and premium, if any, represented by Bonds when due, or as described above, or as otherwise provided by law, then such Owners shall cease to be entitled to the obligation of the County to levy and collect taxes to pay the Bonds and such obligation and all agreements and covenants of the District to such Owners under the Paying Agent Agreement shall thereupon be satisfied and discharged and shall terminate, except only that the District will remain liable for payment of all principal, interest and premium, if any, represented by such Bonds, but only out of moneys on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment, provided, that the unclaimed moneys provisions described below will apply in all events.

Unclaimed Moneys

Any money held in any fund created pursuant to the Paying Agent Agreement or by the Paying Agent in trust, for the payment of the principal of, redemption premium, if any, or interest on the Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys shall be transferred to the general fund of the District as provided and permitted by law.

PLAN OF REFUNDING

Application and Investment of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be deposited in an escrow fund (the "Escrow Fund") to be created and maintained by U.S. Bank National Association, acting as Escrow Agent under that certain Escrow Agreement by and between the District and the Escrow Agent, dated as of February 1, 2010. Moneys in the Escrow Fund will be invested in cash or non-callable direct obligations of the United States Treasury or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America. An independent Certified Public Accountant (licensed to practice in the

State of California), Causey, Demgen & Moore Inc., Denver, Colorado, acting as Verification Agent with respect to the Escrow Funds, will certify in writing that moneys deposited and invested in the Escrow Fund, together with earnings thereon, will be sufficient for the payment of interest on the Prior Bonds on March 1, 2010, and the payment and redemption on that date of all said Prior Bonds.

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a Costs of Issuance Fund and used to pay costs associated with the issuance of the Bonds and the refunding of the Prior Bonds. Any proceeds of sale of the Bonds not needed to fund the Escrow Fund or to pay costs of issuance of the Bonds will be transferred to the Director of Finance for deposit in the District's Interest and Sinking Fund in the County treasury, and applied only for payment of principal of and interest on outstanding bonds of the District.

All moneys held by the Paying Agent in the Costs of Issuance Fund shall be invested upon the written direction of the District solely in investments otherwise permitted to the District by law; or, if the Paying Agent does not receive investment instructions, in interest-bearing demand, time deposits or money market funds permitted to the District for investment of its funds in accordance with law. Amounts deposited into the Interest and Sinking Fund, as well as proceeds of taxes held therein for payment of the Bonds, will be invested at the discretion of the Director of Finance pursuant to law and the investment policy of the County. See APPENDIX E: "SANTA CLARA COUNTY STATEMENT OF INVESTMENT POLICY AND MONTHLY INVESTMENT REPORT."

ESTIMATED SOURCES AND USES OF FUNDS

The net proceeds of the Bonds and other funds are expected to be applied as follows:

Sources of Funds	
Principal Amount	$11,670,000.00
Original Issue Premium	460,279.15
Transfer from the Interest and Sinking Fund for the Prior Bonds	255,318.75
Total Sources:	$12,385,597.90
Uses of Funds	
Deposit to Escrow Fund	$12,205,323.75
Underwriter's Discount	17,541.18
Costs of Issuance(1)	162,732.97
Total Uses:	$12,385,597.90

(1) Includes financial advisor fees, bond counsel fees, disclosure counsel fees, rating agency fees, paying agent fees, printing fees, and other miscellaneous expenses.

SCHEDULED ANNUAL DEBT SERVICE

The scheduled debt service for the Bonds is as follows:

SEMI-ANNUAL DEBT SERVICE PAYMENTS
MILPITAS UNIFIED SCHOOL DISTRICT
2010 GENERAL OBLIGATION REFUNDING BONDS

Period Ending	Principal	Interest	Total Periodic Debt Service	Total Annual Debt Service
Sept. 1, 2010	$ 945,000	$ 220,917.99	$ 1,165,917.99	$ 1,165,917.99
Mar. 1, 2011		196,587.50	196,587.50	
Sept. 1, 2011	745,000	196,587.50	941,587.50	1,138,175.00
Mar. 1, 2012		185,412.50	185,412.50	
Sept. 1, 2012	830,000	185,412.50	1,015,412.50	1,200,825.00
Mar. 1, 2013		168,812.50	168,812.50	
Sept. 1, 2013	860,000	168,812.50	1,028,812.50	1,197,625.00
Mar. 1, 2014		155,912.50	155,912.50	
Sept. 1, 2014	945,000	155,912.50	1,100,912.50	1,256,825.00
Mar. 1, 2015		137,012.50	137,012.50	
Sept. 1, 2015	1,115,000	137,012.50	1,252,012.50	1,389,025.00
Mar. 1, 2016		120,287.50	120,287.50	
Sept. 1, 2016	1,150,000	120,287.50	1,270,287.50	1,390,575.00
Mar. 1, 2017		101,600.00	101,600.00	
Sept. 1, 2017	1,190,000	101,600.00	1,291,600.00	1,393,200.00
Mar. 1, 2018		77,800.00	77,800.00	
Sept. 1, 2018	1,245,000	77,800.00	1,322,800.00	1,400,600.00
Mar. 1, 2019		52,900.00	52,900.00	
Sept. 1, 2019	1,295,000	52,900.00	1,347,900.00	1,400,800.00
Mar. 1, 2020		27,000.00	27,000.00	
Sept. 1, 2020	1,350,000	27,000.00	1,377,000.00	1,404,000.00
Total:	$ 11,670,000	$ 2,667,567.99	$ 14,337,567.99	$ 14,337,567.99

Combined Annual Debt Service

The District has previously issued its Series 2004 Refunding General Obligation Bonds, a portion of which will remain outstanding following issuance of the Bonds. See APPENDIX A: "DISTRICT FINANCIAL AND OPERATING INFORMATION – FINANCIAL AND DEMOGRAPHIC INFORMATION – District Debt Structure." Upon issuance of the Bonds, annual debt service obligations for all outstanding bonds of the District, including the Bonds and taking into account redemption of the Prior Bonds will be as follows:

GENERAL OBLIGATION BONDS
TOTAL ANNUAL DEBT SERVICE*

Year Ending September 1	The Bonds	Other Outstanding Bonds	Total Annual Debt Service
2010	$ 1,165,918	$ 3,078,413	$4,244,331
2011	1,138,175	3,109,413	4,247,588
2012	1,200,825	3,115,163	4,315,988
2013	1,197,625	3,118,363	4,315,988
2014	1,256,825	3,108,763	4,365,588
2015	1,389,025	3,106,763	4,495,788
2016	1,390,575	3,101,963	4,492,538
2017	1,393,200	3,104,363	4,497,563
2018	1,400,600	3,093,563	4,494,163
2019	1,400,800	3,094,963	4,495,763
2020	1,404,000	3,092,963	4,496,963
2021	0	4,499,738	4,499,738
2022	0	4,499,638	4,499,638
2023	0	4,498,250	4,498,250
2024	0	4,499,250	4,499,250
TOTAL	$ 14,337,568	$ 52,121,563	$ 66,459,130

* Amounts may differ slightly from actual amounts due to rounding of decimals.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District, including the countywide tax of 1% of taxable value. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well. The District receives approximately 72% of its total operating revenues from local property taxes.

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

The Finance Agency of the County, through its four departments (Controller-Treasurer Department, Tax Collector's Office, Department of Revenue, and Clerk-Recorder's Office), performs the functions of each of the county officers described in the preceding paragraph, and manages the County's financial systems and cash resources as well as the cash resources of school districts within the County. The Director of Finance of the County is head of the Finance Agency. The role of assessor is an elected position in the County.

Assessed Valuation of Property Within the District

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

For assessment and tax collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." California law requires that the assessment roll be finalized by August 20 of each year.

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

RECENT HISTORY OF
TOTAL ASSESSED VALUATION

Fiscal Year	Local Secured	Utility	Unsecured	Total	Percent Change
2000-01	$ 6,416,616,195	$ 9,749,087	$1,423,364,505	$7,849,729,787	---
2001-02	7,494,580,524	17,078,481	1,737,975,928	9,249,634,933	17.83%
2002-03	7,907,401,387	13,475,524	1,732,407,987	9,653,284,898	4.36
2003-04	7,719,260,546	10,297,513	1,531,321,797	9,260,879,856	-4.06
2004-05	7,941,078,625	12,362,196	1,344,351,874	9,297,792,695	0.40
2005-06	8,296,142,702	11,618,565	1,617,605,214	9,925,366,481	6.75
2006-07	9,031,462,553	9,784,139	1,267,031,329	10,308,278,021	3.86
2007-08	9,780,524,675	1,302,640	1,305,930,000	11,087,757,315	7.56
2008-09	10,551,290,527	956,311	1,399,723,228	11,951,970,066	7.79
2009-10	10,531,398,266	956,311	1,413,207,889	11,945,562,466	-0.05

Source: California Municipal Statistics, Inc.

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

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

Bonding Capacity. The District may not issue bonds in excess of 2.5% of the assessed valuation of taxable property within its boundaries. The District's gross bonding capacity is estimated at $299 million, and its net bonding capacity is approximately $250 million, not taking into account the issuance of the Bonds or the defeasance of the Prior Bonds. Refunding bonds, including the Bonds, may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

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

ASSESSED VALUATION AND PARCELS BY LAND USE
FISCAL YEAR 2009-10

	Assessed Valuation		Parcels	
	2009-10 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Industrial	$ 2,697,223,370	25.61%	315	1.79%
Commercial	1,343,162,106	12.75	379	2.15
Agricultural/Rural	91,615,881	0.87	317	1.80
Miscellaneous	41,526,852	0.39	117	0.66
Government/Social/Institutional	30,100,622	0.29	36	0.20
Recreational	23,991,457	0.23	7	0.04
Subtotal Non-Residential	$ 4,227,620,288	40.14%	1,171	6.64%
Residential:				
Single Family Residence	$ 4,694,836,846	44.58%	12,339	70.02%
Condominium/Townhouse	1,056,500,523	10.03	3,319	18.83
5+ Residential Units/Apartments	241,635,141	2.29	58	0.33
2-4 Residential Units	79,644,432	0.76	149	0.85
Mobile Home	20,722,160	0.20	348	1.97
Subtotal Residential	$ 6,093,339,102	57.86%	16,213	92.00%
Vacant Parcels	$210,438,876	2.00%	239	1.36%
Total	$10,531,398,266	100.00%	17,623	100.00%

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

Assessed Valuation of Single-Family Residential Properties. The following table focuses on single-family residential properties only, which comprise approximately 45% of the assessed value of taxable property in the District. The average assessed value per parcel is $380,488, and the median assessed value per parcel is $377,100.

ASSESSED VALUATION OF SINGLE FAMILY HOMES
FISCAL YEAR 2009-10

	No. of Parcels	2009-10 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	12,339	$4,694,836,846	$380,488	$377,100

2009-10 Assessed Valuation	No. of Parcel[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $99,999	1,360	11.022%	11.022%	$ 86,927,522	1.852%	1.852%
$100,000 - $199,999	1,250	10.130	21.152	192,739,644	4.105	5.957
$200,000 - $299,999	1,997	16.184	37.337	505,158,170	10.760	16.717
$300,000 - $399,999	2,027	16.428	53.764	709,355,662	15.109	31.826
$400,000 - $499,999	2,522	20.439	74.204	1,135,441,996	24.185	56.011
$500,000 - $599,999	1,795	14.547	88.751	977,628,582	20.823	76.834
$600,000 - $699,999	734	5.949	94.700	471,010,085	10.033	86.867
$700,000 - $799,999	300	2.431	97.131	222,541,861	4.740	91.607
$800,000 - $899,999	138	1.118	98.249	116,416,072	2.480	94.087
$900,000 - $999,999	71	0.575	98.825	66,745,952	1.422	95.508
$1,000,000 - $1,099,999	50	0.405	99.230	52,080,190	1.109	96.618
$1,100,000 - $1,199,999	26	0.211	99.441	30,067,708	0.640	97.258
$1,200,000 - $1,299,999	18	0.146	99.587	22,424,816	0.478	97.736
$1,300,000 - $1,399,999	15	0.122	99.708	20,115,940	0.428	98.164
$1,400,000 - $1,499,999	8	0.065	99.773	11,606,644	0.247	98.412
$1,500,000 - $1,599,999	8	0.065	99.838	12,308,872	0.262	98.674
$1,600,000 - $1,699,999	4	0.032	99.870	6,572,165	0.140	98.814
$1,700,000 - $1,799,999	2	0.016	99.887	3,492,096	0.074	98.888
$1,800,000 - $1,899,999	3	0.024	99.911	5,492,031	0.117	99.005
$1,900,000 - $1,999,999	2	0.016	99.927	3,867,396	0.082	99.087
$2,000,000 and greater	9	0.073	100.000	42,843,442	0.913	100.000
Total	12,339	100.000%		$4,694,836,846	100.000%	

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

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2009-10 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and ability or willingness to pay property taxes. In 2009-10, no single taxpayer owned more than 3.02% of the total taxable property in the District. Each taxpayer listed is a unique entity. 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.

MAJOR TAXPAYERS 2009-10

	Property Owner	Land Use	2009-10 Assessed Valuation	% of Total[1]
1.	Cisco Technology Inc.	Industrial	$318,330,000	3.02%
2.	Milpitas Mills LP	Regional Mall	304,656,097	2.89
3.	Silicon Valley Ca I LLC	Industrial	205,662,096	1.95
4.	Diversified Real Estate Investors LLC	Industrial	186,281,172	1.77
5.	BRE/Milpitas LLC	Industrial	115,842,000	1.10
6.	Linear Technology Corp.	Industrial	109,235,459	1.04
7.	Lifescan Inc.	Industrial	102,379,831	0.97
8.	A&P Children Invs LLC	Industrial	87,330,399	0.83
9.	ERP Operating LP	Apartments	78,740,712	0.75
10.	Trinet Milpitas Assocs. LLC	Industrial	77,039,058	0.73
11.	ABN Amro Leasing Inc.	Industrial	71,309,863	0.68
12.	Milpitas McCarthy Ranch Inc.	Shopping Center	67,005,730	0.64
13.	Fleming Business park LLC	Industrial	66,838,074	0.63
14.	KLA-Tencor Corporation	Industrial	64,413,600	0.61
15.	MRTP LLC	Industrial	53,366,058	0.51
16.	Westcore Milpitas LLC	Industrial	51,000,000	0.48
17.	200 Serra Way LLC	Shopping Center	46,292,395	0.44
18.	Milpitas Square LLC	Shopping Center	41,087,741	0.39
19.	Milpitas Town Center 2008 LP	Shopping Center	38,548,935	0.37
20.	JWMFE Milpitas CY LLC	Hotel	34,646,013	0.33
Total			$2,120,005,233	20.13%

(1) 2009-10 local secured assessed valuation: $10,531,398,266.
Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed collectively as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Ongoing changes in the structure of California's electric utility industry and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether future legislation, regulations or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, including the District.

Tax Rate

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

The rate of tax necessary to pay fixed debt service on the Bonds in a given year depends on the assessed value of taxable property in that year. Property values could be reduced by factors beyond the District's control, such as a depressed real estate market due to general economic conditions in the County, the region and the State. The District is located in a seismically active area; the Hayward Fault, a branch of the more famous San Andreas Fault running near San Francisco, and considered one of the most active faults in California, runs directly through the District on a north-south axis, while the Calaveras Fault, a fork of the Hayward Fault, is located not far to the east. Property within the District could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the area's economic activity. Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The following table shows *ad valorem* property tax rates for the last several years in a typical tax rate area of the District, TRA 12-003. TRA 12-003 comprises approximately 51% of the total assessed value of property in the District:

SUMMARY OF *AD VALOREM* TAX RATES
(DOLLARS PER $100 OF ASSESSED VALUATION)
TYPICAL TOTAL TAX RATE (TRA 12-003)

	2005-06	2006-07	2007-08	2008-09	2009-10
General Tax Rate	1.0000	1.0000	1.0000	1.0000	1.0000
County Retirement Levy	.0388	.0388	.0388	.0388	.0388
County Library Retirement	.0024	.0024	.0024	.0024	.0024
County Hospital Bonds	-	-	-	-	.01220
San Jose-Evergreen Community College District	.0119	.0120	.0097	.0130	.0144
Milpitas Unified School District	.03900	.0398	.0365	.0332	.0351
Total All Property Tax Rate	1.0921	1.0930	1.0874	1.0874	1.1029
Santa Clara Valley Water District State Water Project	.0069	.0070	.0067	.0059	.0071
Santa Clara Valley Water District, Zone W-1 Bond	.0009	.0002	.0004	.0002	.0003
Total Land and Improvement Tax Rate	.0078	.0072	.0071	.0061	.0074

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies

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

The Director of Finance-Tax Collector's Office prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a ten percent penalty attaches. If taxes remain unpaid by June 30, the tax is deemed to be in default. Penalties then begin to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the Tax Collector.

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll. Unsecured taxes remaining unpaid at 5 p.m. on the last day of the second month after the 10% penalty attaches shall be subject to an additional penalty of 1.5%, attaching on the first day of each succeeding month on the amount of the original tax. To collect unpaid taxes, the Tax Collector may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interest of the taxpayer. The Tax Collector may also bring a civil suit against tax taxpayer for payment. The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The recent history of real property tax collections and delinquencies in the District is not available, but the following table shows this data for the County. The District, however, comprises only a portion of property in the County (approximately 3%, by value).

SECURED TAX CHARGES AND DELINQUENCIES
SANTA CLARA COUNTY

Fiscal Year	Secured Tax Charge[1]	Amount Delinquent June 30	Percent Delinquent June 30
2003-04	$3,471,703.41	$56,500.63	1.63%
2004-05	9,074,369.30	42,818.51	0.47
2005-06	3,163,912.65	36,488.17	1.15
2006-07	3,494,590.92	57,879.63	1.66
2007-08	3,530,067.81	93,253.01	2.64
2008-09	3,463,346.73	89,489.76	2.58

[1] These amounts represent taxes collected by the County within the District's boundaries for bond debt service only.
Source: California Municipal Statistics, Inc.

Teeter Plan. 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 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including school districts, receives the amount of uncollected taxes credited to its fund, in the same manner as if the amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district bonds.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured roll in that agency. The Board of Supervisors has never elected to exercise this right.

Direct and Overlapping Debt. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of January 1, 2010, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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

DIRECT AND OVERLAPPING BONDED DEBT

2009-10 Assessed Valuation:	$11,945,562,466
Redevelopment Incremental Valuation:	(3,813,630,936)
Adjusted Assessed Valuation:	$ 8,131,931,530

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 1/1/10
Santa Clara County	3.012%	$ 10,542,000
Santa Clara County Flood Control and Water Conservation District, Zone W-1	3.055	42,465
San Jose-Evergreen Community College District	9.193	22,109,170
Milpitas Unified School District	100.	48,620,000[(1)]
Santa Clara Valley Water District Benefit Assessment District	3.012	4,863,928
City of Milpitas 1915 Act Bonds	100.	18,715,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$104,892,563
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Santa Clara County General Fund Obligations	3.012%	$25,566,760
Santa Clara County Pension Obligations	3.012	11,687,910
Santa Clara County Board of Education Certificates of Participation	3.012	437,644
Santa Clara County Vector Control District Certificates of Participation	3.012	124,245
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$37,816,559
COMBINED TOTAL DEBT		$142,709,122[(2)]

Ratios to 2009-10 Assessed Valuation:
Direct Debt ($48,620,000) 0.41%
Total Direct and Overlapping Tax and Assessment Debt 0.88%

Ratios to Adjusted Assessed Valuation:
Combined Total Debt 1.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $0

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

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the Internal Revenue Service, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the District or the beneficial owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX C: "PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Bank Qualified

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2009-10 fiscal year (which is due no later than April 1, 2011) and to provide notice of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply in all material respects with its previous undertakings with regard to the Rule to file annual reports or notices of material events.

No Litigation

No litigation is pending or, to the best knowledge of the District, threatened, concerning the validity of the Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Bonds, the political existence of the District, the title to their offices of District or County officials who will sign the Bonds and other certifications relating to the Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the original purchasers at the time of the original delivery of the 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.

MISCELLANEOUS

Ratings

The Bonds have been assigned the rating of "**A+**" by Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc. ("Standard & Poor's"). The rating agencies generally base their ratings on their own investigations, studies, and assumptions. The District has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement). The rating reflects only the views of the rating agency, and any explanation of the significance of such rating may be obtained only from Standard & Poor's at www.standardandpoors.com. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. The District undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and as Disclosure Counsel to the District with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds. KNN Public Finance, A Division of Zions First National Bank, is acting as Financial Advisor with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Underwriting

Pursuant to a competitive sale held on January 28, 2010, Piper Jaffray & Co., as the original purchaser (the "Underwriter"), will purchase the Bonds from the District at the purchase price of $12,112,737.97 (consisting of $11,670,000.00 aggregate principal amount of the Bonds, plus original issue premium of $460,279.15, less underwriter's discount ("spread") of $17,541.18). The terms of sale provide that the Underwriter will purchase all of the Bonds if any are purchased, the obligation of the Underwriter to purchase the Bonds being subject to certain terms and conditions to be satisfied by the District.

The Underwriter has certified the public reoffering prices or yields set forth on the cover hereof. The Underwriter's spread is based on those prices or yields, and the District takes no responsibility for the accuracy of those prices or yields. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriter.

Additional Information

Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

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All data contained herein have been taken or constructed from the District's records and other sources, as indicated. This Official Statement and its distribution have been duly authorized and approved by the District.

MILPITAS UNIFIED SCHOOL DISTRICT

By: /s/ Dr. Karl Black
Superintendent

APPENDIX A

DISTRICT FINANCIAL AND OPERATING INFORMATION

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

FINANCIAL AND DEMOGRAPHIC INFORMATION

General

The District is a unified school district providing public education in kindergarten through grade 12 and adult education to the residents of the City of Milpitas, located in Santa Clara County, California. The District was formed in 1968 out of the Milpitas Elementary School District. The District borders the southeast corner of San Francisco Bay, approximately ten miles due north of San Jose, the Santa Clara County seat. Milpitas is economically and culturally part of what is known worldwide as "Silicon Valley", and is home to numerous high-tech company headquarters and manufacturing facilities. The District is served by interstate highways 680 and 880.

The District operates nine elementary schools, two middle schools, one comprehensive high school, an alternative high school, an adult education program, and early child development programs. Enrollment in the District for grades K-12 in the 2008-09 school year was 9,651 students. In Fiscal Year 2009-10, the District has budgeted for approximately 754 full-time equivalent employees, which include certificated (credentialed teaching) staff, classified (non-teaching) staff, and management personnel. The District has budgeted general fund expenditures of approximately $80.7 million in Fiscal Year 2009-10. Total assessed valuation of taxable property in the District in Fiscal Year 2009-10 is approximately $11.9 billion. The District operates under the jurisdiction of the Santa Clara County Superintendent of Schools.

The District is governed by a five-member Board of Education, each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between two and three available positions. The District's day-to-day operations are managed by a board-appointed Superintendent of Schools. Dr. Karl Black has served as Superintendent of the District since 2003.

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund, and a local portion derived from the District's share of the county-wide property tax. In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District receives approximately 37% of its general fund revenues from State funds, budgeted at approximately $28.3 million in fiscal year 2009-10. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

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

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

Adoption of Annual State Budget. According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the amended 2009-10 Budget Act on July 28, 2009.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. The Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: **www.sco.ca.gov.** Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White* decision to have any long-term effect on its operating budgets.

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

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

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2004 lawsuits has so far resulted in over $4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the

Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, as the State did in 2004-05; and by proposing to amend the Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

2009-10 State Budget. On September 24, 2008, the Governor signed the State budget for fiscal year 2008-09, the latest budget approval in State history. It is widely acknowledged that even by the time of its passage, the budget's revenue estimates were already too optimistic, in light of continuing weak performance in the California economy and unprecedented adverse developments in the global and national financial markets, particularly after September 15, 2008. The Governor declared a fiscal emergency in December 2008, and called three concurrent special legislative sessions in order to address the budget deficit, then estimated to be $42 billion. In the face of growingly negative estimates of State tax receipts during fiscal year 2008-09, the Governor signed the State's Fiscal Year 2009-10 Budget Act on February 20, 2009 (the earliest date on record), essentially as a revised two-year budget settlement for fiscal years 2008-09 and 2009-10. However, after the failure in May 2009 of six revenue and spending propositions on the statewide ballot deemed essential to success of the budget bill, work began again on a fiscal year 2009-10 budget plan. On July 24, 2009, the Legislature approved a new budget package, which the Governor signed on July 28, 2009. For an accurate view of current Proposition 98 funding, one must treat these three recent budgets as a whole, and consider also the significant adjustments that have been left to future budget years.

The amended 2009-10 State Budget consisted of some 30 separate bills; subsequent legislation may affect final budget totals. Indeed, if the economy worsens, the assumptions in even the amended 2009-10 State Budget may prove unsustainable, and further cuts and revisions may be needed. Until audited fiscal year-end 2008-09 State revenues are known, the State cannot determine the final fiscal year 2008-09 Proposition 98 funding requirement. The following information relating to the funding of elementary and secondary education is adapted from the budget summaries prepared by Legislative Analyst's Office, the Governor's office, and other sources.

The amended 2009-10 State Budget achieves balance through spending cuts, additional revenue generation, borrowing from local governments and others, revenue shifts from redevelopment agencies, and other accounting changes; all of these techniques are also present in the adopted Proposition 98 funding plan. Fiscal year 2008-09 Proposition 98 funding for K-12 schools is reduced to $43.1 billion ($9 billion less than the level assumed in the adopted 2008-09 State Budget, and $1.6 billion less than the February 2009 amended amount). Fiscal year 2009-10 funding is established at $44.6 billion ($3.7 billion less than the February 2009 adopted amount). Over $10.1 billion in mandated Proposition 98 funding is deferred to future years: the so-called "maintenance factor." Of budgeted Proposition 98 funding, $1.7 billion is shifted to school districts from property taxes and other moneys belonging to redevelopment agencies. Funding is also delayed in several ways: $2 billion is deferred from the first months of fiscal year 2009-10 to December 2009 and January 2010, while $1.8 billion will not be paid until August 2010-11. Mandated settle-up payments of $450 million for prior years under the Quality Education Investment Act are also deferred, effectively to 2014-15. Cost-of-living adjustments of over 18% are deferred, creating a future obligation of well over $6.5 billion. Categorical funding of $1.6 billion intended for fiscal year 2008-09 that had not been funded by June 30, 2009, is treated as fiscal year 2009-10 categorical funding, but an equal amount of minimum guarantee funding is eliminated. For those districts that would otherwise receive no Proposition 98 minimum guarantee funding from the State, categorical funding is reduced by $80 million. In addition, the Governor vetoed $3.9 million of approved spending for special education transportation costs.

State savings is also achieved by lifting various mandates and restrictions on local school districts: full flexibility is allowed to spend funding for 42 categorical programs as districts wish through 2012-13; class-size reduction in grades K-3 is largely suspended, and the minimum days of instruction are reduced from 180 to 175, through reduced or suspended financial penalties on districts that do not meet existing requirements; districts are excused from buying new approved instructional materials; proceeds of surplus land sales otherwise restricted to capital improvements are permitted to be used for general fund expenditures through 2011; the general fund reserve requirement is reduced to one-third of the otherwise applicable percentage (3% of expenditures for a district with average daily attendance of up to 30,000), provided this is restored by 2011-12; the routine maintenance reserve requirement of 1% of general fund expenditures is suspended; and school districts that project they will not meet financial guidelines due to loss of federal stimulus funding in fiscal years 2011-12 and 2012-13 will not have their budgets negatively rated as a result.

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

Proposition 1A. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election.

Proposition 1A is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 1A allows the State to divert up to 8% of local property tax revenues for State purposes (including, but not limited to, funding K-12 education) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe any repayment to local agencies for past property tax or Vehicle License Fee diversions to local agencies; and (v) such property tax diversions do not occur in more than two of any ten consecutive fiscal years. Because ERAF shifts will be capped and limited in frequency, school and college districts that receive Proposition 98 funding from the State will be more directly dependent upon the State's general fund.

The amended 2009-10 State Budget includes a Proposition 1A diversion of $1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amended 2009-10 State Budget diverts another $1.7 billion in local property tax revenues from local redevelopment agencies, but this is not covered by Proposition 1A. The California Redevelopment Association and two redevelopment agencies filed a lawsuit in October 2009 challenging the constitutionality of this diversion.

District Revenues

Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance ("A.D.A.").

The base revenue limit is calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution.

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

The District's base revenue limit per A.D.A. is budgeted to be $6,369 for fiscal year 2009-10, compared to $6,109 for 2008-09. However, for these fiscal years, the State has not fully funded its portion of the statewide Proposition 98 requirement or of the District's revenue limit entitlement. Instead, the State funded $15,308,475 for fiscal year 2008-09 and is expected to fund $14,772,698 for fiscal year 2009-10. The District's recent A.D.A. history for kindergarten through grade 12 (K-12), including special education, is set forth in the table below:

TOTAL GRADES K-12 SECOND PERIOD (P-2)
AVERAGE DAILY ATTENDANCE[1]
MILPITAS UNIFIED SCHOOL DISTRICT

Fiscal Year	Average Daily Attendance
2005-06[2]	9,446
2006-07[2]	9,375
2007-08[2]	9,341
2008-09[2]	9,409
2009-10[3]	9,457

(1) Includes grades K-12, special education, and continuation students, excludes Adult Education and ROP.
(2) District Audited Financial Statements.
(3) District 2009-10 Budget.

The principal component of local revenues is the District's property tax revenues; that is, 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. The more local property taxes a district receives, the less State equalization aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known colloquially as "basic aid districts." Districts that receive some equalization aid may commonly be referred to as "revenue limit districts."

The District is **not** a basic aid district. Local property tax revenues account for approximately 72% of the District's aggregate revenue limit income, and are budgeted to be approximately $38.2 million, or 50% of total general fund revenue in fiscal year 2009-10. The County is a "Teeter Plan" county, which means that the District is made whole for any delinquencies in payment of property taxes by local property owners. Property tax levy and collection procedures (including the Teeter Plan) are discussed in the Official Statement under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Tax Collections and Delinquencies." For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see APPENDIX A: "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

Changes in local property tax income and student enrollment (or A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district's entitlement to State equalization aid, assuming property tax revenues are unchanged. Operating costs increase disproportionately slowly—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

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

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

In its 2009-10 adopted budget, the District estimates that it will receive $52.9 million in revenue limit income in 2009-10, or approximately 70% of its total general fund revenues. This amount represents a decrease of approximately 1% from the $53.5 million that the District estimates it received in 2008-09. State funds for special (categorical) programs are budgeted at $13.6 million, including the State lottery fund portion. Lottery funds may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's total State lottery revenue is budgeted at $1.7 million, or about 2% of general fund revenue in 2009-10.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State's ability to meet the revenue and spending assumptions in the State's adopted budget, and the effect of these changes on school finance. The District's adopted budget and budgeted A.D.A. are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District's actual funding level for fiscal year 2009-10 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

Effect of Redevelopment Project Area. Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. Property taxes levied for repayment of local bonds approved after January 1, 1987 (including the Bonds), are not affected by redevelopment agency claims on local tax increment.

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

For basic aid districts, the State will not make the district whole for loss of tax increment to the redevelopment agency unless and only to the extent that such loss reduces the district's local property tax revenues below the district's revenue limit. In addition, the basic aid district may be entitled to a pass-through payment from the redevelopment agency: for any redevelopment project plan adopted or amended after 1993, a basic aid district is entitled to its pre-plan share of taxes collected districtwide, plus the lesser of (i) property tax revenues from the incremental growth in assessed valuation in that part of the district not included in the project area, and (ii) property tax revenues on 80% of the incremental growth in assessed valuation within the project area.

For any redevelopment plan adopted before 1994 and not subsequently amended, either a revenue limit district or a basic aid district may continue to receive pass-through payments at the level negotiated with the redevelopment agency instead of the statutory pass-through; such payments do not count against the district's revenue limit for State aid purposes, but must generally be used for capital facilities improvements.

One merged redevelopment project area lies within the District's boundaries. These were merged into a single project area and amended since 1993, and thus is subject to the statutory pass-through requirement. The District has budgeted to receive approximately $1.2 million in redevelopment pass-through revenues in 2009-10, of which $530,712 is treated as local property taxes for revenue limit purposes and $694,951 is to be deposited in the building fund for capital improvements.

District Expenditures

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

In its 2009-10 budget, the District estimates that it will expend $65.15 million in salaries and benefits, or approximately 81% of its general fund expenditures. This amount represents a decrease of approximately 1.0% from the $65.68 million the District expended in 2008-09.

Labor Relations. The District currently employs 465 full-time equivalent certificated and 242 full-time equivalent classified employees and 47 management employees. Certificated and classified employees are represented for collective bargaining purposes as shown below:

Milpitas Unified School District
Labor Organizations

Labor Organization	Number of Employees	Contract Expiration [2]
MTA – Milpitas Teachers Association – CTA/NEA	465	August 31, 2011
CSEA-CA School Employees Association, Chapter 281	242	June 30, 2010

Retirement Programs. The District participates in the State Teachers' Retirement System ("STRS") for all full-time and some part-time certificated employees. Each school district is required by statute to contribute 8.25% of eligible employees' salaries to STRS on a monthly basis. Employees are required to contribute 8.0% of eligible salary. The State is required to contribute as well. The District's employer contribution to STRS from the General Fund was $3.4 million for fiscal year 2008-09 and is budgeted at $3.3 million in fiscal year 2009-10.

The District also participates in the California Public Employees' Retirement System ("CalPERS") for all full-time and some part-time classified employees. The District is required to contribute toward CalPERS, at a State-determined percentage of CalPERS-eligible salaries. For fiscal year 2009-10, the contribution percentage is 9.709%. In the current budget year, the total contribution is budgeted at $923,000, compared to a fiscal year 2008-09 General Fund expense of $860,719.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make (except as already announced). STRS and CalPERS liabilities are more fully described in APPENDIX B: "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009," Note 12.

Post-Employment Benefits. The District contractually provides post employment health care benefits until the age of 65 to certificated and classified employees with a minimum of twelve years service who retire on or after attaining age 55. The District pays certain dependent care for employees with longer service, including lifetime benefits for retirees with 25 years or more of service. As of June 30, 2008, 116 retirees were beneficiaries under this program. In fiscal year 2008-09 the District paid $676,719 in post-employment health care benefits, and has budgeted $676,133 for fiscal year 2009-10.

On June 18, 2009, North Bay Pensions of Sebastopol, California, completed a study of the District's outstanding post-employment benefit obligations as of July 1, 2008, at which time the Actuarial Present Value of the

District's Total Projected Benefits for all current and former employees was calculated to be $19,048,000, compared to $19,250,000 reported in the District's 2006 actuarial valuation report. As of July 1, 2008, the District's Actuarial Accrued Liability was $14,082,000, all of which is unfunded, as the District has not established a trust fund for such benefits, and is relying on pay-as-you-go funding. The annual addition to the accrued liability is $595,000 (the District's "Normal Cost"). The Annual Required Contribution is $1,409,000—the amount needed to amortize the accrued and accruing liabilities over 30 years. While current and recent budgeted contributions to the obligation have been greater than the Normal Cost, they have been less than the Annual Required Contribution, which means the total liability is growing by approximately $700,000 per year. The District is required to comply with Governmental Accounting Standards Board (GASB) Statement No. 45 in reporting its post-employment health benefit liabilities for fiscal years following December 15, 2007; however, neither GASB 45 nor any other law currently imposes any legal requirement that the District fund its unfunded actuarial liability.

Accrued Vacation and Other Obligations. The long-term portion of accumulated and unpaid employee vacation for the District as of June 30, 2009, was $150,430.

Summary of District Revenues and Expenditures

The tables on the following pages summarize the District's general fund revenue, expenditures and fund balances from fiscal years 2005-06 through 2009-10. See "SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS – District Budget Process and County Review" herein for a general description of the annual budget process for California school districts. The District's audited financial statements for the year ending June 30, 2009, are reproduced in APPENDIX B. The final (unaudited) statement of receipts and expenditures for each fiscal year ending June 30 is required by State law to be approved by the District Board of Education by September 15, and the audit report must be filed with the County of Santa Clara Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% percent of its total general fund expenditures, based on total student attendance. For fiscal year 2009-10, the District has budgeted an unrestricted general fund reserve of 3%, or approximately $2.4 million. Substantially all funds of the District are required by law to be deposited with and invested by the Director of Finance on behalf of the District, pursuant to law and the investment policy of the County. See APPENDIX E: "SANTA CLARA COUNTY STATEMENT OF INVESTMENT POLICY AND MONTHLY INVESTMENT REPORT."

Comparative Financial Statements

Commencing with Fiscal Year 2002-03, the District implemented Governmental Accounting Standards Board ("GASB") Procedure No. 34, which resulted, among other things, in a change in the financial statements of the District to reflect expenditures by function rather than by object. The following table presents audited figures in the new format. Figures presented in the GASB 34 format are not directly comparable to the presentation in the table which covers Fiscal Years 2008-09 and 2009-10.

Milpitas Unified School District
General Fund
Revenues, Expenditures and Fund Balances
2005-06 through 2007-08[1]

	2005-06 Actual	2006-07 Actual	2007-08 Actual
Revenues			
General Revenues:			
Property taxes	$37,455,746	$35,123,132	$36,940,049
Federal and state aid not restricted to specific	15,671,531	23,452,690	22,998,426
Interest and investment earnings	438,300	723,601	652,348
Miscellaneous	991,527	1,033,088	1,463,588
Program Revenues:			
Charges for services	137,411	203,421	180,623
Operating grants and contributions	16,861,856	20,322,216	19,170,362
Total Revenues	$71,556,371	$80,858,148	$81,405,396
Expenditures			
Instruction	41,692,423	46,857,184	49,733,187
Instruction-related services			
Supervision of instruction	2,005,169	2,173,210	2,616,167
Instructional library, media and technology	184,697	195,648	212,751
School site administration	4,876,689	5,349,596	5,427,110
Pupil services			
Home-to-school transportation	511,111	552,961	612,762
Food services	1,620	1,668	207
All other pupil services	2,724,242	3,226,063	3,317,244
General Administration			
Data processing	685,555	672,680	765,387
All other general administration	2,909,558	2,792,887	2,960,304
Plant Services	6,577,025	6,669,363	7,065,718
Facility acquisition construction	5,089	1,639,788	1,026,639
Ancillary services	14,462	20,488	355,508
Community services	189	7,095	13,326
Other outgo	6,768,706	7,392,541	7,834,124
Debt Service:			
Principal	24,331	24,330	239,281
Interest	0	0	65,284
Total Expenditures	$68,980,866	$77,575,502	$82,224,999
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,575,505	3,282,646	(819,603)
Other Financing Sources			
Proceeds from the sale of land	0	1,016,203	325,490
Interfund transfers out	(697,493)	(887,553)	(847,380)
Interfund transfers in	39,521	1,450,000	1,450,000
Total Other Financing Sources (Uses)	($657,972)	$1,578,650	$928,110
Excess of Revenues Over (Under) Expenditures	1,917,533	4,861,296	108,507
Beginning Fund Balance	4,923,556	6,841,089	11,702,385
Ending Fund Balance	$ 6,841,089	$11,702,385	$11,810,892

[1] Audited Financial Statements.

Milpitas Unified School District
General Fund
Revenues, Expenditures and Fund Balances
2008-09 and 2009-10

	2008-09 Actual[1]	2009/10 Budgeted[2]
Revenues		
Revenue Limit Sources	$53,479,218	$52,963,477
Federal	7,401,925	3,651,714
Other State	15,083,364	13,627,106
Local	6,800,029	5,762,308
Total Revenues	$82,764,536	$76,004,605
Expenditures		
Certificated Salaries	41,202,500	40,026,993
Classified Salaries	11,014,138	11,196,695
Employee Benefits	13,465,852	13,929,554
Books and Supplies	2,962,370	3,552,919
Services and Other Operating Expenditures	4,892,930	5,165,235
Capital Outlay	11,861	222,054
Direct Support/Indirect Costs	(249,580)	--
Other Outgo (including transfers indirect/direct)	7,864,624	6,458,283
Total Expenditures	$81,164,425	$80,551,697
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,600,111	(4,547,128)
Other Financing Sources/(Uses)		
Interfund Transfers In	258,697	2,464,343
Interfund Transfers Out	(212,777)	(207,929)
All other financing sources	397,081	--
Total Other Financing Sources and Uses	$443,002	$2,256,414
Excess of Revenues Over (Under) Expenditures	2,043,113	(2,290,714)
Beginning Fund Balance	11,810,892	5,539,268
Ending Fund Balance	$13,854,005	$3,248,554

(1) Unaudited Supplementary Information section of the Fiscal Year 2008-09 Audited Financial Statements.
(2) Fiscal Year 2009-10 Budget, adopted June 23, 2009.

First Interim Report

As of the District's Fiscal Year 2009-10 First Interim Report dated December 8, 2009, for the period ending October 31, 2009, the District projects that total 2009-10 General Fund revenues will decline from the adopted budget by approximately $1.5 million to $74.5 million, while total expenditures will increase approximately $4.5 million to $85.1 million, resulting in a projected decline of approximately $6.65 million in the ending balance to $4.7 million. The changes in revenues from the adopted budget are primarily explained by (i) a 35% drop in revenue limit income due to adjustments made in the State's 2009-10 Budget Act for school districts statewide, which is offset in part by (ii) one-time federal grants under the American Recovery and Reinvestment Act of 2009 for Special Education IDEA Programs, and (iii) an increase in student attendance. The change in expenditures primarily reflects carryover of unexpended categorical funds received in the prior year.

District Debt Structure

Tax and Revenue Anticipation Notes. The District has issued tax and revenue anticipation notes in each recent year as shown in the table below. The District's notes are a general obligation of the District, payable from the District's general fund and any other lawfully available moneys.

Issuance Date	Principal Amount	Interest Rate	Yield	Due Date
July 7, 2005	$3,850,000	4.00%	2.58%	July 6, 2006
July 11, 2006	4,250,000	4.50	3.63	July 10, 2007
December 14, 2007	4,000,000	4.00	3.03	December 12, 2008
July 15, 2008	4,000,000	2.50	1.72	July 14, 2009
October 7, 2009	4,100,000	2.50	0.60	October 6, 2010

Capital Leases. The District leases equipment under agreements that provide for title to pass upon expiration of the lease period. Minimum lease payments for 2009-10 are valued at $280,234. The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

Other Long-Term Liabilities. In 2004-05, the District was notified by the Santa Clara County Office of Education (COE) that the COE's District Business Advisory Services group had posted erroneous entries to the District's cash account in prior years resulting in an overstatement of cash in the county treasury in the District's Building Fund. At that time, the overage was estimated at $356,000. In 2005-06, the county reported the amount owed by the District was $364,965, and agreed to allow them to make equal payments of $24,331 to them over a 15 year period. The first payment was made on October 10, 2006. At June 30, 2009, the balance outstanding was $291,972.

General Obligation Bonds. On June 4, 1996, the voters of the District approved a bond proposition authorizing the issuance of $64,700,000 of bonds by greater than a two-thirds affirmative vote. All of the approved bonds were issued in 1996, 1998, and 2000, and all but one maturity noted in the table below were subsequently refunded by the District's 2001 General Obligation Refunding Bonds" issued on November 13, 2001, in the aggregate principal amount of $17,250,000, and its 2004 General Obligation Refunding Bonds issued on December 8, 2004, in the aggregate principal amount of $40,580,000. As of February 1, 2010, the District's outstanding bonds were as described in the table below:

Series Name	Year of Issue	Initial Principal	Current Outstanding Principal
Series 2000	2000	$20,000,000	$ 370,000
2001 Refunding Bonds	2001	17,250,000	11,950,000
2004 Refunding Bonds	2004	40,580,000	36,300,000
TOTAL		$57,830,000	$ 48,620,000

Voter-approved bonds, and bonds issued to refund such bonds, are payable from an unlimited ad valorem property tax authorized to be levied by the County as necessary to repay the amounts coming due in each year. See "ESTIMATED SOURCES AND USES OF FUNDS – Scheduled Annual Debt Service" in the front portion of this Official Statement for a description of principal and interest owed on all bonds outstanding.

Capital Financing Plan

The District has identified capital improvement needs of approximately $200 million. The District expects to be able to fund all projects from a possible future bond election and from available state funding and developer fees, which are expected to allow the District to complete all projects in its facilities master plan by 2020.

The District's capital improvement needs include: modernization, construction of multi-purpose rooms and other specialty facilities, technology infrastructure, repair and improvement of athletic facilities and potential construction of a new elementary school to accommodate growth.

As a condition to receiving past State modernization or construction funds, the District agrees to fund a restricted maintenance reserve account in the general fund each year for 20 years of at least 3% of its general fund budget. For fiscal years 2008-09 through 2012-13, the adopted 2009-10 State Budget has reduced the required reserve contribution from 3% to 1%. In 2008-09, the District has funded a maintenance reserve contribution of $2.3 million or 3%

Insurance, Risk Pooling and Joint Powers Arrangements

The District participates in five joint powers agreement entities, the South Bay Area of Schools Insurance Authority (SBASIA), the Santa Clara County School Insurance Group (SCCSIG), the Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS), the Metropolitan Education (Metro ED), and the East Valley Schools Transportation Authority (EVSTA), collectively (the "JPA's"). The District purchases comprehensive general liability and property damage from SBASIA, and workers compensation coverage from PIPS, in coverage amounts comparable to other school districts participating in the same JPA and similar industry. For property damage, the District has a deductible of $10,000 per occurrence; thereafter, SBASIA covers damage up to $500,000 via a self-insured retention and purchases excess property insurance for its members in the commercial market to a policy limit of $1,000,0000 per occurrence through Public Entity Property Insurance Program (PEPIP). For liability insurance, the District has a deductible of $5,000 per occurrence; thereafter, SBASIA covers liability up to $300,000 via a self-insured retention, purchases excess general liability coverage on behalf of its members through Genesis to a policy limit of $5,000,000 per occurrence, and purchases additional excess liability coverage to $20,000,000 per occurrence through Schools Excess Liability Fund (SELF). The District purchases workers' compensation coverage in the commercial market through PIPS at levels required by statute.

The District's potential liabilities under its various arrangements are described in APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009", Note 9. The District does not directly bear liability for the losses of other members of the JPA's; however in the event of numerous large local losses, the JPA's self-insured retention fund could be exhausted, and member districts such as the District could be required to make further contributions to cover member claims.

The District is not a member of any other joint powers agencies or authorities.

Charter Schools

Charter schools operate as autonomous public schools, under charter from a school district, county office of education, or the State Board of Education, with minimal supervision by the local school district. Charter schools receive revenues from the State and from the District for each student enrolled, and thus effectively reduce revenues available for students enrolled in District schools. The District is also required to accommodate charter school students originating in the District in facilities comparable to those provided to regular District students.

There are currently no charter schools in the District.

SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the Santa Clara County Superintendent of Schools (the "County Superintendent").

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to 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 with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) after also consulting with the district's board, develop and impose revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 ("A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent 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 is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. With the exception of the District's qualified budget certification in its 2008-09 Second Interim Report, restored to a positive certification as of a third interim report filed on June 1, 2009, the District has not received a qualified or negative certification in at least the most recent five fiscal years.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with the definitions, instructions and procedures of the California School Accounting Manual, as required by the State Education Code. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Nigro, Nigro & White, PC, served as independent auditor to the District for fiscal year 2008-09, and its report for fiscal year ended June 30, 2009 is attached hereto as APPENDIX B. The District considers its audited financial statements to be public information, and accordingly no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the District since the audit was concluded. The District is required by law to adopt its audited financial statements following a public meeting to be conducted no later than January 31 following the close of each fiscal year.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIIIA of the California Constitution. Article XIIIA of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) 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 tax for payment of the District's general obligation bonds approved at the 2002 and 2006 elections falls within the exception for bonds approved by a 55% vote.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restored value of the damaged property. The California courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

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

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer and tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are restricted as to use and are neither pledged nor available to pay the Bonds.

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

Expenditures and Appropriations

Article XIIIB of the California Constitution. In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual "appropriations limit" or "Gann Limit" imposed by Article XIIIB of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity, each has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district's revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years. If the State's aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State's contribution to school and college districts.

In fiscal year 2008-09, the District had an appropriations limit of $59,142,107 and appropriations subject to the limit of $56,408,605. For fiscal year 2009-10, the District's appropriations limit is budgeted at $59,026,767.

Future Initiatives. Articles XIIIA, XIIIB, XIIIC, and XIIID, and Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

APPENDIX B

FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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MILPITAS UNIFIED SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended June 30, 2009

NIGRO NIGRO & WHITE PC

A Professional Accountancy Corporation

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MILPITAS UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2009
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FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

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SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITORS' REPORTS

FINDINGS AND QUESTIONED COSTS SECTION

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&WHITE
PC

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Board of Trustees
Milpitas Unified School District
Milpitas, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milpitas Unified School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Milpitas Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milpitas Unified School District as of June 30, 2009 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2009 on our consideration of the Milpitas Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and the required supplementary information on pages 45 and 46 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milpitas Unified School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Nigro Nigro & White, PC

Murrieta, California
October 18, 2009

Management's Discussion and Analysis

This discussion and analysis of Milpitas Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved slightly from last year, as the net assets grew by 1.7% to $64.7 million.
- Total governmental revenues were $98.9 million, $1.1 million more than expenses.
- The District's combined fund balances increased by $2.5 million, primarily due receipt of ARRA stimulus funds.
- The total cost of basic programs was $97.8 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was $64.2 million.
- Average daily attendance (grades K-12) increased by 68, or 0.7%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

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

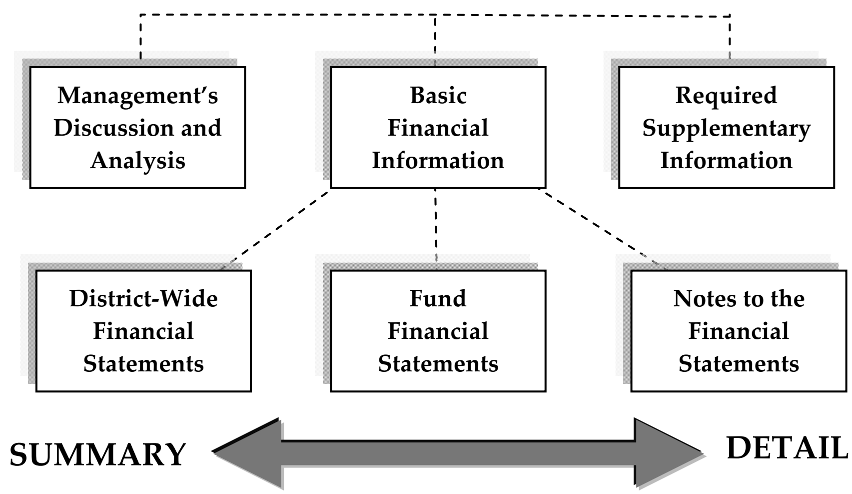

Figure A-2 summarizes the major features of the District's financials statements, including the portion of the District's activities they cover and the types of information they contain.

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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

District-wide Statements

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

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

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

The District has two kinds of funds:

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

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were larger on June 30, 2009, than they were the year before – increasing over 1.7% to $64,681,103 (See Table A-1).

Table A-1

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2009	2008	
Current assets	$ 38.5	$ 34.9	$ 3.6
Capital assets	83.0	86.1	(3.1)
Total assets	121.5	121.0	0.5
Current liabilities	5.4	4.3	1.1
Long-term liabilities	51.5	53.1	(1.6)
Total liabilities	56.9	57.4	(0.6)
Net assets			
Invested in capital assets, net of related debt	37.7	38.1	(0.4)
Restricted	11.9	14.3	(2.4)
Unrestricted	15.1	11.2	3.9
Total net assets	$ 64.7	$ 63.6	$ 1.1

Changes in net assets, governmental activities. The District's total revenues were $98.9 million (See Table A-2). This is a decrease of about $1.2 million, which is the result of decrease in revenue limit funding and offset by federal stimulus monies.

The total cost of all programs and services was $97.8 million. The District's expenses are predominantly related to educating and caring for students, 77.4%. The purely administrative activities of the District accounted for just 3.9% of total costs. The total costs decreased by 0.65%, primarily due to spending decreases for administrative activities and pupil services.

Table A-2

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2009	2008	
Total Revenues	$ 98.9	$ 100.1	$ (1.2)
Total Expenses	97.8	98.5	(0.7)
Increase (decrease) in net assets	$ 1.1	$ 1.6	$ (0.5)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $33.5 million, which is more than last year's ending fund balance of $31.0 million.

General Fund Budgetary Highlights

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

- Revenues – increased by $3.4 million primarily to reflect federal stimulus monies and state budget actions.
- Salaries and benefits costs – decreased about $1.4 million with decreased salary and benefits costs.

While the District's final budget for the General Fund anticipated revenues would fall short of expenditures by about $4.2 million, the actual results for the year show that revenues actually exceeded expenditures by roughly $1.6 million. Actual revenues were $1.4 million more than anticipated, and expenditures were $4.4 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2009 that will be carried over into the 2009-10 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008-09 the District had invested over $1.5 million in new capital assets. Depreciation expense for the year was about $4.6 million. (More detailed information about capital assets can be found in Note 7 to the financial statements.)

Table A-3 Capital Assets at Year-End, net of depreciation

	Governmental Activities (In millions)		Variance Increase
	2009	2008	(Decrease)
Land	$ 2.8	$ 2.8	$ -
Buildings and site improvements	78.8	82.3	(3.5)
Machinery and equipment	1.1	1.1	(0.0)
Construction in progress	0.4	-	0.4
Total	$ 83.1	$ 86.2	$ (3.1)

Long-Term Debt

At year-end the District had $51.5 million in general obligation bonds, capital leases and employment benefits – a decrease of 3.1% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.)

Table A-4 Outstanding Long-Term Debt at Year-End

	Governmental Activities (In millions)		Variance Increase
	2009	2008	(Decrease)
General obligation bonds	$ 50.9	$ 53.1	$ (2.2)
Unamortized premium	0.6	0.7	(0.0)
Debt Defeasance costs	(2.1)	(2.3)	0.2
Due to Santa Clara County	0.3	0.3	(0.0)
Capital leases	0.9	1.1	(0.2)
Postemployement benefits	0.7	-	0.7
Compensated absenses	0.2	0.2	(0.0)
Total	$ 51.5	$ 53.1	$ (1.7)

FACTORS BEARING ON THE DISTRICT'S FUTURE

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State's worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state's $23.241 billion budget shortfall. The package of bills includes a total of $24.159 billion in "solutions" - $16.125 billion in spending cuts; $3.492 billion in revenues and revenue accelerations; $2.182 billion in borrowing, including $1.935 billion from local government property tax revenues; $1.005 billion in fund shifts; and $1.355 billion in other "solutions", including one-time savings from deferring the payment of state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010.

K-12 Education Budget Agreement:

- Reduces 2008-09 funding for categorical programs by $1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by $4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers $1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts $402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides $496 million in 2009-10 Proposition 98 funding for home-to-school transportation – a reduction of approximately 20 percent from the $618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by $80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund proposes through 2011.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a $3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA)

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a $787 billion package of spending and tax measures. Nationally, more than $100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately $11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling $2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received $1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and $887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars *can* be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive $1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive $1.3 billion in additional special education support from the ARRA - $1.2 billion for K-12 education and $41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

Other Factors

Enrollment

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

All of these factors were considered in preparing the Milpitas Unified School District budget for the 2009-10 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (408) 635-2600.

Financial Section

MILPITAS UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

		Total Governmental Activities
ASSETS		
Current assets:		
Cash	$	27,221,376
Accounts receivable		10,506,500
Inventories		316,785
Prepaid expenses		431,883
Total current assets		38,476,544
Capital assets:		
Land		2,766,008
Buildings and improvement of sites		133,738,675
Furniture and equipment		3,657,148
Construction in progress		387,859
Less accumulated depreciation		(57,488,493)
Total capital assets, net of depreciation		83,061,197
Total assets		121,537,741
LIABILITIES		
Current liabilities:		
Accounts payable		4,164,655
Deferred revenue		1,203,572
Total current liabilities		5,368,227
Long-term liabilities:		
Portion due or payable within one year		2,427,785
Portion due or payable after one year		49,060,626
Total long-term liabilities		51,488,411
Total liabilities		56,856,638
NET ASSETS		
Invested in capital assets, net of related debt		37,674,502
Restricted for:		
Capital projects		3,720,407
Debt service		3,560,501
Categorical programs		4,638,721
Unrestricted		15,086,972
Total net assets	$	64,681,103

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

MILPITAS UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2009

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Instructional Services:				
Instruction	$ 58,320,257	$ 1,467,181	$ 13,564,936	$ (43,288,140)
Instruction-Related Services:				
Supervision of instruction	3,238,877	22,806	2,639,478	(576,593)
Instructional library, media and technology	212,496	-	163,493	(49,003)
School site administration	7,262,335	201,473	2,084,714	(4,976,148)
Pupil Support Services:				
Home-to-school transportation	588,438	-	346,791	(241,647)
Food services	2,909,966	1,261,365	1,641,214	(7,387)
All other pupil services	3,176,409	44,081	1,469,773	(1,662,555)
General Administration Services:				
Data processing services	799,188	-	-	(799,188)
Other general administration	3,004,592	65,320	627,796	(2,311,476)
Plant services	7,763,471	208,090	681,293	(6,874,088)
Ancillary services	297,692	-	34,052	(263,640)
Community services	11,018	11,690	2,570	3,242
Interest on long-term debt	2,484,722	-	-	(2,484,722)
Other outgo	7,717,229	17,197	6,977,607	(722,425)
Total governmental activities	$ 97,786,690	$ 3,299,203	$ 30,233,717	(64,253,770)

General Revenues:	
Property taxes	43,654,289
Federal and state aid not restricted to specific purpose	19,832,353
Interest and investment earnings	622,491
Miscellaneous	1,247,236
Total general revenues	65,356,369
Change in net assets	1,102,599
Net assets - July 1, 2008	63,578,504
Net assets - June 30, 2009	$ 64,681,103

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

MILPITAS UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2009

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 11,043,910	$ 6,106,064	$ 10,071,402	$ 27,221,376
Accounts receivable	7,245,753	32,215	3,228,532	10,506,500
Due from other funds	22,304	65,777	315,065	403,146
Inventories	256,889	-	59,896	316,785
Prepaid expenditures	123,152	-	2,221	125,373
Total Assets	$ 18,692,008	$ 6,204,056	$ 13,677,116	$ 38,573,180
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 3,253,589	$ 3,453	$ 177,581	$ 3,434,623
Due to other funds	380,842	8,691	13,613	403,146
Deferred revenue	1,203,572	-	-	1,203,572
Total Liabilities	4,838,003	12,144	191,194	5,041,341
Fund Balances				
Reserved for:				
Inventories	256,889	-	59,896	316,785
Revolving cash	15,000	-	2,369	17,369
Debt service	-	-	3,560,501	3,560,501
Legally restricted balance	4,638,721	-	-	4,638,721
Prepaid expenditures	123,152	-	2,221	125,373
Unreserved; reported in:				
General fund	8,820,243	-	-	8,820,243
Capital project funds	-	6,191,912	3,720,407	9,912,319
Special revenue funds	-	-	6,140,528	6,140,528
Total Fund Balances	13,854,005	6,191,912	13,485,922	33,531,839
Total Liabilities and Fund Balances	$ 18,692,008	$ 6,204,056	$ 13,677,116	$ 38,573,180

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

MILPITAS UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds		$	33,531,839
Capital assets used in governmental *activities* are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $140,549,690 and the accumulated depreciation is $57,488,493.			83,061,197
In governmental funds, post-employment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, post-employment benefits costs are recognized in the period that they are incurred. The net OPEB liability at the end of the period was:			(693,889)
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:			(730,032)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:			306,510
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
General obligation bonds payable	49,447,640		
Capital leases payable	904,480		
Compensated absences payable	150,430		
Due to Santa Clara County Office of Education	291,972		(50,794,522)
Total net assets - governmental activities		$	64,681,103

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

MILPITAS UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2009

REVENUES	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
General Revenues:				
Property taxes	$ 38,649,265	$ 694,951	$ 4,310,073	$ 43,654,289
Federal and state aid not restricted to specific purpose	19,832,353	-	-	19,832,353
Earnings on investments	544,639	-	77,852	622,491
Miscellaneous	1,247,236	-	-	1,247,236
Program Revenues:				
Charges for services	112,647	1,190,553	1,996,003	3,299,203
Operating grants and contributions	22,378,396	140,892	7,714,429	30,233,717
Total Revenues	82,764,536	2,026,396	14,098,357	98,889,289
EXPENDITURES				
Instructional Services:				
Instruction	49,773,929	-	3,846,054	53,619,983
Instruction-Related Services:				
Supervision of instruction	3,051,878	-	148,886	3,200,764
Instructional library, media and technology	212,496	-	-	212,496
School site administration	5,371,451	-	1,813,815	7,185,266
Pupil Support Services:				
Home-to-school transportation	572,959	-	-	572,959
Food services	-	-	2,891,511	2,891,511
All other pupil services	2,998,077	-	165,738	3,163,815
General Administration Services:				
Data processing services	804,094	-	-	804,094
Other general administration	3,101,137	-	249,850	3,350,987
Plant services	6,880,524	80,920	89,621	7,051,065
Facility acquisition and construction	224,545	373,326	1,099,645	1,697,516
Ancillary services	297,692	-	-	297,692
Community services	11,018	-	-	11,018
Other outgo:				
Transfers between agencies	7,584,391	-	-	7,584,391
Debt service - principal	222,263	-	2,205,000	2,427,263
Debt service - interest	57,971	-	2,229,930	2,287,901
Total Expenditures	81,164,425	454,246	14,740,050	96,358,721
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,600,111	1,572,150	(641,693)	2,530,568
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	258,698	-	212,777	471,475
Interfund transfers out	(212,777)	-	(258,698)	(471,475)
All other financing sources	397,081	-	(397,081)	-
Total Other Financing Sources and Uses	443,002	-	(443,002)	-
Net Change in Fund Balances	2,043,113	1,572,150	(1,084,695)	2,530,568
Fund Balances, July 1, 2008	11,810,892	4,619,762	14,570,617	31,001,271
Fund Balances, June 30, 2009	$ 13,854,005	$ 6,191,912	$ 13,485,922	$ 33,531,839

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

MILPITAS UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2009

Total net change in fund balances - governmental funds		$	2,530,568
Amounts reported for governmental *activities* in the statement of activities are different because:			
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay	1,519,889		
Depreciation expense	(4,603,879)		
Net:			(3,083,990)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			2,451,594
Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:			43,240
Amortization of defeased cost is not reflected in the governmental funds, but is an expenditure in the statement of activities.			(179,718)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period, but owing from the prior period, is:			25,442
In the statement of activities, certain operating expenses - compensated absences, early retirement incentives, and other postemployment benefits, for example, are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave used exceeded the amounts earned by:			30,043
In govermental funds, post-employment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, post-employment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was:			(693,889)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period:			(20,691)
Change in net assets of governmental activities		$	1,102,599

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

MILPITAS UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Funds
June 30, 2009

	Agency Funds
	Student Body Funds
ASSETS	
Cash	$ 431,307
Total assets	$ 431,307
LIABILITIES	
Due to student groups	$ 431,307
Total liabilities	$ 431,307

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization’s relationship with the District is such that exclusion would cause the District’s financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

Fund Financial Statements:

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

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

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

D. Basis of Accounting

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions:

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

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

Deferred revenue:

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

Expenses/expenditures:

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds, as follows:

Major Governmental Funds:

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

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

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains five non-major special revenue funds:

1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
2. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
3. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
4. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
5. The *Special Reserve Fund for Postemployment Benefits* is used to account for amounts earmarked for the future cost of postemployment benefits but that have not been contributed irrevocably to a separate trust for the postemployment benefit plan.

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains one non-major capital project fund:

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds (continued):

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund:

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

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

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

2. Stores Inventories

Inventories are valued on the weighted average method in the General Fund and Cafeteria Fund. Inventories consist mainly of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are requisitioned. Reported inventories are equally offset by a fund balance reserve which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

4. Deferred Revenue

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

5. Compensated Absences

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

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

6. Long-Term Obligations

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

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

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

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

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Use of Estimates

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

K. New GASB Pronouncements

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 45 – In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The pronouncement requires employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

NOTE 2 – CASH

Summary of Cash

Cash as of June 30, 2009 is classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	$ 27,040,507	$ -
Cash on hand and in banks	154,068	431,307
Cash in revolving fund	17,369	-
Cash collections awaiting deposit	9,432	
Total deposits	$ 27,221,376	$ 431,307

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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash 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.

NOTE 2 – CASH (continued)

General Authorizations

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 web site. The table below identifies some of the investment types permitted in the investment policy:

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 Treasury. The District maintains an investment with the Santa Clara County Investment Pool with a fair value of approximately $27,145,965 and an amortized book value of $27,040,507. The average weighted maturity for this pool is 298 days.

NOTE 2 – CASH (continued)

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. This investment pool is not rated.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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, 2009, $155,131 of the District's bank balance of $688,949 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2009, expenditures exceeded appropriations in the major funds as follows:

Appropriations Category	Excess Expenditures
General Fund	
Certificated salaries	$ 430,508
Other outgo	879,156

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Totals
Federal Government:				
Categorical aid programs	$ 2,624,918	$ -	$ 306,388	$ 2,931,306
State Government:				
Revenue limit	895,834	-	-	895,834
Lottery	854,563	-	-	854,563
Special education	954,752	-	-	954,752
Class size reduction	980,107	-	-	980,107
Other state	733,401	-	2,870,552	3,603,953
Local:				
Interest	66,599	32,215	40,095	138,909
Miscellaneous	135,579	-	11,497	147,076
Totals	$ 7,245,753	$ 32,215	$ 3,228,532	$ 10,506,500

NOTE 5 - INTERFUND TRANSACTIONS

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

NOTE 5 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2009 are as follows:

	Due from other funds			
	General Fund	Building Fund	Non-Major Governmental Funds	TOTAL
General Fund	$ -	$ 65,777	$ 315,065	$ 380,842
Building Fund	8,691	-	-	8,691
Non-Major Governmental Funds	13,613	-	-	13,613
Total	$ 22,304	$ 65,777	$ 315,065	$ 403,146

Building Fund due to General Fund for reimbursements	8,691
Child Developement Fund due to General Fund for indirect costs reimbursement	5,516
Cafeteria Fund due to General Fund for reimbursements	5,612
Adult Education Fund due to General Fund for reimbursements	2,485
General Fund due to Building Fund for community redevelopment funds not subject to revenue limit deduction	65,777
General Fund due to Cafeteria Fund for reimbursements	1,886
General Fund due to Adult Education Fund for high school remedial program and other reimbursements	313,179
Total	$ 403,146

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 2008-09 fiscal year are as follows:

	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	TOTAL
General Fund	$ -	$ 212,777	$ 212,777
Non-Major Governmental Funds	258,698	-	258,698
Total	$ 258,698	$ 212,777	$ 471,475

Adult Education Fund transfer to General Fund to sweep the ending balance due to flexibility provisions	$ 258,698
General Fund transfer to Cafeteria Fund for Meals for Needy	178,140
General Fund transfer to Adult Education Fund for high school remedial program	34,637
Total	$ 471,475

NOTE 6 – TAX REVENUE ANTICIPATION NOTES

The District issued $4,000,000 of Tax Revenue Anticipation Notes dated June 25, 2008 through the Board of Supervisors of Santa Clara County in the name of the District. These notes matured on July 14, 2009 and yielded 2.5% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that certain amounts be deposited in a special fund. The monies were required to remain on deposit until the maturity date of the note, at which time they were applied to pay the principal and interest on the notes. Because the set-aside requirements were met, the liability for the notes is considered defeased and is not reflected in these financial statements at June 30, 2009.

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009 is shown below:

	Balance, July 1, 2008	Additions	Retirements	Balance, June 30, 2009
Capital assets not being depreciated:				
Land	$ 2,766,008	$ -	$ -	$ 2,766,008
Construction in progress	-	387,859	-	387,859
Total capital assets not being depreciated	2,766,008	387,859	-	3,153,867
Capital assets being depreciated:				
Buildings and improvements	132,871,229	867,446	-	133,738,675
Equipment	3,392,564	264,584	-	3,657,148
Total capital assets being depreciated	136,263,793	1,132,030	-	137,395,823
Accumulated depreciation for:				
Buildings and improvements	(50,574,325)	(4,314,493)	-	(54,888,818)
Equipment	(2,310,289)	(289,386)	-	(2,599,675)
Total accumulated depreciation	(52,884,614)	(4,603,879)	-	(57,488,493)
Total capital assets being depreciated, net	83,379,179	(3,471,849)	-	79,907,330
Governmental activity capital assets, net	$ 86,145,187	$ (3,083,990)	$ -	$ 83,061,197

Depreciation expense is allocated to the following functions in the statement of activities:

Instruction	$ 4,327,646
Plant Services	276,233
Total	$ 4,603,879

NOTE 8 – GENERAL LONG-TERM DEBT

A summary of long-term debt for the year ended June 30, 2009 is shown below:

	Balance, June 30, 2008	Additions	Deductions	Balance, June 30, 2009	Amount Due Within One Year
General Obligation Bonds	$ 53,135,000	$ -	$ 2,205,000	$ 50,930,000	$ 2,310,000
Unamortized Premium	691,847	-	43,240	648,607	43,240
Debt Defeasance Cost	(2,310,685)	-	(179,718)	(2,130,967)	(179,718)
Compensated Absences	180,473	-	30,043	150,430	-
Due to Santa Clara County Office of Education	316,303	-	24,331	291,972	24,331
Postemployment Benefits	-	693,889	-	693,889	-
Capital Leases	1,126,743	-	222,263	904,480	229,932
Totals	$ 53,139,681	$ 693,889	$ 2,345,159	$ 51,488,411	$ 2,427,785

A. General Obligation Bonds

In 1996, the District received authorization to issue general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to finance the acquisition of and the construction of new schools. On August 7, 1996, the District issued $20,000,000 of Series 1996 bonds. On October 24, 2001, the District issued $17,250,000 of refunding bonds to refund a portion of the Series 1996 bonds. The bonds consisted of serial bonds with interest rates ranging from 3.5% to 4.7% and fully maturing on September 1, 2020. At June 30, 2009, the principal balance outstanding on the refunding bond was $12,820,000, and the principal balance outstanding on the Election of 1996 bonds was $740,000.

In 2004, the District received authorization to issue general obligation refunding bonds. Bond proceeds were used to refund a portion of the Election of 1996 bonds. On November 14, 2004, the District issued $40,580,000 of refunding bonds. The bonds consisted of serial bonds with interest rates ranging from 3.0 % to 5.0% and fully maturing on September 1, 2024. At June 30, 2009, the principal balance outstanding was $37,370,000.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2008	Additions	Deductions	Balance, June 30, 2009
2000	8/7/1996	9/1/2010	5.0%-5.48%	$ 22,505,371	$ 1,100,000	$ -	$ 360,000	$ 740,000
2001 Refunding	10/24/2001	9/1/2020	3.9%-4.7%	4,074,472	13,665,000	-	845,000	12,820,000
2004 Refunding	11/14/2004	9/1/2024	3.0%-4.0%	2,261,704	38,370,000	-	1,000,000	37,370,000
				$ 28,841,547	$53,135,000	$ -	$ 2,205,000	$50,930,000

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds outstanding at June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-2010	$ 2,310,000	$ 2,149,576	$ 4,459,576
2010-2011	2,390,000	2,055,556	4,445,556
2011-2012	2,495,000	1,945,373	4,440,373
2012-2013	2,610,000	1,836,959	4,446,959
2013-2014	2,715,000	1,730,926	4,445,926
2014-2019	15,310,000	6,862,404	22,172,404
2019-2024	18,815,000	3,267,118	22,082,118
2024-2025	4,285,000	107,125	4,392,125
	$ 50,930,000	$ 19,955,037	$ 70,885,037

B. Capital Leases

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

Fiscal Year	Lease Payment
2009-2010	$ 280,234
2010-2011	280,234
2011-2012	280,234
2012-2013	199,442
Less Amount Representing Interest	(135,664)
Present Value of Net Minimum Lease Payments	$ 904,480

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

C. Other Long-term Liabilities

In 2004-05, the District was notified by the Santa Clara County Office of Education (COE) that the COE's District Business Advisory Services group had posted erroneous entries to the District's cash account in prior years resulting in an overstatement of cash in the county treasury in the District's Building Fund. At that time, the overage was estimated at $356,000. In 2005-06, the county reported the amount owed by the District was $364,965, and agreed to allow them to make equal payments of $24,331 to them over a 15 year period. The first payment was made on October 10, 2006. At June 30, 2009, the balance outstanding was $291,972.

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

D. Defeased Debt

On November 19, 2004, the District issued general obligation bonds of $40,580,000 (par value) with interest rates ranging from 3.0% to 5.0% to advance refund term bonds with an interest rate ranging from 4.5% to 12.0% and a par value of $38,010,000. The general obligation bonds were issued at premium and, after paying issuance costs of $413,824, the net proceeds were $41,039,557. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's long-term obligations in the statement of net assets.

As a result of the advance refunding, the District reduced its total debt service requirements by $2,715,809, which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $1,960,991.

NOTE 9 – JOINT VENTURES

The Milpitas Unified School District participates in four joint powers agreement (JPA) entities, the South Bay Area of Schools Insurance Authority (SBASIA), the Santa Clara County School Insurance Group (SCCSIG), the Metropolitan Education (Metro ED), and the East Valley Schools Transportation Authority (EVT).

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Milpitas Unified School District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

NOTE 9 – JOINT VENTURES (continued)

The relationship between the Milpitas Unified School District and the JPAs are such that none of the JPAs is a component unit of the District for financial reporting purposes. Condensed current financial information is shown below for the four JPAs:

	SBASIA June 30, 2008 (Audited)	SCCSIG June 30, 2008 (Audited)	Metro ED June 30, 2009 (Unaudited)	EVT June 30, 2009 (Unaudited)
Total Assets	$ 5,124,086	$ 16,740,196	$ 4,622,019	$ 639,081
Total Liabilities	1,825,944	7,038,248	1,508,679	370,057
Fund Balance	$ 3,298,142	$ 9,701,948	$ 3,113,340	$ 269,024
Total Revenues	$ 2,369,006	$ 37,646,566	$ 15,858,643	$ 3,083,754
Total Expenses	2,520,688	34,856,368	13,752,487	3,083,754
Net Increase/Decrease in Fund Balance	$ (151,682)	$ 2,790,198	$ 2,106,156	$ -

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

As of June 30, 2009, the District had commitments with respect to unfinished capital projects of approximately $3.3 million.

C. Litigation

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

NOTE 11 – RISK MANAGEMENT

Property and Liability
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2009, the District participated in the SBASIA public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation
For the fiscal year 2008-09, the District participated in the Santa Clara County Schools Insurance Group (SCCSIG), an insurance purchasing pool. The purpose of the SCCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to districts that can meet the JPA selection criteria. The firm of Keenan & Associates provides administrative, cost control, and actuarial services to the JPA.

Coverage provided by the insurance policies carried by the District for property and liability and workers' compensation is as follows:

Insurance Program/Company Name	Type of Coverage	Limits
Workers' Compensation Program		
Santa Clara County Schools Insurance Group	Workers' compensation	Statutory
South Bay Area Schools Insurance Authority	Property and liability	$5,200 – $2,000,000
Schools Excess Liability Fund (SELF)	Excess property and liability	$1,000,000 – $14,000,000
Hartford Fire Insurance Company	Crime shield policy	$50,000 – $100,000

NOTE 12 - EMPLOYEE RETIREMENT PLANS

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

NOTE 12 - EMPLOYEE RETIREMENT PLANS (continued)

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2008-09 was 9.428%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2008-09	$ 1,051,692	100%
2007-08	$ 1,044,033	100%
2006-07	$ 961,960	100%

State Teachers' Retirement System (STRS)

Plan Description

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

NOTE 12 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2008-09	$ 3,636,649	100%
2007-08	$ 3,572,524	100%
2006-07	$ 3,339,987	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately $2.0 million to STRS (4.517% of salaries subject to STRS in 2008-09).

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	116
Active plan members*	644
Total	760

* *As of July 1, 2008 actuarial valuation*

Number of participating employers	1

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information (continued)

The District provides postemployment healthcare benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 12 years of service. The District pays the full amount of the employee only premium for group health insurance coverage until the employee reaches age 65 for employees with between 12 and 14 years of service. For employees with 15 to 19 years of service, the District pays for coverage of the retiree plus one dependent. Retirees with between 20 and 24 years of service receive both medical and dental coverage for themselves and one dependent, and retirees with 25 years or more of service receive medical, dental, and vision for retiree and all dependents, plus life coverage for the retiree.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2008-09, the District contributed $715,111.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 1,409,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	1,409,000
Contributions made	(715,111)
Increase in net OPEB obligation	693,889
Net OPEB obligation – July 1, 2008	-
Net OPEB obligation – June 30, 2009	$ 693,889

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007-08 are as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2009	$ 1,409,000	50.8%	$ 693,889

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2008, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was $14.1 million and the unfunded actuarial accrued liability (UAAL) was $14.1 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Straight-line
Remaining amortization period	29 years
Asset Valuation	N/A
Actuarial assumptions:	
Investment rate of return	4.0%
Healthcare cost trend rate:	
Medical	8.5%
Dental/Vision	4.0%

NOTE 14 – SUBSEQUENT EVENT

A. Tax Revenue Anticipation Notes

The District issued $4,100,000 of Tax Anticipation Notes dated September 14, 2009. The notes mature on October 6, 2010 and yield 2.5% interest. The notes were sold by the District to supplement its cash flow. Repayment requirements are that a portion of the principal be set aside in a special fund during 2010 and remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

B. Accounting Treatment of Re-apportioned Categorical Funds

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of $24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, $1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill $1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. No adjustment has been made to reduce revenue and the related receivable in the financial statements as of June 30, 2009 because the amount of the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package is not deemed to be material to the District's financial statements.

Required Supplementary Information

MILPITAS UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
Revenue Limit Sources	$ 54,730,679	$ 54,465,466	$ 53,479,218	$ (986,248)
Federal	2,800,972	4,384,877	7,401,925	3,017,048
Other State	14,552,965	15,279,254	15,083,364	(195,890)
Other Local	5,826,961	7,176,888	6,800,029	(376,859)
Total Revenues	77,911,577	81,306,485	82,764,536	1,458,051
Expenditures				
Certificated Salaries	41,193,040	40,771,992	41,202,500	(430,508)
Classified Salaries	11,582,880	11,138,459	11,014,138	124,321
Employee Benefits	13,953,610	13,488,921	13,465,852	23,069
Books and Supplies	2,744,723	7,415,662	2,962,370	4,453,292
Services and Other Operating Expenditures	5,082,130	5,493,254	4,892,930	600,324
Capital Outlay	304,248	338,830	11,861	326,969
Direct Support/Indirect Costs	(356,636)	(113,360)	(249,850)	136,490
Other Outgo	7,322,896	6,985,468	7,864,624	(879,156)
Total Expenditures	81,826,891	85,519,226	81,164,425	4,354,801
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,915,314)	(4,212,741)	1,600,111	5,812,852
Other Financing Sources and Uses				
Interfund Transfers In	1,590,364	258,698	258,698	-
Interfund Transfers Out	(196,473)	(212,777)	(212,777)	-
All other financing sources	-	-	397,081	397,081
Total Other Financing Sources and Uses	1,393,891	45,921	443,002	397,081
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,521,423)	(4,166,820)	2,043,113	6,209,933
Fund Balances, July 1, 2008	11,810,892	11,810,892	11,810,892	-
Fund Balances, June 30, 2009	$ 9,289,469	$ 7,644,072	$ 13,854,005	$ 6,209,933

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2009

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	$ -	$ 14,082,000	$ 14,082,000	0%	$ 55,339,000	25.4%

Supplementary Information Section

MILPITAS UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2009

The Milpitas Unified School District was unified in 1968. The District boundary is the City of Milpitas. The District operates nine elementary schools, two middle schools, one comprehensive high school, a continuation high school, an adult education program, two child care centers, a community day school, and a correctional facilities education program.

GOVERNING BOARD

Member	Office	Term Expires
Michael J. Mendizabal	President	November, 2010
Marsha Grilli	Vice President	November, 2010
William J. Foulk	Clerk	November, 2010
Daniel Bobay	Member	November, 2012
Gunawan Alisantosa	Member	November, 2012

DISTRICT ADMINISTRATORS

Karl N. Black, Ed.D.,
Superintendent

Phuong Le,
Assistant Superintendent, Business

Luis Gonzales, Ph.D., [1]
Assistant Superintendent, Human Resources

Michelle Dimas,
Assistant Superintendent, Educational Services

[1] Retired effective June 30, 2009. The position is now occupied by Cheryl Jordan.

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2009

	Second Period Report	Annual Report
Elementary:		
Kindergarten	659	660
Grades 1 through 3, regular classes	2,128	2,125
Grades 4 through 6, regular classes	2,093	2,089
Grades 7 and 8, regular classes	1,426	1,424
Community day school	4	5
Special education	129	130
Total Elementary	6,439	6,433
Secondary:		
Grades 9 through 12, regular classes	2,742	2,734
Continuation education	156	151
Home and hospital	1	1
Community day school	13	14
Special education	58	56
Total Secondary	2,970	2,956
Regional Occupational Centers	1,152	1,260
Classes for Adults:		
Adults enrolled, state apportioned	442	429
Not concurrently enrolled	19	19
Adults in correctional facilities	1,743	1,986
Total Adult Classes	2,204	2,434
Total Average Daily Attendance	12,765	13,083

Supplemental Instruction Hours	Hours of Attendance
Elementary	117,223
High School	93,315

See accompanying note to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2009

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2008-09 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,706	36,000	36,000	180	Complied
Grade 1	42,773	50,400	50,475	180	Complied
Grade 2	42,773	50,400	50,475	180	Complied
Grade 3	42,773	50,400	50,475	180	Complied
Grade 4	52,740	54,000	54,090	180	Complied
Grade 5	52,740	54,000	54,090	180	Complied
Grade 6	52,740	54,000	54,090	180	Complied
Grade 7	54,560	54,000	55,696	180	Complied
Grade 8	54,560	54,000	55,696	180	Complied
Grade 9	56,956	64,800	65,180	180	Complied
Grade 10	56,956	64,800	65,180	180	Complied
Grade 11	56,956	64,800	65,180	180	Complied
Grade 12	56,956	64,800	65,180	180	Complied

See accompanying note to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010 [3]	2009	2008	2007
Revenues and other financing sources	$ 78,468,948	$ 83,420,315	$ 83,180,886	$ 83,324,351
Expenditures	80,551,733	81,164,425	82,224,999	77,575,502
Other uses and transfers out	207,929	212,777	847,380	887,553
Total outgo	80,759,662	81,377,202	83,072,379	78,463,055
Change in fund balance (deficit)	(2,290,714)	2,043,113	108,507	4,861,296
Ending fund balance	$ 11,555,835	$ 13,854,005	$ 11,810,892	$ 11,702,385
Available reserves [1]	$ 3,174,604	$ 3,255,088	$ 5,021,116	$ 3,844,071
Available reserves as a percentage of total outgo	3.9%	4.0%	6.0%	4.9%
Total long-term debt	$ 49,060,626	$ 51,488,411	$ 53,139,681	$ 54,800,964
Average daily attendance at P-2 [2]	9,385	9,409	9,341	9,375

The General Fund balance has increased by $2,151,620 over the past two years. The fiscal year 2009-10 adopted budget projects a decrease of $2,290,714. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has decreased $3,312,553 over the past two years.

The District has not incurred operating deficits in any of the past three years, but anticipates incurring an operating deficit during the 2009-10 fiscal year.

Average daily attendance has increased by 34 over the past two years. A decrease in ADA of 24 is anticipated during fiscal year 2009-10.

[1] Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund.

[2] Excludes Adult Education and ROC/P ADA.

[3] Revised Final Budget September 2009.

See accompanying note to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
School Breakfast Program	10.553	13390	$ 1,376,493
National School Lunch Program	10.555	13391	169,092
Total U.S. Department of Agriculture			1,545,585
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
Adult Basic Education (ABE):			
English as a Second Languague	84.002A	14508	111,774
Institutionalized Adults	84.002	13971	222,390
English Literacy and Civics Education	84.002A	14109	118,957
Adult Secondary Education	84.002	13978	4,866
Subtotal Adult Education Cluster			457,987
ARRA-State Fiscal Stabilization Funds	84.394	25008	1,409,848
Vocational Programs	84.048	13924	42,927
Workability II, Transition Partnership	84.158	10006	79,321
Subtotal			1,532,096
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	14329	581,827
Title II - Part D Enhancing Education Through Technology (EETT)	84.318	14334	6,886
Title II - Part A Improving Teacher Quality	84.367A	14341	282,920
Title III - Immigrant Education	84.365	14346	93,217
Title III - Limited English Proficiency	84.365	10084	312,601
Title IV - Safe and Drug Free Schools	84.186	14347	24,341
Title V - Innovative Education	84.298A	13340	6,487
Subtotal NCLB			1,308,279
Individuals with Disabilities Education Act (IDEA):			
Preschool Grants	84.173	13430	57,047
Local Assistance, Part B, Private School ISPs	84.027	10115	6,897
ARRA-IDEA Part B, Basic Local Assistance	84.391	15003	324,968
Preschool Staff Development, Part B	84.173A	13431	487
Preschool Local Entitlements, Part B	84.027	13682	91,811
Basic Local Assistance Entitlement, Part B	84.027	13379	1,313,958
Subtotal IDEA Cluster			1,795,168
Total U.S. Department of Education			5,093,530
U.S. Department of Health & Human Services:			
Passed through California Dept of Health Services:			
Child Development: Infant Toddler	93.575	14679	1,100,750
Child Development: School Age Resource Contract	93.575	13941	9,721
Subtotal Child Development Cluster			1,110,471
Passed through California Dept. of Education (CDE):			
Medi-Cal Billing Option	93.778	10013	2,742
Total U.S. Department of Health & Human Services			1,113,213
U.S. Department of Defense			
NJROTC	14.235	4362	87,155
Total Expenditures of Federal Awards			$ 7,839,483

See accompanying note to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2009

	Long-Term Liabilities
June 30, 2009, annual financial and budget report long-term liabilities	$ 51,372,402
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
General obligation bond overstated	(1,482,360)
Postemployment benefits understated	904,480
Capital leases understated	693,889
Net adjustments and reclassifications	116,009
June 30, 2009, audited financial statement long-term liabilities	$ 51,488,411

	General Fund
June 30, 2009, annual financial and budget report fund balances	$ 13,702,335
Adjustments and reclassifications:	
Increase (decrease) in fund balance:	
Cash understated	151,670
Net adjustments and reclassifications	151,670
June 30, 2009, audited financial statement fund balances	$ 13,854,005

See accompanying note to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2009

NOTE 1 – PURPOSE OF SCHEDULES

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

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201.

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

Schedule of Expenditures of Federal Awards
The 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 of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

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

Other Independent Auditors' Reports

A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

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Milpitas Unified School District
Milpitas, California

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*

We have audited the financial statements of Milpitas Unified School District as of and for the year ended June 30, 2009, and have issued our report thereon dated October 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Milpitas Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Milpitas Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Milpitas Unified School District's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the District's internal control.

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

<u>Compliance and Other Matters</u>

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

We noted certain matters that we reported to the management of Milpitas Unified School District in a separate letter dated October 18, 2009.

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

Nigro Nigro & White, PC

Murrieta, California
October 18, 2009

NIGRO NIGRO & WHITE PC

A Professional Accountancy Corporation

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Milpitas, California

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Milpitas Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on compliance based on our audit.

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

In our opinion, Milpitas Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A *control deficiency* in a District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

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

Nigro Nigro & White, PC

Murrieta, California
October 18, 2009

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Milpitas, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Milpitas Unified School District as of and for the year ended June 30, 2009, and have issued our report thereon dated October 18, 2009. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	No (see below)
Continuation Education	10	Yes
Adult Education	9	Not applicable[1]
Regional Occupational Centers and Programs	6	Not applicable[1]
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Not applicable[1]

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1[2]
K-8 only	1	Not applicable[1]
Grades 9-12 only	1	Not applicable[1]
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable[1]
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

[1] This program is not required to be audited per flexibility provisions in SBx3 4.

[2] The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

We did not perform testing for independent study or community day schools because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the Milpitas Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Milpitas Unified School District had not complied with the state laws and regulations.

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

Nigro Nigro & White, PC

Murrieta, California
October 18, 2009

Findings and Questioned Costs Section

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster
84.365	Title III, Limited English Proficiency
84.002	Adult Education Cluster
93.575	Child Development Cluster
84.394	ARRA - State Fiscal Stabilization Funds

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

State Awards

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

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings

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

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

There were no financial statement findings in 2008-09.

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

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

There were no federal award findings and questioned costs in 2008-09

MILPITAS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs

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

There were no state award findings and questioned costs in 2008-09

MILPITAS UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2008-1: Russell Middle School ASB	• Of the 15 items tested, we noted receipt of goods had not been documented for three disbursements. This is important to do, as it insures payment is not being made for items either received incorrectly, or not received at all. • We noted payment was made from a receiving report instead of an invoice. Payments should only be made when an original invoice has been received. • Of the 15 cash disbursements tested, three were for items ordered before approval from the ASB. It is important that items are only purchased after they have received proper ASB approval. • Of the 15 cash disbursements tested, we noted three did not have a District representative signature until after the disbursement was made. We recommend all required approvals be obtained before the disbursement is made.	30000	The school should be reminded of the importance of ASB accounting and internal controls. It is imperative that the District staff continue to work closely with ASB staff at the school site to provide ongoing support and training as well as continued monitoring of the ASB accounts to ensure fiscal accountability.	Implemented
Finding 2008-2: Milpitas High School ASB	• Of the 8 deposits tested, bank deposits could not be reconciled to cash receipts for one deposit. Without an adequate audit trail, it is difficult to determine whether all cash collections have been deposited to the bank intact and in a timely manner. • We noted the site is passing a lot of non-ASB items through the ASB. Of the 20 items tested, sixteen were considered "non-ASB" account items, and did not contain the approval of the ASB before the expenditure was made. We recommend a separate bank account be opened for these "non-ASB" items, or else, deposit the money through the District cash clearing account.	30000	The school should be reminded of the importance of ASB accounting and internal controls. It is imperative that the District staff continue to work closely with ASB staff at the school site to provide ongoing support and training as well as continued monitoring of the ASB accounts to ensure fiscal accountability.	Implemented

MILPITAS UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2008-3: Rancho Middle School ASB	• Of the 5 deposits tested, we could not reconcile the deposit to sub-receipts for four of the items. Without an adequate audit trail, it is difficult to determine whether all cash collections have been deposited at the bank intact and in a timely manner. • We noted that a payment was made to a vendor which was made without an invoice. Payments should only be made when an original invoice has been received. • Of the 10 disbursements tested, we noted receipt of goods had not been documented for one of the vendors. This is important to do, as it insures payment is not being made for items either received incorrectly, or not received at all.	30000	The school should be reminded of the importance of ASB accounting and internal controls. It is imperative that the District staff continue to work closely with ASB staff at the school site to provide ongoing support and training as well as continued monitoring of the ASB accounts to ensure fiscal accountability.	Implemented
Finding 2008-4: Documentation of Employee Time and Effort	OMB Circular A-87 requires that employees funded solely from a single federal program must sign a semi-annual certification stating that he or she worked exclusively in that program during the certification period. The District did not require the completion of semi-annual certifications for employees funded by the IDEA program in 2007-08.	50000	The District must implement semi-annual certifications for all employees working in *all* federal programs in the 2008-09 fiscal year. These documents must be completed throughout the year, not only at year-end.	Implemented
Finding 2008-5: After School Education and Safety Program	California Education Code Section 14502.1 requires that school districts provide quarterly reports to the State for which attendance is reported for the After School Base Grant. In addition, the District should maintain written records that document pupil participation by tracing the reported numbers through any documentation used to summarize the number of students served to written data origination documentation. The District was not able to provide the auditor with supporting documentation for the data reported in the quarterly report to the State.	40000	The District should require the care provider to supply the District with necessary written records for the data reported to the State.	Implemented

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To the Board of Directors of
Milpitas Unified School District
Milpitas, California

Our audit of the financial statements of Milpitas Unified School District (the district) as of and for the year ended June 30, 2009 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

To the Board of Directors of
Milpitas Unified School District
Page Two

During the course of performing our procedures, we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated October 18, 2009, on the financial statements of Milpitas Unified School District.

Observation
During our interview with school site personnel at Milpitas High School, we discovered that attendance clerks have not been tracking teachers to verify whether they are taking attendance each period. We did not observe any instances of attendance not being recorded, however, procedures should be in place to ensure teachers record attendance for each class.

Recommendation
The District should assist the school site in properly navigating attendance reports to ensure that a report is run daily tracking this information so it can be monitored. This process will help to ensure that all teachers are recording attendance properly each period. Since the District was informed, policies have been created to ensure teachers are recording attendance properly each period.

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

Nigro Nigro & White, PC

Murrieta, California
October 18, 2009

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APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Delivery Date]

Board of Education
Milpitas Unified School District
Milpitas, California

Milpitas Unified School District
2010 General Obligation Refunding Bonds
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Milpitas Unified School District (the "District"), which is located in the County of Santa Clara, California (the "County"), in connection with the issuance by the District of $11,670,000 aggregate principal amount of bonds designated as "Milpitas Unified School District 2010 General Obligation Refunding Bonds" (the "Bonds"), as authorized by a resolution of the Board of Education of the District adopted on December 8, 2009 (the "Resolution"), and in accordance with the terms of a Paying Agent Agreement dated as of February 1, 2010 (the "Paying Agent Agreement"), by and between the District and U.S. Bank National Association, as paying agent (the "Paying Agent"). The Bonds are issued to refund the outstanding Milpitas Unified School District 2001 General Obligation Refunding Bonds.

In such connection, we have reviewed the Resolution, the Paying Agent Agreement, the Tax Certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, the Paying Agent, the County, and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Paying Agent Agreement, and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Paying Agent Agreement, and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the District.

2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.

3. The Paying Agent Agreement has been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes a valid and binding obligation of the District. Assuming due authorization, execution and delivery of the Paying Agent Agreement and authentication of the Bonds by the Paying Agent, the Bonds are entitled to the benefits of the Paying Agent Agreement.

4. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

MILPITAS UNIFIED SCHOOL DISTRICT
2010 GENERAL OBLIGATION REFUNDING BONDS

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Milpitas Unified School District (the "District") in connection with the issuance of $11,670,000 aggregate principal amount of Milpitas Unified School District 2010 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued as authorized by a resolution adopted by the Board of Education of the District on December 8, 2009, and in accordance with the terms of a Paying Agent Agreement, dated as of February 1, 2010 (the "Paying Agent Agreement"), by and between the District and U.S. Bank National Association, as paying agent (the "Paying Agent"). The District 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 Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Paying Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Effective July 1, 2009 and until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at *http://emma.msrb.org*.

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

"Rule" shall mean 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 nine months after the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2008-09

Fiscal Year (which is due not later than April 1, 2010), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. 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).

(b) Not later than 15 Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

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

* Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

* Adopted budget of the District for the current fiscal year, or a summary thereof.
* District average daily attendance.
* District outstanding debt.
* Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.
* Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may set forth in one or a set of documents or 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 website. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
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 or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bond holders;
8. Optional, unscheduled or contingent Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (a)(8) 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 pursuant to the Paying Agent Agreement. Effective July 1, 2009, the notice of Listed Event must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 6. 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 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 8. 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 the type of business conducted;

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

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

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

SECTION 9. 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 Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate 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; provided that any such action may be instituted only in Superior Court of the State of California in and for the County of Santa Clara or in U.S. District Court in or nearest to the County. 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 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _________, 2010.

MILPITAS UNIFIED SCHOOL DISTRICT

By [to be signed upon delivery of the Bonds]
Superintendent

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of District:	MILPITAS UNIFIED SCHOOL DISTRICT
Name of Bond Issue:	MILPITAS UNIFIED SCHOOL DISTRICT 2010 GENERAL OBLIGATION REFUNDING BONDS
Date of Issuance:	__________, 2010

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Issuance. [The District anticipates that the Annual Report will be filed by _____________.]

Dated: _______________

MILPITAS UNIFIED SCHOOL DISTRICT

By ____________[to be signed only if filed]___________

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APPENDIX E

SANTA CLARA COUNTY
STATEMENT OF INVESTMENT POLICY
and
MONTHLY INVESTMENT REPORT

The following information has been furnished by the Office of the Director of Finance, County of Santa Clara. It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the Director of Finance and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Director of Finance, County of Santa Clara, 70 W. Hedding Street, 9th Floor, E. Wing, San Jose, CA 95110.

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COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

October 6, 2009

I. STATEMENT OF INTENT

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

II. SCOPE

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

III. OBJECTIVES

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

1. **Safety.** Safety of principal is the foremost objective of the County's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

   Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer. Credit risk may be mitigated by:

   - determining on-going credit worthiness of the financial institutions, broker/dealers, intermediaries and advisors with which the County does business; and,
   - diversifying the investment portfolio so that potential losses on individual securities will be minimized

   Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will decrease due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.

2. **Liquidity.** No investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Further, since all possible demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. **Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity, except under the following conditions:

   - a declining credit security could be sold early to minimize loss of principal;
   - selling the security would improve quality, yield or target duration of the portfolio;
   - liquidity needs of the portfolio require that the security be sold.

IV. STANDARDS OF CARE.

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

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

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

3. **Indemnification.** Investment officers acting in accordance with state laws, County ordinances, this policy and written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

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

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

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

V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

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

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

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

Each broker/dealer or bank that has been approved by the Treasurer shall be required to submit and annually update a County Broker/Dealer/Bank Information Request form which includes the firm's most recent financial statements. Broker/dealers and banks shall attest in writing that they have received a copy of this investment policy and understand its provisions.

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

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

VI. COUNTY TREASURY OVERSIGHT COMMITTEE

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

1. County Director of Finance
2. Representative appointed by the Board of Supervisors
3. Representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the County that are required or authorized to deposit funds in the County Treasury
4. County Superintendent of Schools or his or her designee
5. Representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County

6. Member(s) of the public that have expertise in, or an academic background in, public finance.

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

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

VII. ELIGIBLE, AUTHORIZED AND SUITABLE INVESTMENTS

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

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

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

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

- The term of the repurchase agreement is limited to 92 days or less. The securities underlying the agreement may be obligations of the United States Government, its agencies, or agency mortgage backed securities. For repurchase agreements that exceed 15 days, the maturities on purchased securities may not exceed 5 years.

- The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the agreement. Purchased securities shall be held in the County's custodian bank as safekeeping agent, and the market value of the securities shall be marked-to-market on a daily basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Money Market Funds. Companies issuing such money market funds must have assets under management in excess of $500,000,000. The advisors must be registered with the Securities and Exchange Commission (SEC) and have at least five years experience investing in such types of investments. The fund must reflect the highest rating by at least two of these NRSRO's: Moody's (Aaa), Standard and Poor's (AAA), and Fitch (AAA). No more than 20% of the Treasury's funds may be invested in money market funds and no more than 10% of the Treasury's funds may be invested in one money market fund.

Asset Backed Securities. Asset backed securities (ABS) are notes or bonds secured or

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

collateralized by pools of loans such as installment loans or receivables.

- Securities shall be issued by an issuer whose debt must reflect the following ratings or higher by at least two of these NRSRO’s: Moody's (A3), Standard and Poor's (A-), and Fitch (A-).
- The asset backed security itself must reflect the following ratings or higher from at least two of these NRSRO’s: Moody’s (AA-), Standard and Poor’s (Aa3) and Fitch (AA-).
- Asset backed securities together with mortgage backed securities may not exceed 20% of the Treasury’s surplus money.

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

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

Rating restrictions for all investments are denoted as requirements at time of purchase. If a security should incur a downgrade by either rating agency, Treasury will place the security on special surveillance to identify and monitor any continuing credit deterioration trends and if warranted, sell the security.

The County will not invest any funds in financial futures, option contracts, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

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

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

XIII. MATURITY

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

IX. SEGREGATED INVESTMENTS (excludes Commingled Funds)

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

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

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

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

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

X. SAFEKEEPING AND CUSTODY

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

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

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

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

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

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

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

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

XI. INTERNAL CONTROLS AND ACCOUNTING

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

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

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

XII. REPORTING

1. **Methods.** The County Treasurer shall prepare an investment report quarterly, including a management summary that provides a clear status of the current investment portfolio, quarterly transactions, investment philosophy and market actions and trends. The management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, the County Executive, the County Treasury Oversight Committee, Internal Auditor, and local agencies with funds on deposit in the County pool. The report will include the following:

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

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

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

   The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the State Treasurer's Local Agency Investment Fund (LAIF). It should be recognized, however, that since the investment parameters of LAIF are broader than the County's investment policies, the returns realized by the

County cannot necessarily be expected to exceed the returns realized by LAIF on a regular basis.

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

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

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

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

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

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

XIII. INVESTMENT POLICY ADOPTION

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

XIV. VOLUNTARY PARTICIPANTS

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

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

XV. WITHDRAWAL OF FUNDS BY VOLUNTARY PARTICIPANTS

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

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

XVI. WARRANTIES

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

SANTA CLARA COUNTY TREASURY COMMINGLED POOL

INVESTMENT REVIEW AND STRATEGY

September 30, 2009

Interest rates remained unchanged over the quarter ending September 30, 2009. The Federal Reserve has kept its benchmark, the federal funds rate, for overnight loans between banks unaltered this year to unfreeze credit markets and to stimulate economic growth. The Federal Open Market Committee (FOMC) reduced the federal funds rate in December, 2008 to its lowest possible level by setting a policy to constrain rates to a range of zero to 0.25 percent. After this unprecedented move, the FOMC switched to lending programs and to purchasing billions in securities to lower interest rates as its main policy tools. Most recently, policy makers in their September meeting reiterated that they expect interest rates will remain low for an "extended period." Substantial slack in the economy, a sluggish recovery, tame inflation and high unemployment have been cited as some of the strongest reasons why policy makers are hesitant to raise rates.

Although an interest rate hike is not imminent, the FOMC has been considering ways to withdraw the significant amount of cash they've pumped into the financial system to avoid igniting inflation once the economy starts to expand. The FOMC took its first step by establishing official termination dates for the various securities purchase programs. Chairman Bernanke recently stated that rates will eventually rise and investors expect an increase sometime in the later half of 2010. But given a fragile recovery, it will be difficult for the Fed to decide the optimal timing to remove its accommodative rate policy.

Economists expect that the economy grew at a fairly rapid pace from July through September mostly as a result of government stimulus programs. According to the median estimate of 65 economists surveyed by Bloomberg News, GDP probably increased by 3.2 percent over this period after declines over the previous four quarters. Such a long stretch of declines has not been experienced since 1947. Sources of improving strength within the economy appear to be broad with stabilization or modest gains occurring in housing, consumer spending and manufacturing.

The recent improvement in the housing sector is noteworthy. The sales of existing homes climbed in September to the highest level in more than two years. However since the collapse in homebuilding activity, residential investment has subtracted one percent on average from GDP in every quarter since the start of 2006. Any reversal of the sharp declines in this sector reduces the drag and should continue to boost GDP.

Gains in manufacturing were highlighted by recent increases in orders for durable goods. These are products meant to last beyond several years. Orders rose in September for the fourth time in the past six months. Also, the dollar's weakness is contributing to the competitiveness of US exports abroad.

The $8,000 credit for first time home buyers, due to expire November 30th and the "cash for clunkers" auto purchase incentive program has been successful and both contributed to third quarter growth.

Clunkers boosted sales by 700,000 vehicles, according to a Transportation Department estimate. Concern exists nevertheless that without these stimulus programs future sales activity cannot be sustained at current levels unless a stronger recovery occurs in the broader economy.

Even though economic activity has clearly picked-up, many including the Fed expect that future growth will be sluggish and subpar compared to previous recoveries. Much of this sentiment is anchored in our high levels of unemployment and its impact on spending and housing. In September, the economy shed 263,000 thousand jobs and the unemployment rate climbed to 9.8 percent leaving 15 million people out of work. Unemployment would have exceeded 10 percent if not for the more than half million Americans who left the workforce. Long-term joblessness or the percentage of the unemployed out of work for 27 weeks or more rose to a record of 35.6%. Typically, unemployment is viewed as a lagging indicator because employers hesitate before hiring until convinced that the expansion will last. But some analysts are suggesting that this recovery is different due to the size and the rapid advance of joblessness. If they are correct, this means that unemployment will not quickly diminish and high rates will persist for a sustained period.

Our portfolio strategy remains focused on the purchase of high quality assets and on those issuers whose credit strength is bolstered by U.S. government support. The quality standards set by the investment policy, under which the Pool is managed, for most of our securities, are higher than those required by state code. Government sponsored enterprises (GSEs) FHLMC, FNMA and FHLB will remain core holdings. Legislation enacted in July 2008 reaffirmed and strengthened the support available from the U.S. government for the GSEs. Furthermore, the significant ownership stake in FNMA and FHLMC that has been assumed by the U.S. Treasury provides senior debt holders with ample credit support. We also take comfort from the extraordinary initiatives that are being advanced by the Federal Reserve and by Treasury. In our view, recent actions taken by the government is indicative of their willingness to support certain banks and financial institutions through this difficult operating environment and that these efforts bolster credit strength. On a very selective basis some of these banks and institutions are attractive. Because of explicit U.S. government support for money market funds and commercial paper, these investments on a selective basis also warrant attention. We also like bank debt that is secured by FDIC guarantees. This debt benefits from the full faith and credit of the U.S. government for timely return of both principle and interest.

With the Fed setting its target rate at 0%, interest rates, particularly short rates appear to be at trough levels. The amount of time it takes for the economy to recover will solely determine how long rates remain this low. As portfolio bonds with attractive coupons mature those proceeds must be reinvested at lower rates, lowering the overall pool's acquisition yield.

The market anticipates that the U.S. Treasury must double its issuance amount to fund all these new federal assistance and recovery programs. The central bank is making significant injections to the money supply. This is inflationary and will ultimately place upward pressure on interest rates. We want to position the portfolio to fully take advantage of interest rates moving upward whenever that occurs. Our bias is to structure the portfolio so that it is less sensitive to interest rate shifts. We continue to look selectively at callable securities. They are typically bought as substitutes for securities with short maturities. We also find some floating rate securities attractive. Rates change quarterly and are pegged to LIBOR, a market rate which has not experienced the same degree of decline in yields as treasuries. Inflation protected notes may also be appropriate given a potential inflation ramp-up.

	SEP	AUG	JUL	JUN	MAY	APR
Average Days to Maturity	332	335	315	298	291	296
County Yield (end of month)	1.48%	1.47%	1.42%	1.41%	1.54%	1.67%
LAIF Yield (end of month)	0.62%	0.78%	0.95%	1.12%	1.51%	1.49%

Santa Clara County Commingled Pool and Segregated Investments
Cost vs Market Value and Historical Yield Comparisons

September 30, 2009

	Fund	Cost	Market Value	Increase (Decrease)	Percent Increase (Decrease)
	Commingled Investments	3,306,528,662	3,325,794,800	$19,266,138	0.583%
	Retiree Health Fixed Income*	170,767,414	175,330,880	$4,563,466	2.672%
	Retiree Health Equity *	35,089,624	27,757,810	-$7,331,814	-20.895%
	Valley Medical Center Cops	10,363,821	10,683,755	$319,934	3.087%
	Reserve Series 2005	9,178,293	9,434,791	$256,498	2.795%
	Elmwood	6,835,018	7,347,360	$512,341	7.496%
(1)	Medical Malpractice Ins Fund	12,625,456	13,132,680	$507,224	4.017%
	Schools & Special Districts	9,134,180	9,124,702	-$9,478	-0.104%
	Foothill Comm Col Series A & B	88,544,827	91,553,784	$3,008,957	3.398%
	West Valley Mission CCD - Building Fund	135,058,126	134,907,430	-$150,696	-0.112%

(1) Managed by Chandler Asset Management, Inc.

Summary of Yields** for Santa Clara County Investment Funds

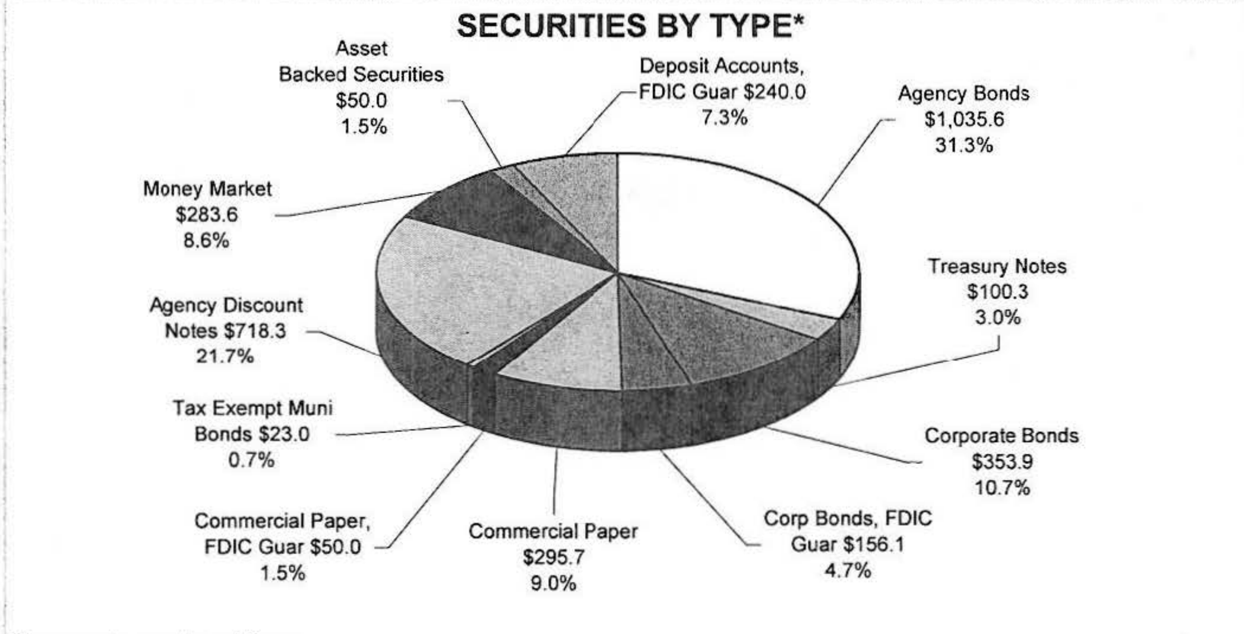
Fund	2009			2008
	Jul 31	Aug 31	Sep 30	Sep 30
Commingled Investments	1.42%	1.47%	1.47%	3.68%
Retiree Health Fixed Income	4.20%	4.10%	4.12%	4.37%
Valley Medical Cops Res	4.12%	4.11%	4.13%	4.34%
Weighted Yield	1.56%	1.60%	1.61%	3.83%

* These accounts reflect two components of the Retiree Health Fund. The third component is included in the Commingled Pool.
** Yield to maturity (YTM) is the rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date and if the coupon interest paid over the life of the bond is reinvested at the same rate as the coupon rate. The calculation for YTM is based on th coupon rate, length of time to maturity, and market price at time of purchase.
Yield is a snapshot measure of the yield of the portfolio on the day it was measured based on the current portfolio holdings on that day. This is not a measure of total return, and is not intended to be, since it does not factor in capital gains or losses and reinvestment rates are dependent upon interest rate changes.
*** Municipal bond funds are purchased at a premium. These securities are held at historical cost, not amortized book value. As a result, market value starts to approach par over the life of the security, causing the market value to appear to be less than cost value.

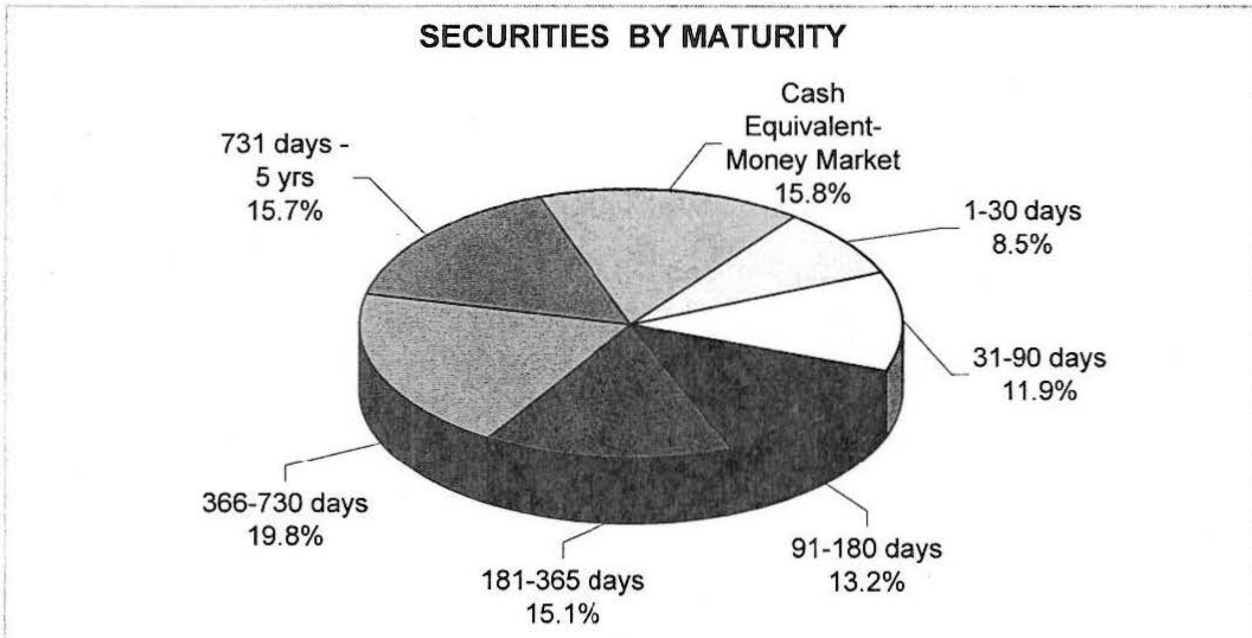
ATTACHMENT B

SANTA CLARA COUNTY TREASURY-COMMINGLED POOL INVESTMENT CONCENTRATION AND MATURITY DISTRIBUTION

September 30, 2009



*Amounts are in millions

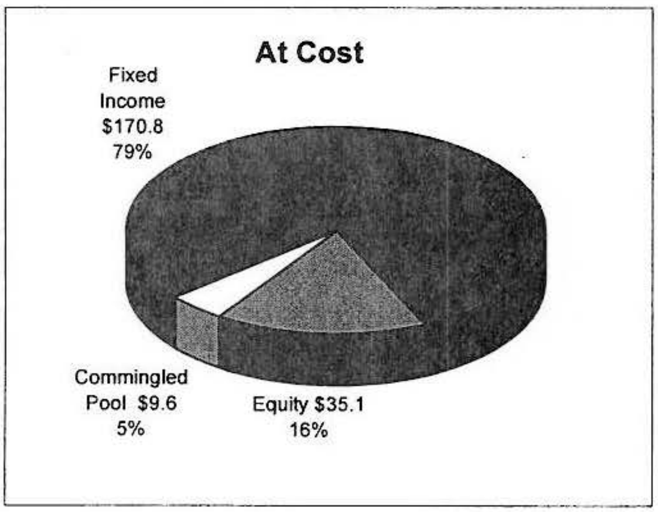


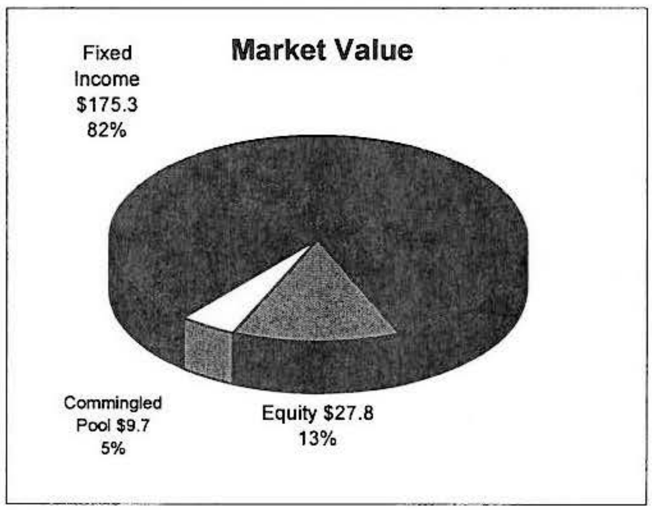
ATTACHMENT C1

Retiree Health Program

September 30, 2009

	At Cost	Market Value
Total Fund	215,510,044	212,797,973
Fixed Income (Separate Acct)	170,767,414	175,330,880
Equity	35,089,624	27,757,810
Commingled Pool	9,653,006	9,709,283
Pooled Loans	0	0





The County Investment Policy adopted by the Board of Supervisors provides that up to 67% of the Santa Clara Retiree Health Trust may be invested in equities through mutual funds or through the purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

RETIREE HEALTH FUND

PORTFOLIO COMPONENT AND BENCHMARK RETURNS
as of September 30, 2009

Fixed Income (1)	% of Fixed Inc	% of Portfolio	QTR Return	Since Inception (1)
Retiree Health Fund (2)	95%	82%	2.39%	5.95%
ML US Domestic Master, A rated and above (3)			2.97%	5.34%
Commingled (2)	5%	5%	0.47%	3.05%
Benchmark (4)			0.68%	2.81%
Blended Fixed Income Return	100%	87%	**2.29%**	**5.80%**
Blended Benchmark			**2.85%**	**5.21%**
Equity (5)	**% of Equity**	**% of Portfolio**	**QTR Return**	**Since Inception** (1)
VG SP 500 Idx Inst.	100%	13%	**15.61%**	**-11.75%**
S&P 500 Index			15.61%	-12.59%
VG Mid Cap Idx Inst	0%	0%	-	-
MSCI US Mid Cap 450 Index			-	-
VG SC Idx Inst.	0%	0%	-	-
MSCI US Small Cap 1750 Index			-	-
Total Return (5)	100%	13%	**15.61%**	**-11.75%**
Blended Index			**15.61%**	**-12.59%**
Total Portfolio		100%		
Retiree Health Fund			**4.03%**	**3.51%**
Blended Benchmark			**4.51%**	**2.88%**

1. Treasury contracted the Bank of New York (BONY) to provide custodial banking services starting on February 1, 2008. Returns are calculated from this date. The fixed income returns provided by BONY are AIMR (Association for Investment Management and Research) compliant and are consistent with industry standards. Given the difference in computation methodology, prior returns will not be combined with current returns.

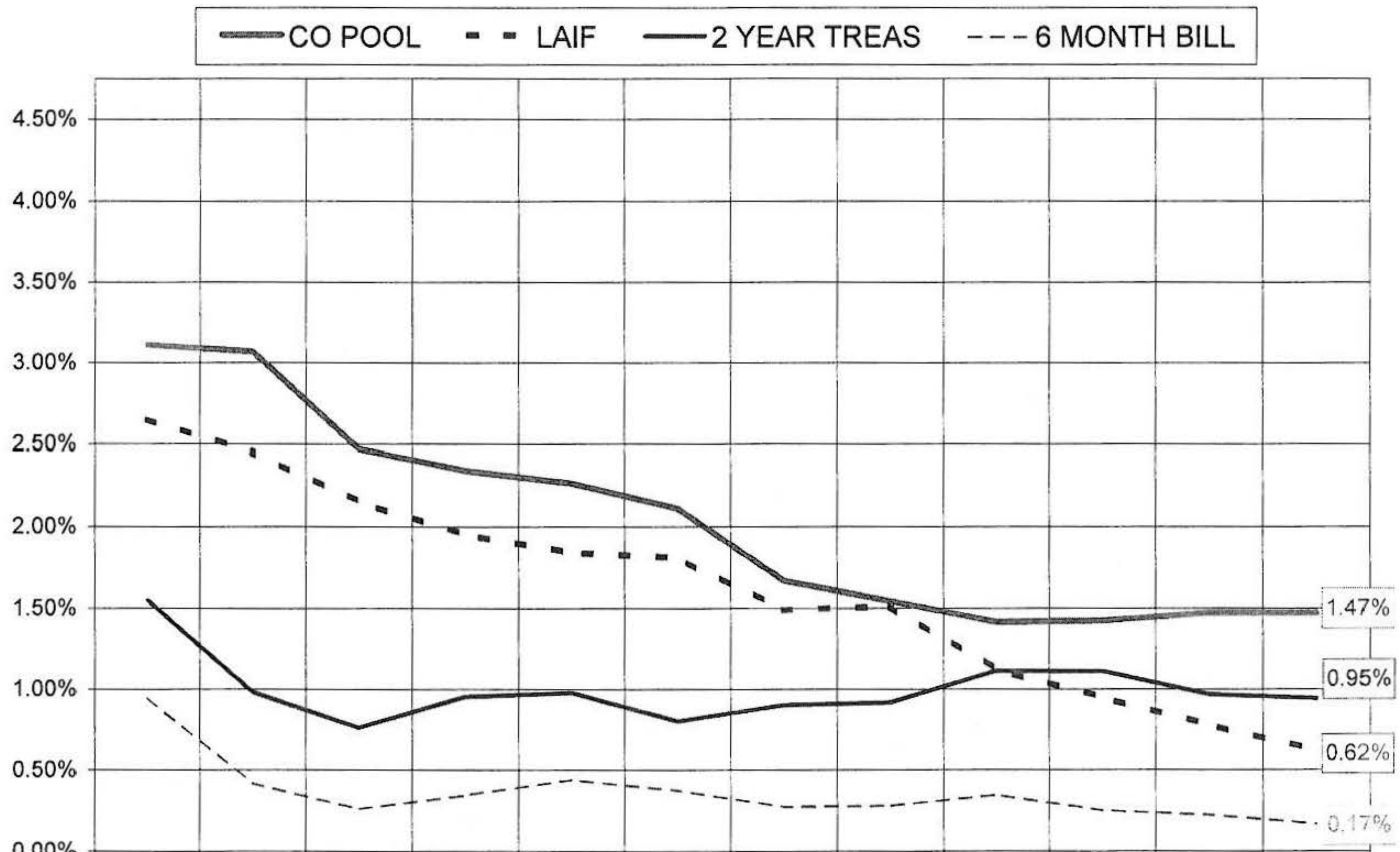
2. Retiree Health & Commingled yield respectively: **4.12%** **1.47%**
Retiree Health & Commingled Duration respectively: **3.95** **0.55**
Duration is a common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates. It takes into account imbedded options and that expected cash flows will fluctuate as interest rates change.

3. Benchmark reflects target mix of a portfolio designed to emulate longer duration liabilities.

4. ML US Treas Bills, 0-3 Mo = 30%, ML Govt/Corp 1-3 yr AA rated & above = 70%

5. The individual fund total returns for the equity portfolio are calculated by BONY. They are time weighted returns that appropriately weight deposits and withdrawals. Returns are AIMR (Association for Investment Management and Research) compliant and are consistent with industry standards. Index returns assume that there are no new investments or withdrawals.

PORTFOLIO HISTORY 2008-2009



	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
County	428	426	341	366	362	377	296	291	298	315	335	332
LAIF	241	231	223	215	205	197	172	186	235	188	203	234

YIELD AND AVERAGE MATURITY (in days) 2009

ATTACHMENT D

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this APPENDIX F has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the District, and "Agent" means the Paying Agent.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities 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 Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede &

Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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 any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or 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, Agent, or Issuer, 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 Issuer or 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 depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

MILPITAS UNIFIED SCHOOL DISTRICT (COUNTY OF SANTA CLARA, STATE OF CALIFORNIA) • 2010 GENERAL OBLIGATION REFUNDING BONDS

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