NEW ISSUE—FULL BOOK-ENTRY
BANK QUALIFIED

#2012-0958

RATING:
S&P: "AA"
See "RATING" herein.

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

$8,420,000
WALNUT CREEK SCHOOL DISTRICT
(Contra Costa County, California)
2012 General Obligation Refunding Bonds

Dated: Date of Delivery **Due: September 1, as shown below**

The $8,420,000 Walnut Creek School District (Contra Costa County, California), 2012 General Obligation Refunding Bonds (the "Bonds"), are being issued pursuant to the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code and a resolution of the Governing Board of the Walnut Creek School District (the "District").

The Bonds are being issued to (a) refund, (i) on an advance basis, a portion of the Walnut Creek Elementary School District (Contra Costa County, California), General Obligation Bonds, Election of 2002, Series A, maturing on and after September 1, 2014, and (ii) on a current basis, the Walnut Creek Elementary School District (Contra Costa County, California), 2003 General Obligation Refunding Bonds, maturing on and after September 1, 2013, and (b) pay for costs of issuance of the Bonds. The 2002A Bonds were issued to finance educational facilities. The 2003 Bonds were issued to refund certain bonds issued in 1995 and 1997 to finance educational facilities.

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

The Bonds are issuable in denominations of $5,000 and any integral multiple thereof. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2013. See "THE BONDS" herein. The Bonds will be delivered in fully registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent"), to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

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

MATURITY SCHEDULE

$7,535,000 Serial Bonds

CUSIP† Prefix: 932712

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP† Suffix	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP† Suffix
2013	$520,000	3.000%	0.350%	MP4	2018	$ 890,000	4.000%	1.100%	MU3
2014	645,000	3.000	0.500	MQ2	2019	955,000	3.000	1.250	MV1
2015	710,000	3.000	0.600	MR0	2020	1,090,000	5.000	1.450	MW9
2016	790,000	3.000	0.700	MS8	2021	1,110,000	5.000	1.650	MX7
2017	825,000	1.500	0.900	MT6					

$265,000 2.000% Term Bond maturing September 1, 2023—Price: 100.907%, to yield 1.900%c; CUSIP†: 932712 MZ2

$295,000 2.000% Term Bond maturing September 1, 2025—Price: 98.866%, to yield 2.100%; CUSIP†: 932712 NB4

$325,000 2.125% Term Bond maturing September 1, 2027—Price: 98.415%, to yield 2.250%; CUSIP†: 932712 ND0

c Priced to the September 1, 2022, par call date.

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

KNN
public finance

The Bonds were sold on July 31, 2012, by competitive bidding to Piper Jaffray & Co. at a true interest rate of 1.484511%.

This cover page contains information for quick reference only. It is not a summary of all the provisions of the Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Quint & Thimmig LLP, San Francisco, California. Certain legal matters also will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Bonds in definitive form will be delivered through the facilities of DTC on or about August 28, 2012.

Dated: July 31, 2012

WALNUT CREEK SCHOOL DISTRICT
960 Ygnacio Valley Road
Walnut Creek, California 94597
(925) 944-6850 Phone | (925) 944-1768 Fax
http://www.walnutcreeksd.org/

WALNUT CREEK SCHOOL DISTRICT

GOVERNING BOARD

Katie Peña, *President*
Barbara S. Pennington, *Clerk*
Angela P. Borchardt, *Member*
Arthur M. Clarke, *Member*
Jon-Michael Johnson, *Member*

DISTRICT ADMINISTRATION

Patricia Wool, Ed.D., *Superintendent*
Kevin Collins, Ed.D., *Chief Business Official*

PROFESSIONAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL
Quint & Thimmig LLP
San Francisco, California

FINANCIAL ADVISOR
KNN Public Finance,
a Division of Zions First National Bank
Oakland, California

PAYING AGENT, TRANSFER AGENT and
AUTHENTICATION AGENT
The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

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

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

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

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

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

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

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

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

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

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$8,420,000
WALNUT CREEK SCHOOL DISTRICT
(Contra Costa County, California)
2012 General Obligation Refunding Bonds

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Walnut Creek School District (Contra Costa County, California) 2012 General Obligation Refunding Bonds, in the principal amount of $8,420,000 (the "Bonds").

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

The District

The District includes approximately 25 square miles in the northern part of Contra Costa County (the "County") and provides educational services (K-8) to the residents of most of the City of Walnut Creek (the "City"). The District operates five elementary schools and one middle school, serving over 3,300 students. The estimated population of the District is 65,233.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent.

More detailed information regarding the area served by the District and the student population of the District may be found under "THE DISTRICT," "DISTRICT FINANCIAL INFORMATION," "TAX BASE FOR REPAYMENT OF BONDS," and "THE ECONOMY OF THE DISTRICT."

The District's average daily attendance for fiscal year 2010-11 was 3,345 and its projected average daily attendance for fiscal year 2011-12 is 3,412. The District has a 2011-12 total assessed valuation of $9,721,391,466. See "THE DISTRICT."

Security for the Bonds

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

Authority for Issuance; Purpose of Issues

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code. The Bonds are authorized to be issued pursuant to a resolution (the "Resolution"), adopted by the Board on June 18, 2012.

The Bonds are being issued to (a) refund, (i) on an advance basis, a portion of the Walnut Creek Elementary School District (Contra Costa County, California), General Obligation Bonds, Election of 2002, Series A (the "2002A Bonds"), maturing on and after September 1, 2014 (the "Refunded 2002A Bonds"), and (ii) on a current basis, the Walnut Creek Elementary School District (Contra Costa County, California), 2003 General Obligation Refunding Bonds (the "2003 Bonds"), maturing on and after September 1, 2013 (the "Refunded 2003 Bonds"), and (b) pay for costs of issuance of the Bonds. The 2002A Bonds were issued to finance educational facilities. The 2003 Bonds were issued to refund certain bonds issued in 1995 and 1997 to finance educational facilities. See "SOURCES AND USES OF FUNDS—Bonds" and "PLAN OF FINANCING."

Description of the Bonds

The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of $5,000 or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each March 1 and September 1 (each an "Interest Payment Date"), commencing March 1, 2013.

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

The Bonds maturing on or before September 1, 2022, are non-callable. The Bonds maturing on September 1, 2023, or any time thereafter, are callable for redemption prior to their stated maturity date at the option of the District, as a whole, or in part on or after September 1, 2022 (in such maturities as are designated by the District, or, if the District fails to designate such maturities, on a proportional basis), from any source lawfully available therefor, at a redemption price equal to the principal amount redeemed, plus accrued interest to date of redemption, without premium.

Tax Exemption

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

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about August 28, 2012.

Continuing Disclosure

The District will covenant for the benefit of the Bondholders to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized below under "CONTINUING DISCLOSURE." See APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The District has never failed to comply in all material respects with any previous continuing disclosure undertakings to provide annual reports or notices of material events.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the Superintendent, Walnut Creek School District, 960 Ygnacio Valley Road, Walnut Creek, CA 94597, (925) 944-6850. The District may impose a charge for copying, mailing and handling.

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

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

THE BONDS

Authority for Issuance

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

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

Security

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

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

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

Description of the Bonds

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

Interest with respect to the Bonds accrues from their date of delivery and is payable semiannually on March 1 and September 1 of each year (each, an "Interest Payment Date"), commencing March 1, 2013. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest

Payment Date, or unless it is authenticated on or before February 15, 2013, in which event it will bear interest from their date of delivery. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the cover page hereof. The principal of and interest on the Bonds will be payable by check or draft mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Bond at the office of the Paying Agent. See also "Book Entry Only System" below.

See the maturity schedule on the cover page hereof and "DEBT SERVICE SCHEDULE—Bonds."

Paying Agent

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

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

Payment

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

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

Redemption

Optional Redemption. The Bonds maturing on or before September 1, 2022, are non-callable. The Bonds maturing on September 1, 2023, or any time thereafter, are callable for redemption prior to their stated maturity date at the option of the District, as a whole, or in part on or after September 1, 2022 (in such maturities as are designated by the District, or, if the District fails to designate such maturities, on a proportional basis), from any source lawfully available therefor, at a redemption price equal to the principal amount redeemed, plus accrued interest to date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2023, are subject to mandatory sinking fund redemption prior to their stated maturity date, at the principal amount thereof without premium on September 1, 2022, and September 1, 2023, in the principal amounts as set forth in the following table:

Date of Sinking Fund Redemption (September 1)	Sinking Fund Installment Amount
2022	$130,000
2023†	135,000

†Maturity

The Bonds maturing on September 1, 2025, are subject to mandatory sinking fund redemption prior to their stated maturity date, at the principal amount thereof without premium on September 1, 2024, and September 1, 2025, in the principal amounts as set forth in the following table:

Date of Sinking Fund Redemption (September 1)	Sinking Fund Installment Amount
2024	$145,000
2025†	150,000

†Maturity

The Bonds maturing on September 1, 2027, are subject to mandatory sinking fund redemption prior to their stated maturity date, at the principal amount thereof without premium on September 1, 2026, and September 1, 2027, in the principal amounts as set forth in the following table:

Date of Sinking Fund Redemption (September 1)	Sinking Fund Installment Amount
2026	$160,000
2027†	165,000

†Maturity

Transfer and Exchange of Bonds; Registration

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

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

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

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

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

Bond Register. The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein before provided.

Book-Entry-Only System

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

Events of Default and Remedies

The following events ("events of default") shall be events of default under the Resolutions:

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

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

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

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

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

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

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

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

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

Defeasance

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

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

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

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

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

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

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

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

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

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

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

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

PLAN OF FINANCING

The Bonds are being issued to (a) refund, on an advance basis, the Refunded 2002 Bonds, (b) refund, on a current basis, the Refunded 2003 Bonds, and (c) pay for costs of issuance of the Bonds.

Refunding of Refunded 2002A Bonds. The 2002A Bonds were issued on March 12, 2003, in the principal amount of $7,000,000 and are outstanding in the principal amount of $6,020,000. The Refunded 2002A Bonds are equal to $2,455,000. A portion of the net proceeds of the Bonds will be used to refund, on an advance basis, the Refunded 2002A Bonds. At closing, such net proceeds will be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank") in an escrow fund (the "Refunded 2002A Bonds Escrow Fund"). On the Closing Date, the Escrow Bank will invest a portion of the amount on deposit in the Refunded 2002A Bonds Escrow Fund in federal securities, and will apply the maturing securities, the interest thereon and the uninvested cash to pay interest due on the Refunded 2002A Bonds to and including September 1, 2013, and will redeem the outstanding Refunded 2002A Bonds in full on that date at a redemption price equal to 100% of the principal amount thereof.

The sufficiency of the deposits in the Refunded 2002A Bonds Escrow Fund for such purposes will be verified by Causey Demgen & Moore Inc., certified public accountants, Denver, Colorado (the "Verification Agent"). See "ESCROW VERIFICATION."

The amounts held by the Escrow Bank in the Refunded 2002A Bonds Escrow Fund are pledged solely to the payment of the Refunded 2002A Bonds. The funds deposited in the Refunded 2002A Bonds Escrow Fund will not be available for the payment of debt service with respect to the Bonds.

Refunding of Refunded 2003 Bonds. The 2003 Bonds were issued on March 12, 2003, in the principal amount of $9,170,000 and are outstanding in the principal amount of $7,215,000. The Refunded 2002A Bonds are equal to $6,740,000. A portion of the net proceeds of the Bonds will be used to refund, on a current basis, the Refunded 2003 Bonds. At closing, such net proceeds will be deposited with the Escrow Bank in an escrow fund (the "Refunded 2003 Bonds Escrow Fund"). On the Closing Date, the Escrow Bank will invest a portion of the amount on deposit in the Refunded 2003 Bonds Escrow Fund in federal securities, and will apply the maturing securities, the interest thereon and the uninvested cash to pay interest due on the Refunded 2003 Bonds to and including September 1, 2012, and will redeem the outstanding Refunded 2003 Bonds in full on that date at a redemption price equal to 100% of the principal amount thereof.

The sufficiency of the deposits in the Refunded 2003 Bonds Escrow Fund for such purposes will be verified by the Verification Agent. See "ESCROW VERIFICATION."

The amounts held by the Escrow Bank in the Refunded 2003 Bonds Escrow Fund are pledged solely to the payment of the Refunded 2003 Bonds. The funds deposited in the Refunded 2003 Bonds Escrow Fund will not be available for the payment of debt service with respect to the Bonds.

Payment of Costs of Issuance. A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account and used to pay costs associated with the issuance of the Bonds. Any proceeds of sale of the Bonds not needed to redeem the Refunded 2002A Bonds, the Refunded 2003 Bonds or to pay costs of issuance of the Bonds will be transferred to the County Treasurer-Tax Collector for deposit in the Debt Service Fund and applied to pay debt service on the Bonds. Amounts held by the County Treasurer-Tax Collector will be invested on behalf of the District by the pursuant to law and the investment policy of the County. See "CONTRA COSTA COUNTY INVESTMENT POOL."

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal Amount of Bonds	$8,420,000.00
Plus: Funds held by County Treasurer for Refunded 2002A Bonds	55,892.50
Plus: Funds held by County Treasurer for Refunded 2003 Bonds	140,827.50
Less: Underwriter's Discount	(30,621.01)
Plus: Original Issue Premium	1,049,646.55
Total Sources of Funds	$9,635,745.54
Uses of Funds:	
Deposit to Refunded 2002A Bonds Escrow Fund	$2,618,847.53
Deposit to Refunded 2003 Bonds Escrow Fund	6,880,827.50
Deposit to Costs of Issuance Fund (1)	136,070.51
Total Uses of Funds	$9,635,745.54

(1) Includes Bond Counsel fees, Disclosure Counsel fees, Financial Advisor's fees, printing costs, rating agency fees and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the semi-annual debt service schedule with respect to the Bonds.

Interest Payment Date	Principal Amount (1)	Interest Amount	Semi-Annual Debt Service	Total Annual Debt Service
3/1/2013	—	$ 144,712.97	$ 144,712.97	—
9/1/2013	$ 520,000	142,340.63	662,340.63	$ 807,053.60
3/1/2014	—	134,540.63	134,540.63	—
9/1/2014	645,000	134,540.63	779,540.63	914,081.26
3/1/2015	—	124,865.63	124,865.63	—
9/1/2015	710,000	124,865.63	834,865.63	959,731.26
3/1/2016	—	114,215.63	114,215.63	—
9/1/2016	790,000	114,215.63	904,215.63	1,018,431.26
3/1/2017	—	102,365.63	102,365.63	—
9/1/2017	825,000	102,365.63	927,365.63	1,029,731.26
3/1/2018	—	96,178.13	96,178.13	—
9/1/2018	890,000	96,178.13	986,178.13	1,082,356.26
3/1/2019	—	78,378.13	78,378.13	—
9/1/2019	955,000	78,378.13	1,033,378.13	1,111,756.26
3/1/2020	—	64,053.13	64,053.13	—
9/1/2020	1,090,000	64,053.13	1,154,053.13	1,218,106.26
3/1/2021	—	36,803.13	36,803.13	—
9/1/2021	1,110,000	36,803.13	1,146,803.13	1,183,606.26
3/1/2022	—	9,053.13	9,053.13	—
9/1/2022	130,000	9,053.13	139,053.13	148,106.26
3/1/2023	—	7,753.13	7,753.13	—
9/1/2023	135,000	7,753.13	142,753.13	150,506.26
3/1/2024	—	6,403.13	6,403.13	—
9/1/2024	145,000	6,403.13	151,403.13	157,806.26
3/1/2025	—	4,953.13	4,953.13	—
9/1/2025	150,000	4,953.13	154,953.13	159,906.26
3/1/2026	—	3,453.13	3,453.13	—
9/1/2026	160,000	3,453.13	163,453.13	166,906.26
3/1/2027	—	1,753.13	1,753.13	—
9/1/2027	165,000	1,753.13	166,753.13	168,506.26
Totals	$8,420,000	$1,856,591.24	$10,276,591.24	10,276,591.24

(1) Includes mandatory sinking fund installments.

CONTRA COSTA COUNTY INVESTMENT POOL

The following information has been provided by the County, and the District and Underwriter take no responsibility for the accuracy or completeness thereof. Further information may be obtained from the County Treasurer.

Substantially all operating funds of the District are invested in the Contra Costa County Investment Pool. The County Treasurer accepts funds only from agencies located within the County for investment in the County Investment Pool. As of March 31, 2012, the cost value of the County Investment Pool was $2,067,641,918 and the fair value was $2,070,076,922, which was 100.12% of cost.

The following table summarizes the composition of the Pool as of March 31, 2012.

CONTRA COSTA COUNTY INVESTMENT POOL
PORTFOLIO COMPOSITION
(as of March 31, 2012)

Type of Investment	Par Value	Cost Value	Fair Value	Percent of Total (Cost Value)
U.S. Treasuries (STRIPS, Bills, Notes	$ 29,277,000	$ 30,463,361	$ 30,384,647	1.47%
U.S. Agencies (Federal, State, Local)	275,616,000	280,178,318	281,303,855	13.55
Money Market Instruments	1,224,220,518	1,224,013,790	1,225,653,596	59.20
Local Agency Investment Fund	336,994,607	336,994,607	336,994,607	16.30
Other	146,604,135	147,753,443	147,501,818	7.15
Cash	48,238,399	48,238,399	48,238,399	2.33
TOTAL	$2,060,950,659	$2,067,641,918	$2,070,076,922	100.00%

Note: All report information is unaudited.

The Treasurer's investment portfolio is in compliance with Government Code 53600 *et. seq.* and is in compliance with the Treasurer's current investment policy. The Treasurer's investment portfolio has no securities lending, reverse repurchase agreements or derivatives. The County reports that it is current practice for the Treasurer to mark the portfolio to market on a monthly basis. Such evaluations are performed by the County. Over 83% of the portfolio or over $1.70 billion will mature in less than a year. The County is able to meet its cash flow needs for six months. However, the State deferral policies and budget deficit could have a significant impact on the County's cash flow during the next six months.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

Article XIIIA of the California Constitution

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

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

Proposition 46

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

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

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

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

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

Under Article XIIIB of the California State Constitution state and local government entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriations of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Unitary Property

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

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

California Lottery

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

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2011-12, the District received $480,677 in State Lottery aid and has budgeted $469,692 for such aid in 2012-13. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted.

Article XIIIC and XIIID of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 added Articles XIIIC and XIIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

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

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

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 26 and 98 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting the District's revenues or their ability to expend revenues.

TAX BASE FOR REPAYMENT OF BONDS

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

Ad valorem Property Taxation

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

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

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

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

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

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

Assessed Valuations

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

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

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

Historic Assessed Valuations
Fiscal Years 2008-2012

Fiscal Year	Local Secured	Utility	Unsecured	Total
2007-08	$9,198,706,659	—	$337,606,315	$9,536,312,974
2008-09	9,558,041,127	—	365,771,555	9,923,812,682
2009-10	9,643,981,463	—	348,579,011	9,992,560,474
2010-11	9,576,749,305	—	346,529,015	9,923,275,320
2011-12	9,368,953,120	—	352,438,346	9,721,391,466

Source: California Municipal Statistics, Inc.

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 2011-12

	2011-12 Assessed Valuation [1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial/Office	$1,971,014,493	21.04%	626	3.49%
Vacant Commercial	10,545,270	0.11	27	0.15
Industrial	39,920,920	0.43	8	0.04
Recreational	68,047,663	0.73	17	0.09
Government/Social/Institutional	17,186,526	0.18	635	3.54
Subtotal Non-Residential	$2,106,714,872	22.49%	1,313	7.32%
Residential:				
Single Family Residence	$3,589,252,042	38.31%	7,873	43.89%
Condominium/Townhomes	2,352,984,775	25.11	7,998	44.59
Cooperatives [2]	394,499,877	4.21	68	0.38
2-4 Residential Units	134,198,658	1.43	314	1.75
5+ Residential Units/Apartments	783,076,293	8.36	149	0.83
Vacant Residential	8,226,603	0.09	222	1.24
Subtotal Residential	$7,262,238,248	77.51%	16,624	92.68%
Total	$9,368,953,120	100.00%	17,937	100.00%

Source: California Municipal Statistics, Inc.
[1] Local Secured Assessed Valuation; excluding tax-exempt property.
[2] The 68 cooperatives contain 3,368 residential units.

Assessed Valuation of Single-Family Residential Properties. The following table focuses on single-family residential properties only, which comprise approximately 38.3% of the secured assessed value of taxable property in the District. The average assessed value per parcel is $455,894, and the median assessed value per parcel is $429,647.

Assessed Valuation of Single Family Homes
Fiscal Year 2011-12

	No. of Parcels	2011-12 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	7,873	$3,589,252,042	$455,894	$429,647

2011-12 Assessed Valuation	No. of Parcels [1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $99,999	938	11.914%	11.914%	$ 71,251,919	1.985%	1.985%
$100,000 - $199,999	931	11.825	23.739	129,427,618	3.606	5.591
$200,000 - $299,999	811	10.301	34.040	204,990,338	5.711	11.302
$300,000 - $399,999	914	11.609	45.650	321,097,656	8.946	20.248
$400,000 - $499,999	1,093	13.883	59.533	491,000,215	13.680	33.928
$500,000 - $599,999	866	11.000	70.532	475,846,518	13.258	47.186
$600,000 - $699,999	820	10.415	80.948	531,520,740	14.809	61.994
$700,000 - $799,999	602	7.646	88.594	449,309,114	12.518	74.513
$800,000 - $899,999	324	4.115	92.709	273,600,278	7.623	82.135
$900,000 - $999,999	201	2.553	95.262	189,818,073	5.289	87.424
$1,000,000 - $1,099,999	135	1.715	96.977	140,440,531	3.913	91.337
$1,100,000 - $1,199,999	81	1.029	98.006	92,012,620	2.564	93.900
$1,200,000 - $1,299,999	54	0.686	98.692	66,867,847	1.863	95.763
$1,300,000 - $1,399,999	48	0.610	99.301	64,733,634	1.804	97.567
$1,400,000 - $1,499,999	22	0.279	99.581	31,841,815	0.887	98.454
$1,500,000 - $1,599,999	15	0.191	99.771	22,984,547	0.640	99.094
$1,600,000 - $1,699,999	8	0.102	99.873	13,189,414	0.367	99.462
$1,700,000 - $1,799,999	2	0.025	99.898	3,466,991	0.097	99.558
$1,800,000 - $1,899,999	3	0.038	99.936	5,459,571	0.152	99.710
$1,900,000 - $1,999,999	1	0.013	99.949	1,939,495	0.054	99.764
$2,000,000 and greater	4	0.051	100.000	8,453,108	0.236	100.000
Total	7,873	100.000%		$3,589,252,042	100.000%	

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

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2011-12 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 2011-12, no single taxpayer owned more than 2.31% 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.

Largest 2011-12 Local Secured Taxpayers

	Property Owner	Primary Land Use	2011-12 Assessed Valuation	% of Total (1)
1.	First Walnut Creek Mutual	Cooperatives – Rossmoor	$ 216,850,468	2.31%
2.	Second Walnut Creek Mutual	Cooperatives – Rossmoor	164,357,608	1.75
3.	Legacy III Walnut Creek III	Office Building	122,349,281	1.31
4.	Macerich Northwest Associates	Shopping Center	103,795,923	1.11
5.	Rreef America REIT II Corp. UUU	Office Building	98,899,032	1.06
6.	CA Plaza @ Walnut Creek Inc.	Office Building	85,776,508	0.92
7.	Escuela Shopping Center LLC	Shopping Center	80,144,696	0.86
8.	SVF Oak Road Walnut Creek Corp.	Office Building	74,058,571	0.79
9.	Property Calif SCJLW One Corp.	Office Building	70,100,000	0.75
10.	Northwestern Mutual Life Insurance	Office Building	61,480,542	0.66
11.	ASN Bay Landing LLC	Apartments	57,937,124	0.62
12.	CA-Treat Towers LP	Office Building	56,597,662	0.60
13.	Tishman Speyer Archstone-Smith	Apartments	54,400,407	0.58
14.	Robert and Rosemary Lucas	Office Building	54,045,787	0.58
15.	PK II Walnut Creek	Movie Theater/Commercial	50,000,000	0.53
16.	Retreat Apartments 316 LLC	Apartments	47,895,720	0.51
17.	James and Mei Fong Tong	Hotel	46,813,111	0.50
18.	Calif. State Teachers Retirement System	Office Building	45,000,000	0.48
19.	Broadway Pointe Investors LLC	Shopping Center	44,226,251	0.47
20.	Ashford Walnut Creek LP	Hotel	43,558,260	0.46
			$1,578,286,951	16.85%

Source: California Municipal Statistics, Inc.
(1) 2011-12 Local Secured Assessed Valuation: $9,368,953,120.

Tax Rates

The table below summarizes the tax rates levied by the County for the Districts general obligation bond debt service during the past five fiscal years.

Typical Tax Rate per $100,000 Assessed Valuation

	2007-08	2008-09	2009-10	2010-11	2011-12
Total Tax Rate	$22.20	$26.50	$16.60	$22.20	$24.00

Source: California Municipal Statistics, Inc.

Appeals and Adjustments of Assessed Valuations

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING

DISTRICT REVENUES AND APPROPRIATIONS—Article XIIIA of the California Constitution."

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date. No assurance can be given that property tax appeals in the future will not significantly reduce the assessed valuation of property within the District.

Tax Levies and Delinquencies

The recent history of real property tax collections and delinquencies in the District for the payment of debt service on general obligation bonds is shown in the following table.

Secured Tax Charges and Delinquencies
Bond Debt Service Levy

Fiscal Year	Secured Tax Charge	Amt. Del. June 30	% Del. June 30
2006-07	$1,850,356.05	$20,146.06	1.09%
2007-08	$2,015,459.12	$34,494.15	1.71%
2008-09	$2,502,969.39	$49,101.14	1.96%
2009-10	$1,587,617.18	$27,672.17	1.74%
2010-11	$2,193,655.58	$28,232.57	1.29%

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 *et seq.* 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 on the secured tax roll, but not on the unsecured tax roll, 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.

THE DISTRICT

General Information

The District includes most of the City of Walnut Creek (the "City") and the surrounding unincorporated area of the County, and provides educational services to the residents of the

District. The District operates five elementary (K-5) schools and one middle (6-8) school. In January, 2012, the population of the District was approximately 65,233.

Administration

The District is governed by a Board of Education comprised of five elected school board members who develop and set policies for the District, which are then implemented by a Board-appointed Superintendent and the administrative team. School Board members are elected for a four-year term of office in staggered years. Current members of the Board, together with their office and the date their current term expires, are listed below:

Board Member	Office	Current Term Expires (December)
Katie Peña	*President*	2012
Barbara S. Pennington	*Clerk*	2014
Angela P. Borchardt	*Member*	2014
Arthur M. Clarke	*Member*	2012
Jon-Michael Johnson	*Member*	2014

The administrative staff of the District includes Patricia Wool, Ed.D., Superintendent, who has served in this capacity since July, 2007, and Kevin Collins, Ed.D., Chief Business Official.

Recent Enrollment Trends

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

Walnut Creek School District
Average Daily Attendance
Fiscal Years 2002-03 through 2011-12

Fiscal Year	Average Daily Attendance(1)
2004-05	3,210
2005-06	3,156
2006-07	3,065
2007-08	3,053
2008-09	3,167
2009-10	3,195
2010-11	3,345
	Projected
2011-12(2)	3,412

Source: Walnut Creek School District.
(1) Includes K-8, home and hospital, special education.
(2) Projected as of December 12, 2012.

Employee Relations

Currently the District employs 164.1 full-time equivalent certificated employees, 84.0 full-time equivalent classified employees and 18.6 management employees. There are two formal bargaining organizations that are active in the District which are described in the table below.

Walnut Creek School District
Labor Relations

Labor Organization	Contract Expiration Date
Walnut Creek Education Association (certificated)	June 30, 2013
California Schools Employees Association (classified)	June 30, 2013

Source: Walnut Creek School District.

District Employee Retirement Systems

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

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

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal year ending June 30, 2011, 2010, and 2009, were $1,126,333, $1,046,347, and $1,067,862, respectively, and equal 100% of the required contributions for each year.

California Public Employees' Retirement System (CalPERS) Plan Description. The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement 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, CA 95811.

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-11 was 10.707 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2011, 2010, and 2009, were $351,570, $305,664, and $292,844, respectively, and equal 100% of the required contributions for each year.

Social Security. As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District contributes 6.2 percent of an employee's gross earnings. In addition, the employees were required to contribute 6.2 percent of their gross earnings.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2011—Notes to Basic Financial Statements—NOTE 13.

Other Post-Employment Benefits

The District provides retiree health benefits, based on age, service and eligibility for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). The District provides coverage to the following groups of employees and the District and retirees share in the cost of benefits as follows:

	Certificated	Classified	Certificated Management	Classified Management	Confidential
Benefits provided	Medical, dental & vision	Medical, dental & vision	Medical, dental & vision	Medical, dental & vision	Medical, dental & vision
Duration	To age 65	To age 65	To age 65	To age 65	To age 65
Required service	10 years	15 years	10 years	10 years	10 years
Minimum age	55	55	55	55	50
Dependent coverage	Yes	Yes	Yes	Yes	Yes
District cap	100%	100%	100%	100%	100%
District contribution	$150/mo.*	$200/mo.*	$150/mo.*	$200/mo.*	$150/mo.**

* Applies after 5 years of benefits paid at full rate. Cap for the first 5 years at active cap.
** May elect to have $18,000 spread over time from retirement to age 65.

The District had 248 active employees and 21 retired employees covered by the OPEB plan as of June 30, 2011. The OPEB benefits are administered by the District. No separate financial statements are issued.

The contribution requirements of plan members and the District are established and may be amended by the District and the bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District and the various bargaining units. For fiscal year 2010-11, the District contributed $57,894 to the plan, all of which was used for current premiums.

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (UAAL)(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 actuarially contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$228,263
Annual OPEB cost (expense)	(57,894)
Increase in net OPEB obligation	170,369
Net OPEB obligation, beginning of year	222,686
Net OPEB obligation, end of year	$393,055

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2011—Notes to Basic Financial Statements—NOTE 11.

Insurance (Risk Management)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2011, the District participated in three joint powers authority for purposes of pooling for risk. 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.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2011—Notes to Basic Financial Statements—NOTE 12.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the District's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an *ad valorem* tax levied for the payment thereof by the County. See "THE BONDS—Security."

General

The District has historically employed conservative budgeting practices that have maintained strong and steady general fund balances. In addition, the District has maintained significant reserves in its special reserve fund, a large part of which is funded from one-time settlement monies received from the Federal government in fiscal year 2005-06 and is freely available to the general fund. The District receives additional operating revenues from lease revenues, which generate over $4.3 million annually. The District voters passed a parcel tax in March 2004, which generates approximately $1.83 million in revenues annually for the District.

District Budget

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

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

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

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

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

The District's First Interim Report for Fiscal Year 2011-12 was certified as "positive," the District's Second Interim Report for Fiscal Year 2011-12 was certified as "positive" and the District's 2011-12 budget was approved by the County Superintendent. The following table shows the comparison of the District's budgeted figures for 2011-12 as well as the projections for 2011-12 based on the Second Interim Report.

2011-12 Adopted Budget and Year-End Projections from Second Interim Report

	2011-12 Estimated Actuals	Approved 2012-13 Budget
Revenues		
Revenue Limit Sources	$17,090,193	$17,070,635
Federal Revenues	971,478	1,007,154
Other State Revenue	2,824,632	2,937,801
Other Local Revenue	4,021,303	3,710,648
Total Revenues	$24,907,606	$24,726,238
Expenditures		
Certificated Salaries	$13,921,184	$14,443,261
Classified Salaries	3,390,967	3,676,336
Employee Benefits	3,521,430	3,883,435
Books and Supplies	987,286	717,756
Services and Other Operating Expenditures	2,958,970	2,783,999
Capital Outlay	142,500	74,531
Other Outgo	203,511	167,100
Total Expenditures	$25,125,848	$25,746,418
Excess (Deficiency) of Revenues and Other Expenditures Before Other Financing Sources and Uses	($218,242)	($1,020,180)
Total Financing Other Sources (Uses)	—-	$65,000
Net Increase (Decrease) in Fund Balance	($218,242)	($955,180)
Beginning Fund Balance	$7,940,914	$7,722,672
Ending Fund Balance	$7,722,672	$6,767,492

Source Second Interim Report.

Accounting Practices

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

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations), such as the State's portion of revenue limit funding. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2011, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 960 Ygnacio Valley Road, Walnut Creek, CA 94597, (925) 944-6850. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. The District's audited financial statements for the year ended June 30, 2011, are included in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011.

General Fund Revenues, Expenditures and changes in Net Assets
Audited Actuals for Fiscal Years 2008-09 to 2010-11

	2008-09	2009-10	2010-11
Revenues			
Revenue limit sources	$17,209,110	$15,456,428	$17,060,215
Federal sources	1,669,791	1,596,022	1,996,183
Other State sources	2,880,746	2,567,406	3,403,865
Other local sources	3,595,013	4,176,675	4,126,596
Total Revenues	25,354,660	23,796,531	26,586,859
Expenditures			
Current			
Instruction	16,943,304	16,918,252	17,958,855
Instruction-related activities:			
Supervision of instruction	901,382	746,843	1,317,537
Instructional library, media & technology	442,400	488,585	447,763
School site administration	1,618,182	1,647,354	1,610,857
Pupil Services:			
Home-to-school transportation	9,061	5,291	3,187
All other pupil services	524,185	466,028	511,928
Administration:			
Data processing	23,245	24,446	77,945
All other administration	1,250,361	1,385,333	1,488,571
Plant Services	2,044,151	1,940,593	2,089,264
Facility acquisition and construction	36,134	34,635	88,408
Ancillary Services	7,389	5,038	3,944
Other Outgo	287,329	200,806	195,689
Debt service			
Principal	—	—	—
Interest and other	—	12,943	—
Total Expenditures	24,087,123	23,876,147	25,793,948
Excess (Deficiency) of Revenue Over Expenditures	1,267,537	(79,616)	792,911
Operating Transfers In	—	625,000	—
NET CHANGE IN FUND BALANCES	1,267,537	545,384	792,911
Fund Balance – Beginning, Restated	5,341,846	6,609,383	9,378,912
Fund Balance – Ending	$6,609,383	7,154,767	$10,171,823

Source: Audited Financial Statements

Audit

Basic Financial Statements with Management's Discussion and Analysis and Independent Auditors Report and certain Supplementary Information for the year ended June 30, 2011, are included in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2011. The District considers its audited financial statements to be documents of public record. The District has not requested its auditors, Vavrinek, Trine, Day & Company, LLP, to review this Official Statement, nor have they done so.

Revenue Sources

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

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

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

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

The revenue limit sources comprised approximately 65.63% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 69.37% of such revenues in fiscal year 2011-12.

Federal Revenues. The federal government provides funding for District programs. The federal revenues, most of which are restricted, comprised approximately 7.68% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 3.94% of such revenues in fiscal year 2011-12.

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

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation and instructional materials. Other State revenues comprised approximately 10.86% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 10.81% of such revenues in fiscal year 2011-12.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, leases and rentals, special education support and other local sources. Other local revenues comprised approximately 15.83% of general fund revenues in fiscal year 2010-11 and are estimated to equal approximately 15.88% of such revenues in fiscal year 2011-12.

Parcel Tax

In November, 2009, 75.7% of District voters authorized a qualified special tax. Starting in fiscal year 2011, the District began collecting $82 per parcel annually to be used for various educational program enhancements throughout the District. The authorization has no expiration. The District expects to collect parcel tax revenues of approximately $1,200,000 in 2011-12.

District Debt

No Short-Term Obligations. The District has no outstanding short-term debt.

No Long-Term Lease Obligations. The District has no outstanding long-term certificates of participation or other lease obligations.

General Obligation Bonds. The following table lists the District's outstanding general obligation bonds as of June 30, 2012:

Issue Date	Series	Final Maturity	Amount of Original Issue	Outstanding as of June 30, 2012
3/12/2003	2003 General Obligation Refunding Bonds (1)	2021	$ 9,170,000	$ 7,215,000
3/12/2003	Election of 2002, Series A (2)	2027	7,000,000	6,020,000
3/31/2005	Election of 2002, Series B	2029	5,000,000	4,355,000
4/4/2007	Election of 2002, Series C	2031	4,000,000	3,860,000
4/4/2007	2007 General Obligation Refunding Bonds	2024	8,625,000	6,845,000
5/25/2010	Election of 2002, Series D (CIBs)	2025	2,035,000	2,035,000
5/25/2010	Election of 2002, Series E (CABs)	2023	1,964,628	1,964,628
Total			$37,794,628	$32,294,628

(1) The bonds of this issue maturing on 9/1/2013 through 9/1/2021 (the Refunded 2003 Bonds) will be refunded from the proceeds of the Bonds
(2) The bonds of this issue maturing on 9/1/2014 through 9/1/2027 (the Refunded 2002A Bonds) will be refunded from the proceeds of the Bonds

The following table shows the annual debt service requirements of the District's outstanding general obligation bonds, before this issuance of the Bonds:

Period	2003	Election of 2002			2007	Election of 2002		
Ending	Refunding	Series A	Series B	Series C	Refunding	Series D	Series E	Total
9/1/2012	$ 774,467.50	$ 471,487.50	$ 310,975.00	$ 226,060.00	$ 724,243.76	$ 84,935.00	—	$ 2,592,168.76
9/1/2013	801,655.00	478,487.50	315,800.00	247,060.00	731,243.76	84,935.00	—	2,659,181.26
9/1/2014	807,155.00	490,210.00	330,175.00	256,060.00	727,243.76	84,935.00	$ 30,000.00	2,725,778.76
9/1/2015	850,900.00	500,810.00	328,650.00	258,860.00	727,643.76	84,935.00	50,000.00	2,801,798.76
9/1/2016	901,500.00	510,610.00	331,900.00	258,110.00	727,243.76	84,935.00	65,000.00	2,879,298.76
9/1/2017	909,100.00	519,335.00	334,700.00	257,860.00	731,043.76	84,935.00	120,000.00	2,956,973.76
9/1/2018	959,580.00	531,945.00	337,050.00	267,360.00	728,843.76	84,935.00	130,000.00	3,039,713.76
9/1/2019	985,980.00	543,185.00	333,950.00	281,110.00	735,843.76	84,935.00	160,000.00	3,125,003.76
9/1/2020	1,089,000.00	553,005.00	335,625.00	278,860.00	736,643.76	84,935.00	140,000.00	3,218,068.76
9/1/2021	1,045,000.00	566,355.00	376,850.00	282,860.00	731,443.76	84,935.00	215,000.00	3,302,443.76
9/1/2022	—	577,955.00	415,825.00	316,460.00	735,443.76	84,935.00	1,160,000.00	3,290,618.76
9/1/2023	—	593,175.00	417,550.00	318,260.00	368,243.76	84,935.00	1,560,000.00	3,342,163.76
9/1/2024	—	606,320.00	418,600.00	319,545.00	369,643.76	1,119,935.00	—	2,834,043.76
9/1/2025	—	617,320.00	418,975.00	355,305.00	—	1,042,500.00	—	2,434,100.00
9/1/2026	—	626,640.00	413,675.00	354,175.00	—	—	—	1,394,490.00
9/1/2027	—	639,280.00	402,925.00	357,487.50	—	—	—	1,399,692.50
9/1/2028	—	—	381,950.00	355,162.50	—	—	—	737,112.50
9/1/2029	—	—	376,200.00	357,412.50	—	—	—	733,612.50
9/1/2030	—	—	—	359,025.00	—	—	—	359,025.00
9/1/2031	—	—	—	359,835.00	—	—	—	359,835.00
Total	$9,124,337.50	$8,826,120.00	$6,581,375.00	6,066,867.50	$8,774,768.88	$3,181,655.00	$3,630,000.00	$46,185,123.88

Overlapping Debt

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

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

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

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Walnut Creek School District

2011-12 Assessed Valuation:	$9,721,391,466
Redevelopment Incremental Valuation:	763,471,578
Adjusted Assessed Valuation:	$8,957,919,888

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/12
Bay Area Rapid Transit District	2.054%	$ 8,473,572
Contra Costa Community College District	7.196	16,117,961
Acalanes Union High School District	39.715	63,888,666
Walnut Creek School District	**100.**	**32,294,628** (1)
East Bay Regional Park District	3.191	4,133,143
Pleasant Hill Recreation and Park District	0.047	13,160
California Statewide Community Development Authority Community Facilities District No. 2000-1	100.	2,618,810
Contra Costa County Community Facilities District No. 1991-1	7.230	147,666
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$127,687,606
OVERLAPPING GENERAL FUND DEBT:		
Contra Costa County General Fund Obligations	7.164%	$21,613,142
Contra Costa County Pension Obligations	7.164	25,682,582
Contra Costa Community College District Certificates of Participation	7.196	61,526
City of Walnut Creek General Fund Obligations	54.377	443,173
Pleasant Hill Recreation and Park District Certificates of Participation	0.047	1,083
Contra Costa Fire Protection District Pension Obligations	16.240	18,123,028
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$65,924,534
Less: Contra Costa County Obligations supported by revenue funds		8,114,505
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$57,810,029
GROSS COMBINED TOTAL DEBT		$193,612,140 (2)
NET COMBINED TOTAL DEBT		$185,497,635

(1) Excludes 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.

Ratios to 2011-12 Assessed Valuation:
Direct Debt ($32,294,628).. 0.33%
Total Direct and Overlapping Tax and Assessment Debt........ 1.31%

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt 2.16%
Net Combined Total Debt... 2.07%

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

Source: California Municipal Statistics, Inc.

GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

State Funding of Education

The State Constitution requires that from all State revenues there will first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, most school districts in the State receive a significant portion of their funding from State appropriations.

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code.

Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State aid, and receives only its special categorical aid which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as "basic aid districts." Districts that receive some State aid are commonly referred to as "revenue limit districts."

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit (as described below) per unit of average daily attendance ("ADA"). Generally, such apportionments will amount to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (*i.e.*, unified, high school or elementary). State law also provides for State support of specific school-related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

The State revenue limit is calculated three times a year for each school district. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for the June 25th Second Principal Apportionment, and the final calculation for the end of the year Annual Principal Apportionment. Calculations are reviewed by the County Office of Education and submitted to the State Department of Education to review the calculations for accuracy, calculate the amount of State aid owed to such school district and notify the State Controller of the amount, who then distributes the State aid.

The calculation of the amount of State aid a school district is entitled to receive each year is a five step process. First, the prior year State revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year State revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average State revenue limit per ADA for the school districts. Third, the current year's State revenue limit per ADA for each school district is multiplied by such school district's ADA for either the current or prior year, whichever is greater. Fourth, revenue limit add-ons are calculated for each school district if such school district qualifies for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the State revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the State revenue limit to arrive at the amount of state aid based on the State revenue limit each school district is entitled to for the current year.

Basic Aid Districts

In the event that a school district's property tax revenue exceeds its calculated revenue limit entitlement, that school district retains all of its property tax revenue, and State apportionments to that district are limited to the minimum "basic aid" amount of $120 per A.D.A. set forth in the Constitution. Currently the State allocates basic aid funding within categorical entitlements that would have been received in any event. The District is not a Basic Aid District.

State Cash Management Legislation

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals have been codified and are expected to be on-going. Legislation enacted with respect to fiscal year 2011-12 provides for additional inter-fiscal year deferrals.

On March 24, 2011, the Governor signed into law Senate Bill 82 ("SB 82"), which extended into fiscal year 2011-12 provisions of existing law designed to effectively manage the State's cash resources. SB 82 authorizes the deferral of State apportionments during fiscal year 2011-12, as follows: (i) $700 million from July 2011 to September 2011, (ii) $700 million from July 2011 to January 2012, (iii) $1.4 billion from August 2011 to January 2012, (iv) $2.4 billion from October 2011 to January 2012, and (v) $1.4 billion from March 2012 to April 2012. Collectively, these deferrals are referred to as the "Cash Management Deferrals." SB 82 required the State Department of Education was required to certify to school districts no later than April 15, 2011 which of the 2011-12 Cash Management Deferrals will be implemented, and in what amounts. On April 15, 2011, the Department of Education released a projected scheduled of State apportionments showing that all of the 2011-12 Cash Management Deferrals would be implemented. SB 82 provides for an exemption to the Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed. The District, however, did not apply for or receive exemption from any of the Cash Management Deferrals. In the event any of the Cash Management Deferrals are implemented, SB 82 requires that the State Controller, State Treasurer and State Treasurer review, as necessary but no less than monthly, the actual State general fund cash receipts and disbursements in comparison to the Governor's most recent revenue and expenditure projections. If the Controller, Treasurer and Treasurer-Tax Collector determine that sufficient cash is available to pay the State apportionments being deferred while maintaining a prudent cash reserve, such State apportionments are required to be paid as soon as feasible.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 26, 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. The nature and impact of these measures cannot be anticipated by the District.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts generally receive the majority of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "—State Funding of Education and Revenue Limitations" above). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

State Budget

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

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

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each House of the Legislature. The Governor may B-14 reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

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

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

Recent State Budgets

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

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

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

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

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

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

On July 2, 2009, as a result of declines in State revenues commencing in fiscal years B-15 2008-09, the State Controller began to issue registered warrants (or "IOUs") for certain lower priority State obligations in lieu of warrants (checks) which could be immediately cashed. The registered warrants, the issuance of which did not require the consent of recipients, bore interest. With enactment of an amended budget in late July, 2009, the State was able to call all its outstanding registered warrants for redemption on September 4, 2009. The issuance of state registered warrants in 2009 was only the second time the State has issued state registered warrants to such types of state creditors since the 1930s.

Furthermore, commencing in fiscal year 2008-09, to better manage its cash flow in light of declining revenues, the State has enacted several statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year, in order to more closely align the State's revenues with its expenditures. This technique has been used several times through the enactment of budget bills in fiscal years 2008-2009 through 2011-12. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

Fiscal stress and cash pressures currently facing the State may continue or become more difficult, and continuing declines in State tax receipts or other results of the current economic recession may materially adversely affect the financial condition of the State. The Department of Finance has projected that multi-billion dollar budget gaps will occur annually for several years in the future, although the 2012-13 Budget described below includes measures which are intended to address these budgetary difficulties.

2012-13 State Budget.

The Governor signed the fiscal year 2012-13 State budget (the "2012-13 State Budget") on June 27, 2012. The 2012-13 State Budget closes a $15.7 billion budget gap and builds a reserve of nearly $1 billion with (i) $8.1 billion in expenditure reductions, (ii) $6 billion in increased revenues (which assumes the approval by the voters of temporary taxes at the November 2012 election, as further described below) and (iii) $2.5 billion from certain loan and transfer measures. This $15.7 billion budget gap is less than the $26.6 billion budget gap encountered for fiscal year 2011-12. The 2012-13 State Budget purports to position the State to have a balanced budget in an ongoing manner for the first time in over a decade, with future spending expected to stay within available revenues.

The 2012-13 State Budget assumes the passage of The Schools and Local Public Safety Protection Act (the "Temporary Tax Measure") at the November 2012 election. Such measure, if approved by the voters, would increase the personal income tax on the State's wealthiest taxpayers by up to three percent for a period of seven years, and increase the sales tax by one-quarter percent for a period of four years. The 2012-13 State Budget projects that the Temporary

Tax Measure will generate an estimated $8.5 billion in revenues in fiscal year 2012-13. Such additional revenues would increase the State's Proposition 98 obligation by $2.9 billion and provide a net benefit of $5.6 billion to the State's general fund. With the assumed voter approval of the Temporary Tax Measure, the 2012-13 State Budget provides $53.6 billion in Proposition 98 funding for K-12 schools and community colleges, a $6.7 billion (or 14%) increase from fiscal year 2011-12. Of such increased amount, $6.1 billion is designated for K-12 schools. The 2012-13 State Budget maintains level Proposition 98 programmatic funding for all K-12 schools, pays off $2.2 billion in the amount of payments to K-12 schools and community colleges that are deferred each year, and funds the Quality Education Investment Act program (as described below) within the Proposition 98 guarantee. According to the 2012-13 State Budget, the Temporary Tax Measure is expected to increase Proposition 98 funding for K-12 schools and community colleges by an aggregate amount of $17.2 billion (or 37%) over the next B-16 four fiscal years when compared to fiscal year 2011-12. This projected increase reverses years of cuts in funding for K-12 schools and community colleges.

Proposed K-12 adjustments provided in the 2012-13 State Budget include the following:

- Proposition 98 Adjustments. A decrease approximately $630 million due to (i) eliminating the hold-harmless adjustment provided to K-12 schools from the elimination of the sales tax on gasoline in fiscal year 2010-11, and (ii) using a consistent current value methodology to rebench the Proposition 98 minimum guarantee for the exclusion of child care programs, the inclusion of special education mental health services, and new property tax shifts.

- Redevelopment Agency Asset Liquidation. An increase of $1.21.3 billion in offsetting local property taxes for fiscal year 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies, which increase in local revenues also reduces Proposition 98 general fund by an identical amount.

- Quality Education Investment Act. A decrease of $450 million in funding for fiscal year 2012-13 with respect to the Quality Education Investment Act. The over-appropriation in fiscal year 2011-12 will be used to prepay the $450 million required to be provided on top of the Proposition 98 minimum guarantee in fiscal year 2012-13. The program will be funded within the Proposition 98 minimum guarantee to achieve one-time savings of $450 million for fiscal year 2012-13.

- K-12 Deferrals. An increase of $2.1 billion in Proposition 98 funding to reduce K-12 inter-year budgetary deferrals from $9.5 billion to $7.4 billion.

- Mandates Block Grant. An increase of $86.2 million from fiscal year 2011-12 to provide a total of $166.6 million for K-12 mandates through a new voluntary block grant, in which participating school districts and county offices of education would receive $28 per student and participating charter schools would receive $14 per student. School districts and county offices of education that choose not to participate in the block grant program would retain their right to submit claims for reimbursement, subject to audit by the State Controller.

- Charter Schools. An increase of $53.7 million in Proposition 98 funding for charter school categorical programs to fund growth in charter school enrollment. Additionally, the 2012- 13 State Budget provides for (i) the expansion of the ability of school districts to convey surplus property to charter schools, (ii) the authorization of county treasurers to provide charter schools with short-term cash loans, and (iii) the authorization of charter schools to participate in the temporary revenue anticipation note financing mechanisms that are currently available to school districts and county offices of education.

- Child Care. Total savings of $294.3 million from (i) the inclusion of part-day centerbased services for 3- and 4- year-olds within the State Preschool Program funded through Proposition 98, (ii) the reduction of child care provider contracts, and (iii) not providing the statutory cost-of-living-adjustment for non-CalWORKs programs.

As stated above, the increased Proposition 98 funding for K-12 schools, among other things, is contingent upon the approval of the Temporary Tax Measure. If the Temporary Tax Measure is not approved by the voters at the November 2012 election, the 2012-13 State Budget includes a backup plan of $6 billion in trigger cuts which would go into effect on January 1, 2013. With respect to K-12 schools, such cuts would (i) reduce funding for K-12 schools and B-17 community colleges by $5.4 billion – a funding decrease equivalent to three weeks of instruction, and (ii) eliminate the ability of the State to begin repaying funding deferrals.

The complete 2012-13 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Uncertainty Regarding Future State Budgets

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

The State has not entered into any contractual commitment with the District, the County, or the Owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein. However, the Bonds are secured by ad valorem taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

Litigation Challenging State Funding of Education

On May 20, 2010, more than 60 individual students and their respective families, nine California school districts, the California Congress of Parents Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.*, (the "Robles Complaint") in the Alameda County Superior Court. The Robles Complaint alleges, among other things, that the State's current system of funding public education is not designed to support core education programs and that the State has failed to meet its constitutional duties to maintain and support a system of common schools. The Robles Complaint further alleges that the State's system for funding education is not rationally or demonstrably aligned with the goals and objectives of the State's prescribed educational program, and the costs of ensuring that children of all needs have the opportunity to become proficient in accordance with State academic standards. The Robles Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program, as well as to direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution.

On January 14, 2011, the Superior Court dismissed major portions of the Robles Complaint, allowing the plaintiffs to proceed only on the question of whether the State's public education funding scheme provides equal opportunities to students throughout the State but rejecting that part that claimed that the State constitution mandates an overall qualitative standard for public education. On July 26, 2011, the Superior Court rejected the plaintiffs' amended complaint as not stating an equal protection claim but allowed them to amend their complaint, if filed by August 25. On August 22, 2011, the Superior Court granted the plaintiffs' request for an extension of time to file their amended complaint until September 26, 2011. No amended complaint was filed.

On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the City and County of San Francisco (the "CSBA Petition"). The petitioners allege that the 2011-12 Budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately $2.1 billion. The CSBA Petition seeks an order from the Court compelling the State Treasurer, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution.

The District is not a party to the Robles Complaint or the CSBA Petition. The District cannot predict whether any of the plaintiffs listed in the Robles Complaint or the CSBA Petition will be successful, what the potential remedies would be or the State's response to any such remedies. The District makes no representation with regards to how any final court decision with respect to the Robles Complaint or the CSBA Petition would affect the financial status of the District or the State.

Significant Accounting Policies and Audited Financial Statements

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. Vavrinek, Trine, Day & Company, LLP, Pleasanton, California, serve as independent auditors to the District and excerpts of their report for the fiscal year ended June 30, 2011, are attached hereto as APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011. The District's auditors have not specifically approved the inclusion of such excerpts herewith.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. For the District's most recent available audited financial statements, see APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011.

***Ad Valorem* Property Taxes**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1, effective with the lien date of January 1,

1997. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Proposition 98

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual grade kindergarten to 14 ("K-14") funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, revised certain funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding "test" to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment ("COLA") for the minimum guarantee would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State of California) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth ("ADA") and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita general fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

Supplemental Information Concerning Litigation Against the State of California

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

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al*. The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

Propositions 1A and 22

Proposition 1A (SCA 4) provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate from 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Under Proposition 1A, the State no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A restricts the State's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate the State's authority to temporarily borrow or redirect some city, county, and special district funds or the State's authority to redirect local redevelopment agency revenues. However, Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (1) to use State fuel tax revenues to pay debt service on state transportation bonds; (2) to borrow or change the distribution of state fuel tax revenues; (3) to direct redevelopment agency property taxes to any other local government; (4) to temporarily shift property taxes from cities, counties, and special districts to schools; (5) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to the LAO analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 would be approximately $1 billion in fiscal year 2010–11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's General Fund costs by approximately $1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California will be dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling $1.7 billion statewide. The District can make no representations regarding what affect the implementation of ABx1 26 will have on the District's future receipt of tax increment revenues.

State Funding of School Construction

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

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

State Retirement Programs

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

Contribution rates to PERS varies with changes in actuarial assumptions and other factors, such as changes in benefits and investment performance, and are set by a State retirement board for PERS. The contribution rates are set by statute for CalSTRS at a constant 8.25% of salary. CalSTRS has a substantial Statewide unfunded liability. Under current law, the liability is the responsibility of the State and not of individual school districts. See "DISTRICT INFORMATION" herein for information regarding the District's contributions to these retirement systems.

County Office of Education

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

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

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

School District Budget Process

School districts are required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. School districts' annual general fund expenditures are characterized in large part by multi-year expenditure commitments such as union contracts. Year-to-year fluctuations in State and local funding of school district general funds could result in revenue decreases which, if large enough, may not easily be offset by an equal reduction in expenditures until at least the following fiscal year. School districts are required by State law to maintain general fund reserves which can be drawn upon in the event of a resulting excess of expenditures over revenues for a given fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed. Under either procedure, the school board must revise its adopted budget within 45 days after the Governor signs the State budget act to reflect any changes in budgeted revenues or expenditures made necessary by the adoption of the State's budget.

For both dual and single budgets submitted on July 1, the County Superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations and is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the County Superintendent will approve or disapprove the adopted budget for each school district. Pursuant to State law, the county superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved.

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

At minimum, school districts are required by statute to file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15th covering financial operations from July 1 through October 31st, and a Second Interim Financial Report by March 15th covering financial operations from November 1 through January 31st. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report by June 1st covering financial operations from February 1st through April 30th. If not required, a Third Interim Financial Report generally is not prepared (though may be at the election of the district). Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

Temporary Inter-fund Borrowing

The Education Code generally authorizes a school district to temporarily transfer cash from a specific purpose fund to any other district fund by district board action, including transfer of cash from proceeds of general obligation bonds; *provided that*, (a) the transferred cash is repaid to the original fund within the same fiscal year or (b), if transferred within the final 120 days of a fiscal year, then repaid to the original fund within the following fiscal year. However, depending on the circumstances of a particular such transfer, other State law, grant or contractual restrictions, or in the case of proceeds of tax-exempt obligations, federal tax law, may apply and may further restrict the use of such cash.

Accounting Practices

The accounting policies of California school districts conform to generally accepted accounting principles, as modified in accordance with policies and procedures of the California School Accounting Manual. This manual, pursuant to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. See also "Notes to

Financial Statements - Note 1" in Appendix A herein for further discussion of applicable accounting policies.

County Investment Pool

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

Each county treasurer is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 *et seq.* and 53635 *et seq.* In addition, each county treasurer is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. See "CONTRA COSTA COUNTY INVESTMENT POOL."

CONTRA COSTA COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION

The following economic and demographic data for the City and the County are presented for information purposes only. Such data has been collected from the City and the County or, as noted, third party sources. The Bonds are not a debt or obligation of the County. The District encompasses a relatively small area within the County and the property tax required to be levied by the County to repay the Bonds will be levied only on property located in the District.

Introduction

The District serves elementary students in the City of Walnut Creek.

Situated northeast of San Francisco, the County is bounded by the San Francisco Bay to the west, the San Pablo Bay and the Sacramento River delta to the north and by Alameda County on the south. Ranges of hills effectively divide the County into three distinct regions. The western portion, with its access to water, contains much of the County's heavy industry. The central section is rapidly developing from a suburban area into a major commercial and financial headquarters center. The eastern part is also undergoing substantial change, from a rural, agricultural area, to a suburban region. The County has extensive and varied transportation facilities - ports accessible to ocean-going vessels, railroads, freeways, and rapid transit lines connecting the area with Alameda County and San Francisco.

Population

The following table summarizes population figures for the City and the County.

City of Walnut Creek and Contra Costa County
Population 2001-2011

Year	City	County
2001	65,231	962,076
2002	65,199	974,657
2003	65,002	984,256
2004	65,092	993,958
2005	64,705	1,001,216
2006	63,681	1,007,169
2007	63,302	1,015,672
2008	63,339	1,027,264
2009	63,786	1,038,390
2010	64,240	1,047,948
2011	64,710	1,056,306
2012	65,233	1,065,117

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Count (as of January 1). Sacramento, California, September 2011.

Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State and the nation for the years 2005 through 2011.

City of Walnut Creek, Contra Costa County,
State of California and United States of America
Median Household Effective Buying Income
2005-2011

Year Ending	City of Walnut Creek	Contra Costa County	State of California	United States of America
2005	$55,647	$56,165	$43,915	$39,324
2006	56,510	58,497	46,275	41,255
2007	58,691	61,123	48,203	41,792
2008	59,053	61,903	48,952	42,303
2009	62,317	64,213	49,736	43,252
2010	60,308	64,213	49,736	43,252
2011	59,058	60,777	47,062	41,253

Source: Nielsen Claritas, Inc.

Commercial Activity

The following table summarizes historical taxable transactions in the City and the County.

City of Walnut Creek and Contra Costa County
Total Taxable Transactions All Outlets, 2000-2009
(Dollars in Thousands)

	City		County	
Year	Permits	Taxable Transactions	Permits	Taxable Transactions
2000	2,481	1,671,753	22,674	12,330,560
2001	2,488	1,649,962	22,609	12,256,721
2002	2,534	1,639,917	22,541	12,159,424
2003	2,625	1,670,891	23,253	12,223,295
2004	2,643	1,730,075	23,571	12,990,538
2005	2,516	1,803,610	23,692	13,480,075
2006	2,433	1,835,630	23,249	13,867,661
2007	2,383	1,797,050	23,181	14,086,295
2008	2,407	1,619,604	23,149	13,307,681
2009	2,250	1,467,152	21,395	11,883,049
2010	2,308	1,508,815	21,784	11,953,846

Source: State Board of Equalization

Major Employers

The following table provides a listing of the major employers headquartered or located in the County, listed alphabetically.

Contra Costa County
Major Employers
(Listed Alphabetically)

Company	Product/Service	City
Bay Area Rapid Transit (BART)	Transit Lines	Richmond
Bayer Health Care Phrmctcls	Laboratories-Pharmaceutical (Mfrs)	Richmond
Bio-Rad Laboratories Inc	Biological Products (Mfrs)	Hercules
California State Auto Assn	Automobile Club	Walnut Creek
Chevron Corp	Petroleum Products (Mfrs)	San Ramon
Chevron Global Downstream LLC	Marketing Programs & Services	San Ramon
Concord Naval Weapons Station	Federal Government-National Security	Concord
Contra-Costa Regional Med Ctr	Hospitals	Martinez
Department of Vetrans Affairs	Clinics	Martinez
Doctor's Medical Ctr	Hospitals	San Pablo
John Muir Health Physical Rhb	Physical Therapists	Concord
John Muir Medical Ctr	Hospitals	Concord
John Muir Medical Ctr – Walnut Creek	Hospitals	Walnut Creek
Kaiser Permanente	Hospitals	Walnut Creek
Kaiser Permanente – Martinez	Clinics	Martinez
La Raza Market	Grocers – Retail	Richmond
Muirlab	Laboratories-Medical	Walnut Creek
Richmond City Offices	Government Offices – City, Village & Twp	Richmond
Robert Half Intl	Employment Contractors – Temporary Help	San Ramon
San Ramon Regional Medical Ctr	Hospitals	San Ramon
Shell Oil Prod	Oil Refiners (Mfrs)	Martinez
St. Mary's College of California	Schools-Universities & Colleges Academic	Moraga
Sutter Delta Medical Ctr	Hospitals	Antioch
Tesoro Golden Eagle Refinery	Oil Refiners (Mfrs)	Pacheco
Va Outpatient Clinic	Surgical Centers	Martinez

Source: America's Labor Market Information System (ALMIS) Employer Database, 2012 2nd Edition. Employer information is provided by infoUSA, Omaha, NE, 800/555-5211. Copyright 2012.

Industry and Employment

The following table summarizes historical employment and unemployment for the County.

Contra Costa County
Civilian Labor Force, Employment and Unemployment
Annual Averages
2007-2011

	2007	2008	2009	2010	2011
Civilian Labor Force (1)					
Employment	495,400	496,400	*	*	469,600
Unemployment (2)	24,300	32,700	*	*	54,500
Total	519,700	529,200	n/a	n/a	524,100
Unemployment Rate (3)	4.7%	6.2%	*	*	10.4%

Source: California Employment Development Department, based on March 2011 benchmark.
(1) Includes persons involved in labor-management trade disputes.
(2) Includes all persons without jobs who are actively seeking work.
(3) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures in this table.
* Not reported.

The following table summarizes the historical numbers of workers by industry in Contra Costa

Contra Costa County
Annual Average Wage and Salary Employment by Industry*
(Amounts in Thousands)
2006-2010

	2006	2007	2008	2009	2010
Total, All Industries	344,500	346,800	339,500	321,800	312,400
Farm	700	700	700	800	800
Non-Farm:	343,800	346,000	338,800	321,000	311,600
Goods Producing	50,400	49,700	46,500	39,900	36,500
Mining and Logging	—-	—-	—-	—-	—-
Construction	—-	—-	—-	—-	—-
Manufacturing	20,200	20,600	20,700	18,700	18,100
Service Providing	293,400	296,300	292,300	281,100	275,100
Trade, Transportation & Utilities	61,500	62,300	61,200	57,300	55,500
Wholesale Trade	9,100	9,100	8,700	7,700	7,600
Retail Trade	44,000	44,400	43,600	41,200	40,100
Information	13,400	13,000	11,800	10,400	9,800
Financial Activities	32,100	29,100	26,600	25,700	25,500
Professional & Business Services	50,600	49,400	49,300	45,900	43,700
Educational & Health Services	42,700	44,600	45,600	47,700	48,600
Leisure & Hospitality	32,400	33,200	32,800	31,200	31,500
Other Services	12,200	12,500	12,400	11,700	11,600
Government	48,900	52,200	52,600	51,300	48,900

Source: California Employment Development Department, based on March 2011 benchmark.
*Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

Construction Activity

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

City of Walnut Creek
Building Permits and Valuation
(Dollars in Thousands)
2008-2010

	2008	2009	2010
Permit Valuation:			
New Single-family	$ 1,682	$ 1,355	$ 1,594
New Multi-family	12,684	1,364	0
Res. Alterations/Additions	17,295	17,238	15,722
Total Residential	31,661	19,957	17,316
Total Nonresidential	44,467	54911	35,906
Total All Building	$76,127	$74,868	$53,222
New Dwelling Units:			
Single Family	4	3	3
Multiple Family	91	6	0
Total	95	9	3

Sources: Construction Industry Research Board: "Building Permit Summary."
Note: Totals may not add due to independent rounding.

Contra Costa County
Building Permits and Valuation
(Dollars in Thousands)
2006-2010

	2006	2007	2008	2009	2010
Permit Valuation:					
New Single-family	$ 986,694	$ 832,053	$ 300,089	$ 300,363	237,458
New Multi-family	157,972	94,505	132,825	34,119	106,555
Res. Alterations/Additions	307,153	290,108	29,023	170,150	209,044
Total Residential	1,451,818	1,216,666	661,937	504,632	553,058
Total Nonresidential	412,500	491,315	459,933	314,301	285,417
Total All Building	$1,864,318	$1,707,980	$1,121,869	818,934	838,475
New Dwelling Units:					
Single Family	3,310	2,698	985	1,038	809
Multiple Family	1,178	909	909	163	890
Total	4,488	3,607	1,894	1,201	1,699

Sources: Construction Industry Research Board: "Building Permit Summary."
Note: Totals may not add due to independent rounding.

FINANCIAL ADVISOR

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

LEGAL OPINIONS

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

TAX MATTERS

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

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

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

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

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would generally include certain tax-exempt interest, but not interest on the Bonds.

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

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

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

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 270 days following the end of the District's fiscal year (which date would be March 31 following the current end of the District's fiscal year on June 30), commencing with the report for the 2011-12 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board (the "MSRB"). The notices of material events will be filed by the District with the MSRB. The specific nature of the information to be made available and to be contained in the notices of material events is summarized below under the caption APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

ABSENCE OF MATERIAL LITIGATION

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

ESCROW VERIFICATION

The Verification Agent, upon delivery of the Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to (i) the sufficiency of the anticipated amount of proceeds of the Bonds and other funds available to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Refunded 2002A Bonds and the Refunded 2003 Bonds and (ii) the "yield" of the deposits in the Refunded 2002A Bonds and the Refunded 2003 Bonds Escrow Fund and on the Bonds considered by Bond Counsel in connection with the opinion rendered by such firm that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended..

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy, of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

RATING

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

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of $9,439,025.54 (being equal to the aggregate principal amount of the Bonds of $8,420,000), plus a net original issue premium of $1,049,646.55, less the Underwriter's discount of $30,621.01). The Underwriter has agreed to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions.

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

ADDITIONAL INFORMATION

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

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

WALNUT CREEK SCHOOL DISTRICT

By /s/ Kevin Collins, Ed.D.
Chief Business Official

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APPENDIX A

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

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WALNUT CREEK SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT JUNE 30, 2011

WALNUT CREEK SCHOOL DISTRICT

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JUNE 30, 2011

FINANCIAL SECTION

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Governing Board
Walnut Creek School District
Walnut Creek, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to 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 Walnut Creek School District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 17.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis, budgetary comparison, and other postemployment information, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 State, 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 basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 7, 2011

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

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

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

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

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

The Primary unit of the government is the Walnut Creek School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities*, we separate the District activities as follows:

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $18.7 million for the fiscal year ended June 30, 2011, and $18.5 million for the fiscal year ended June 30, 2010, an increase of $0.2 million. Of this amount, $10.0 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities 2011	Governmental Activities 2010
Assets		
Deposits and investements	$ 12,667,253	$ 16,502,743
Receivables	3,428,334	1,742,341
Stores inventories	31,656	30,733
Deferred charges	553,247	859,478
Capital assets, net	37,538,414	36,038,941
Total Assets	**54,218,904**	**55,174,236**
Liabilities		
Current liabilities	2,178,521	2,838,720
Long-term obligations	33,374,940	33,856,667
Total Liabilities	**35,553,461**	**36,695,387**
Net Assets		
Invested in capital assets, net of related debt	5,402,848	6,136,830
Restricted	3,257,784	4,247,517
Unrestricted	10,004,811	8,094,502
Total Net Assets	**$ 18,665,443**	**$ 18,478,849**

The $10.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Assets

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

Table 2

	Governmental Activities		
	2011	2010	Variance
Revenues			
Program revenues:			
Charges for services	$ 628,192	$ 610,156	$ 18,036
Operating grants and contributions	3,832,949	3,689,901	143,048
General revenues:			
Taxes levied	18,837,841	18,514,694	323,147
Federal and State aid not restricted	4,440,784	2,375,466	2,065,318
Interest and investment earnings	51,585	64,387	(12,802)
Other general revenues (Miscellaneous)	2,827,822	1,821,996	1,005,826
Total Revenues	**30,619,173**	**27,076,600**	3,542,573
Expenses			
Instruction-related	22,896,372	21,209,751	1,686,621
Student support services	1,407,580	1,331,978	75,602
Administration	1,685,501	1,693,490	(7,989)
Plant services	2,292,736	2,324,444	(31,708)
Ancillary services	4,244	5,038	(794)
Interest on long-term debt	1,950,457	1,326,008	624,449
Other outgo	195,689	268,296	(72,607)
Total Expenses	**30,432,579**	**28,159,005**	**2,273,574**
Change in Net Assets	**$ 186,594**	**$ (1,082,405)**	**$ 1,268,999**

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was $30.4 million as compared to $28.2 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $18.8 million because the cost was paid by those who benefited from the programs ($.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($3.8 million). We paid for the remaining "public benefit" portion of our governmental activities with $7.3 million in State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost of each of the District's largest functions: instruction, instruction related, student support services, administration, and plant services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Net Cost of Services	
	2011	2010
Instruction	$ 16,608,868	$ 15,250,508
Instruction related services	2,860,467	2,710,849
Pupil services	519,070	434,983
General administration	1,680,042	1,688,286
Plant services	2,247,474	2,279,725
Ancillary services	4,244	4,801
Interest on long-term debt	1,950,457	1,326,008
Other outgo	100,816	163,788
Total	**$ 25,971,438**	**$ 23,858,948**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $15.6 million, which is a decrease of $1.6 million from last year.

The primary reasons for these decreases are:

a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased from $9.4 million to $10.2 million. This increase is due to increased student enrollment, receipt of one time funds, and cost containment.
b. Our special revenue funds remained fairly stable from the prior year showing a net increase of approximately $152,788.
c. Building fund showed a decreased of approximately $2.6 million due to facility constructions.
d. The debt service funds showed an increase of approximately $95,392.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was approved on March 7, 2011. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the District had $37.5 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $1.5 million, or 4.2 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2011	2010
Land and construction in progress	$ 6,039,428	$ 6,479,041
Buildings and improvements	30,917,001	29,008,657
Equipment	581,985	551,243
Total	**$ 37,538,414**	**$ 36,038,941**

This year's major additions included:

Field renovations at Parkmead and Walnut Heights Elementary Schools	$ 2,405,992
Completion of fire hydrants and fire access at Buena Vista and Murwood Elementary Schools	760,266
	$ 3,166,258

Long-Term Obligations

At the end of this year, the District had $34.1 million in long-term liabilities outstanding versus $34.9 million last year, a decrease of 2.3 percent. Those long-term liabilities consisted of:

Table 6

	Governmental Activities	
	2011	2010
General obligation bonds		
(financed with property taxes)	$ 33,573,734	$ 34,554,577
Compensated absences	164,984	154,404
Early Retirement Incentives	-	15,000
Other Postemployment Benefits	393,055	222,686
Total	**$ 34,131,773**	**$ 34,946,667**

The District's general obligation bond is rating is AA (S&P). The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of $33.6 million is significantly below this statutorily-imposed limit.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. We present more detailed information regarding our long-term obligations in the Notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2012 year, the governing board and management used the following criteria: modest increase in number of students enrolled, reinstatement of class size reduction in first grade, ongoing cost containment efforts, planning for possible mid-year cuts (trigger), appropriate compensation for employees, and prudent management of reserves.

Expenditures are based on the following forecasts:

	Staffing Ratio	Enrollment
Grades kindergarten through third	23:1	1610
Grades four through eight	26:1	1850

The new items specifically addressed in the budget are:

- Dorris Eaton renovation and retrofit
- Space for increased student enrollment
- Mid-year state cuts
- Reinstatement of class size reduction at first grade
- Implementation of Common Core Standards

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Business Official, Kevin Collins, at Walnut Creek School District, 960 Ygnacio Valley Road, Walnut Creek, California, 94597, or e-mail at kcollins@wcsd.k12.ca.us.

WALNUT CREEK SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Deposits and investments	$ 12,667,253
Receivables	3,428,334
Deferred charges	553,247
Stores inventories	31,656
Capital assets not depreciated	6,039,428
Capital assets, net of accumulated depreciation	31,498,986
Total Assets	54,218,904
LIABILITIES	
Accounts payable	539,379
Interest payable	448,256
Deferred revenue	15,886
Current portion of long-term obligations	1,175,000
Unamortized bond premiums	418,167
Noncurrent portion of long-term obligations	32,956,773
Total Liabilities	35,553,461
NET ASSETS	
Invested in capital assets, net of related debt	5,402,848
Restricted for:	
Debt service	1,447,987
Capital projects	556,395
Educational programs	523,815
Other activities	729,587
Unrestricted	10,004,811
Total Net Assets	$ 18,665,443

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

WALNUT CREEK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues		Net (Expenses)/ Revenues and Changes in Net Assets
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities:				
Instruction	$ 19,263,777	$ -	$ 2,654,909	$ (16,608,868)
Instruction-related activities:				
Supervision of instruction	1,417,611	-	744,916	(672,695)
Instructional library, media, and technology	481,773	-	523	(481,250)
School site administration	1,733,211	-	26,689	(1,706,522)
Pupil services:				
Home-to-school transportation	3,429	-	1,937	(1,492)
Food services	853,339	628,192	225,992	845
All other pupil services	550,812	-	32,389	(518,423)
Administration:				
Data processing	83,865	-	-	(83,865)
All other administration	1,601,636	-	5,459	(1,596,177)
Plant services	2,292,736	-	45,262	(2,247,474)
Ancillary services	4,244	-	-	(4,244)
Interest on long-term obligations	1,950,457	-	-	(1,950,457)
Other outgo	195,689	-	94,873	(100,816)
Total Governmental Activities	$ 30,432,579	$ 628,192	$ 3,832,949	(25,971,438)
	General revenues and subventions:			
	Property taxes, levied for general purposes			15,060,429
	Property taxes, levied for debt service			2,512,608
	Taxes levied for other specific purposes			1,264,804
	Federal and State aid not restricted to specific purposes			4,440,784
	Interest and investment earnings			51,585
	Miscellaneous			2,827,822
	Subtotal, General Revenues			26,158,032
	Change in Net Assets			186,594
	Net Assets - Beginning			18,478,849
	Net Assets - Ending			$ 18,665,443

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

WALNUT CREEK SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General Fund	Building Funds	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	$ 7,368,957	$ 1,856,335	$ 1,896,243	$ 1,545,718	$ 12,667,253
Receivables	3,312,324	1,573	-	114,437	3,428,334
Stores inventories	6,368	-	-	25,288	31,656
Total Assets	$ 10,687,649	$ 1,857,908	$ 1,896,243	$ 1,685,443	$ 16,127,243
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 499,940	$ 8,140	$ -	$ 31,299	$ 539,379
Deferred revenue	15,886	-	-	-	15,886
Total Liabilities	515,826	8,140	-	31,299	555,265
Fund Balances:					
Nonspendable	8,118	-	-	25,287	33,405
Restricted	523,815	1,849,768	1,896,243	562,962	4,832,788
Assigned	564,486	-	-	327,659	892,145
Unassigned	9,075,404	-	-	738,236	9,813,640
Total Fund Balances	10,171,823	1,849,768	1,896,243	1,654,144	15,571,978
Total Liabilities and Fund Balances	$ 10,687,649	$ 1,857,908	$ 1,896,243	$ 1,685,443	$ 16,127,243

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

WALNUT CREEK SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balance - Governmental Funds		**$ 15,571,978**
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 61,928,763	
Accumulated depreciation is	(24,390,349)	
Net Capital Assets		37,538,414
Expenditures relating to issuance of debt amortized over the life of the bonds were recognized on modified accrual basis, but are not recognized on the accrual basis.		553,247
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(448,256)
In governmental funds, bond premiums are recognized as revenues in the period they are received. In government-wide statements, premiums are amortized over the life of the debt.		(418,167)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	33,573,734	
Other Post Employment Benefits	393,055	
Compensated absences (vacations)	164,984	
Total Long-Term Obligations		(34,131,773)
Total Net Assets - Governmental Activities		**$ 18,665,443**

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

WALNUT CREEK SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	$ 17,060,215	$ -	$ -	$ -	$ 17,060,215
Federal sources	1,996,183	-	-	194,737	2,190,920
Other State sources	3,403,865	-	22,410	12,035	3,438,310
Other local sources	4,126,596	19,770	2,494,983	1,288,379	7,929,728
Total Revenues	26,586,859	19,770	2,517,393	1,495,151	30,619,173
EXPENDITURES					
Current					
Instruction	17,958,855	-	-	-	17,958,855
Instruction-related activities:					
Supervision of instruction	1,317,537	-	-	-	1,317,537
Instructional library, media and technology	447,763	-	-	-	447,763
School site administration	1,610,857	-	-	-	1,610,857
Pupil services:					
Home-to-school transportation	3,187	-	-	-	3,187
Food services	-	-	-	793,099	793,099
All other pupil services	511,928	-	-	-	511,928
Administration:					
Data processing	77,945	-	-	-	77,945
All other administration	1,488,571	-	-	-	1,488,571
Plant services	2,089,264	-	-	-	2,089,264
Facility acquisition and construction	88,408	2,616,396	-	612,203	3,317,007
Ancillary services	3,944	-	-	-	3,944
Other outgo	195,689	-	-	-	195,689
Debt service					
Principal	-	-	1,075,000	-	1,075,000
Interest and other	-	-	1,347,001	-	1,347,001
Total Expenditures	25,793,948	2,616,396	2,422,001	1,405,302	32,237,647
Excess (Deficiency) of Revenues Over Expenditures	792,911	(2,596,626)	95,392	89,849	(1,618,474)
NET CHANGE IN FUND BALANCES	792,911	(2,596,626)	95,392	89,849	(1,618,474)
Fund Balance - Beginning, Restated	9,378,912	4,446,394	1,800,851	1,564,295	17,190,452
Fund Balance - Ending	$ 10,171,823	$ 1,849,768	$ 1,896,243	$ 1,654,144	$ 15,571,978

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

WALNUT CREEK SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds		**$ (1,618,474)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	$ (1,772,753)	
Capital outlays	3,272,226	
Net Expense Adjustment		1,499,473
Premiums on bonds are amortized over the term of the bond in the government-wide statements, but are recorded as an other source of funds in the year of issue on the governmental fund statements.		(190,279)
In governmental funds, accreted interest on capital appreciation bonds is recognized as an expenditure in the period that it becomes due. In the government-wide statements, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value.		(94,157)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) 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). Vacation used was less than the amounts earned by $10,580.		(10,580)
Payment on early retirement incentives is and expenditure in the governmental funds, but it reduces long-term obligations in the statement of activities.		15,000
Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a deferred charge and amortized on the statement of activities over the life of the bonds.		(306,231)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.		1,075,000
In governmental funds, Other Postemployment Benefit (OPEB) costs are recognized when employer contributions are made. In the statement of activties, OPEB costs are recognized on the accrual basis. This year, the costs are more than the employer contribution.		(170,369)
Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(12,789)
Change in Net Assets of Governmental Activities		**$ 186,594**

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

WALNUT CREEK SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Agency Funds
ASSETS	
Deposits and investments	$ 4,379
Total Assets	$ 4,379
LIABILITIES	
Due to student groups	$ 4,379
Total Liabilities	$ 4,379

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Walnut Creek School District was organized on November 1, 1860 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to students in kindergarten through eighth grade as mandated by the State and/or Federal agencies. The District operates five elementary schools and one intermediate school.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another fund.

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

In addition, under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 14, Deferred Maintenance Fund does not currently meet the definition of special revenue funds as this fund is no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenue formerly restricted to this program to the continued operation of the original programs, the revenue within this fund would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of $2,235,288, $2,235,288, and $11,143, respectively.

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

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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

Debt Service Funds The Debt Service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund is classified as agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

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

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Investments

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the debt service Fund represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000 for furniture and equipment purchases and $50,000 for capital improvement, acquisition, or construction. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 7 to 50 years; site improvements, 14 to 40 years; furniture and equipment, 5 to 20 years.

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities 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 straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 25 percent of General Fund expenditures and other financing uses.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report $3,257,784 of restricted net assets.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the Statement of Activities.

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable,* such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	$ 12,667,253
Fiduciary funds	4,379
Total Deposits and Investments	$ 12,671,632

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	$ 2,986
Cash in revolving	1,750
Investments	12,666,896
Total Deposits and Investments	$ 12,671,632

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code Section 41001*). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the 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.

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and LAIF and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Years
County Pool	$ 8,637,781	151
State Investment Pool	4,037,744	237
Total	$ 12,675,525	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool and LAIF are not required to be rated, nor have they been rated as of June 30, 2011.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District does not have any bank balance exposed to custodial credit.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	$ 639,176	$ -	$ 68,376	$ 707,552
State Government				
Apportionment	1,328,706	-	-	1,328,706
Categorical aid	420,210	-	-	420,210
Lottery	273,157	-	-	273,157
Other Local Sources	651,075	1,573	46,061	698,709
Total	$ 3,312,324	$ 1,573	$ 114,437	$ 3,428,334

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 2,738,587	$ -	$ -	$ 2,738,587
Construction in Progress	3,740,454	3,228,600	3,668,213	3,300,841
Total Capital Assets Not Being Depreciated	6,479,041	3,228,600	3,668,213	6,039,428
Capital Assets Being Depreciated:				
Land Improvements	13,647,746	3,337,653	-	16,985,399
Buildings and Improvements	37,518,818	313,220	-	37,832,038
Furniture and Equipment	1,010,932	60,966	-	1,071,898
Total Capital Assets Being Depreciated	52,177,496	3,711,839	-	55,889,335
Total Capital Assets	58,656,537	6,940,439	3,668,213	61,928,763
Less Accumulated Depreciation:				
Land Improvements	6,508,360	663,787	-	7,172,147
Buildings and Improvements	15,649,547	1,078,742	-	16,728,289
Furniture and Equipment	459,689	30,224	-	489,913
Total Accumulated Depreciation	22,617,596	1,772,753	-	24,390,349
Governmental Activities Capital Assets, Net	$ 36,038,941	$ 5,167,686	$ 3,668,213	$ 37,538,414

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

Instruction	$ 1,197,673
Supervision of instruction	90,805
Instructional library, media, and technology	30,860
School site administration	111,021
Home-to-school transportation	220
Food services	54,661
All other pupil services	35,282
Ancilliary services	272
Data processing	5,372
All other administration	102,593
Plant services	143,994
Total Depreciation Expenses Governmental Activities	$ 1,772,753

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 336,620	$ 8,140	$ 31,299	$ 376,059
State apportionment	127,686	-	-	127,686
Salaries and benefits	35,634	-	-	35,634
Total	$ 499,940	$ 8,140	$ 31,299	$ 539,379

NOTE 6 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund
Federal financial assistance	$ 15,217
State categorical aid	463
Other local	206
Total	$ 15,886

NOTE 7 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2010	Addition/ Accretion	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	$ 34,554,577	$ 94,157	$ 1,075,000	$ 33,573,734	$ 1,175,000
Accumulated vacation - net	154,404	10,580	-	164,984	-
Early Retirement Incentives	15,000	-	15,000	-	-
Other Post Employment Benefits	222,686	228,263	57,894	393,055	-
	$ 34,946,667	$ 333,000	$ 1,147,894	$ 34,131,773	$ 1,175,000

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The accrued vacation, early retirement incentives, and other postemployment benefits will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2010	Accretion	Redeemed	Bonds Outstanding June 30, 2011
2003	2022	2.00-4.50	$ 9,170,000	$ 7,985,000	$ -	$ 350,000	$ 7,635,000
2003	2028	2.00-4.80	7,000,000	6,375,000	-	170,000	6,205,000
2005	2030	3.50-4.50	5,000,000	4,555,000	-	100,000	4,455,000
2007	2032	4.00-8.00	4,000,000	3,920,000	-	30,000	3,890,000
2007	2025	3.50-4.125	8,625,000	7,710,000	-	425,000	7,285,000
2010	2026	4.10-4.25	2,035,000	2,035,000	-	-	2,035,000
2010	2024	3.00-5.625	1,964,628	1,974,577	94,157	-	2,068,734
				$ 34,554,577	$ 94,157	$ 1,075,000	$ 33,573,734

Debt Service Requirements to Maturity

The bonds mature through 2036 as follows:

Fiscal Year		Principal	Interest to Maturity	Total
2012		$ 1,175,000	$ 1,041,525	$ 2,216,525
2013		1,290,000	1,010,431	2,300,431
2014		1,410,000	973,236	2,383,236
2015		1,531,421	931,345	2,462,766
2016		1,667,192	885,605	2,552,797
2017-2021		10,524,622	3,593,913	14,118,535
2022-2026		11,421,394	3,987,840	15,409,234
2027-2031		4,105,000	419,188	4,524,188
2032-2036		345,000	14,835	359,835
Total		33,469,629	$ 12,857,918	$ 46,327,547
	Accretion to date	104,105		
		$ 33,573,734		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to $164,984.

Early Retirement Incentives

In the prior year, the District offered an early retirement incentive program (ERIP) to certificated employees who have served in the District a minimum of 10 full years and are at least 55 years of age. Three employees elected to receive the benefits. The balance of $15,000 was paid in fiscal year 2010-11.

Other Postemployment Benefit (OPEB) Asset/Obligation

The District's annual required contribution for the year ended June 30, 2011, was $228,263, and contributions made by the District during the year were $57,894. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 8 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 1,750	$ -	$ -	$ -	$ 1,750
Stores inventories	6,368	-	-	25,287	31,655
Total Nonspendable	8,118	-	-	25,287	33,405
Restricted					
Legally restricted programs	523,815	-	-	-	523,815
Capital projects	-	1,849,768	-	562,962	2,412,730
Debt services	-	-	1,896,243	-	1,896,243
Total Restricted	523,815	1,849,768	1,896,243	562,962	4,832,788
Assigned					
Portable Classroom	60,000	-	-	-	60,000
Math Initiative	65,000	-	-	-	65,000
Doris Eaton Summer 2012 Renovation	400,000	-	-	-	400,000
Other	39,486	-	-	327,659	367,145
Total Assigned	564,486	-	-	327,659	892,145
Unassigned	9,075,404	-	-	738,236	9,813,640
Total Unassigned	9,075,404	-	-	738,236	9,813,640
Total	$ 10,171,823	$ 1,849,768	$ 1,896,243	$ 1,654,144	$ 15,571,978

NOTE 9 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2011, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
Funds	Budget	Actual	Excess
General Fund	$ 24,510,024	$ 25,212,670	$ 702,646

NOTE 10 - LEASE REVENUES

On October 1, 2010, the District signed a five-year lease agreement with the Dorris Eaton School to lease a district surplus property. The lease agreement expires June 30, 2015. The future minimum lease payments expected to be received under this agreement are as follows:

Year Ending June 30,	Lease Revenue
2012	$ 392,381
2013	392,381
2014	392,381
2015	392,381
Total	$ 1,569,524

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The District provides retiree health benefits, based on age, service and eligibility for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). The District provides coverage to the following groups of employees and the District and retirees share in the cost of benefits as follows:

	Certificated	Classified	Certificated Management	Classified Management	Confidential
Benefits provided	Medical, dental & vision	Medical, dental & vision	Medical, dental & vision	Medical, dental & vision	Medical, dental & vision
Duration	To age 65	To age 65	To age 65	To age 65	To age 65
Required service	10 years	15 years	10 years	10 years	10 years
Minimum age	55	55	55	55	50
Dependent coverage	Yes	Yes	Yes	Yes	Yes
District cap	100%	100%	100%	100%	100%
District contribution	$150/mo.*	$200/mo.	$150/mo.*	$200/mo.*	$150/mo.**

* Applies after 5 years of benefits paid at full rate. Cap for the first 5 years at active cap.
** May elect to have $18,000 spread over time from retirement to age 65.

The District had 248 active employees and 21 retired employees covered by the OPEB plan as of June 30, 2011. The OPEB benefits are administered by the District. No separate financial statements are issued.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District and the various bargaining units. For fiscal year 2010-2011, the District contributed $57,894 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 228,263
Annual OPEB cost (expense)	(57,894)
Increase in net OPEB obligation	170,369
Net OPEB obligation, beginning of year	222,686
Net OPEB obligation, end of year	$ 393,055

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2011	$ 228,263	$ 57,894	25%	$ 393,055
2010	228,729	87,784	38%	222,686
2009	195,260	113,251	58%	81,741

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
12/1/09	$ -	$ 2,609,188	$ 2,609,188	0%	$ 16,030,526	16%

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, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is 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 the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 1, 2009, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5 percent discount rate, based on assumed long- term return on employer assets. The valuation assumes a compensation increase rate of 3% and a 4% healthcare cost trend rate based on the actuary's long-term assumption that the average increase over time cannot continue to outstrip general inflation by a wide margin. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at December 1, 2009, was 30 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2011, the District participated in three joint powers authority (JPA) for purposes of pooling for risk. 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.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were $1,126,333, $1,046,347, and $1,067,862, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were $351,570, $305,664, and $292,844, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $581,271 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2011.

Early Retirement Incentives

The District offered an early retirement incentive program (ERIP) to certificated employees, who have served in the District a minimum of ten (10) full years and are at least 55 years of age. During the current year, three employees elected ERIP Option 2 which entitles the employees to receive a lump-sum retirement incentive. As of June 30, 2011, the District's liability under this program is $37,000, which paid for three early retirements on July 1, 2011.

Operating Leases

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

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Indian Valley HVAC	$ 38,000	Summer 2013
Murwood HVAC	37,000	Summer 2013
Murwood Roofing	200,000	2012
Walnut Heights ADA Compliance	7,500	Summer 2012
Walnut Heights Roofing	200,000	Summer 2013
Walnut Creek Intermediate School Roofing	150,000	2012
	$ 632,500	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the East Bay School Insurance Group (EBSIG), Contra Costa County School Insurance Group (CCCSIG), and the Schools Self Insurance of Contra Costa County (SSICCC) public entity risk pools. The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. Payments for property and liabilities are paid to the EBSIG, payments for workers' compensation are paid to CCCSIG, and payments for dental and vision are paid to SSICCC. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2011, the District made payments of $187,326, $342,684, and $507,489 to EBSIG, CCCSIG, and SSICCC, respectively for insurance premiums.

NOTE 16 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 17 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balance for the General Fund has been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance for Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund, as discussed in Note 1.

General Fund	
Fund Balance - Beginning	$ 7,154,767
Change in accounting principles to conform to GASB Statement No. 54	2,224,145
Fund Balance - Beginning as Restated	$ 9,378,912

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT CREEK SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
REVENUES				
Revenue limit sources	$ 15,723,358	$ 16,878,969	$ 17,060,215	$ 181,246
Federal sources	1,081,636	1,913,094	1,996,183	83,089
Other State sources	2,758,867	2,750,538	2,822,594	72,056
Other local sources	3,263,338	3,451,067	4,115,447	664,380
Total Revenues [1]	22,827,199	24,993,668	25,994,439	1,000,771
EXPENDITURES				
Current				
Certificated salaries	12,200,655	13,036,331	13,538,538	(502,207)
Classified salaries	3,180,030	3,310,847	3,751,650	(440,803)
Employee benefits	3,566,254	3,746,063	3,825,677	(79,614)
Books and supplies	811,875	1,173,066	1,007,981	165,085
Services and operating expenditures	2,677,124	2,954,381	2,799,465	154,916
Other outgo	326,800	203,511	195,689	7,822
Capital outlay	42,000	85,825	93,670	(7,845)
Total Expenditures [1]	22,804,738	24,510,024	25,212,670	(702,646)
Excess (Deficiency) of Revenues Over Expenditures	22,461	483,644	781,769	298,125
NET CHANGE IN FUND BALANCES	22,461	483,644	781,769	298,125
Fund Balance - Beginning	7,154,767	7,154,767	7,154,767	-
Fund Balance - Ending	$ 7,177,228	$ 7,638,411	$ 7,936,536	$ 298,125

[1] On behalf payments of $581,271 are not included in the revenues and expenditures in this schedule. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues pertaining to these funds are not included in this schedule.

WALNUT CREEK SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
12/01/09	$ -	$ 2,609,188	$ 2,609,188	0%	$ 16,030,526	16%
10/01/07	-	1,598,271	1,598,271	0%	16,119,557	10%

SUPPLEMENTARY INFORMATION

WALNUT CREEK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
NCLB - Title I, Part A, Basic Grants	84.010	14981	$ 200,976
ARRA: NCLB - Title I, Part A, Basic Grants	84.389	15005	99,168
ARRA: State Fiscal Stablization Fund	84.394	25008	180,234
Education Jobs Fund	84.410	25152	622,854
Special Education - State Grants			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	526,612
ARRA: IDEA, Basic Local Assistance, Part B	84.391	15003	34,518
IDEA, Preschool Grants, Part B	84.173	13430	41,067
ARRA: IDEA, Preschool Grants, Part B	84.392	15000	35,384
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	70,664
ARRA: IDEA, Preschool Local Entitlement, Part B	84.391	15002	200
Title IV, Part A, Safe & Drug Free Schools	84.186	14347	943
Title II, Part A, Improving Teacher Quality	84.367	14341	103,234
Title II, Part A, Administrator Training	84.367	14344	7,897
Title III, Immigrant Education Program	84.365	14346	38,978
Title III, Limited English Proficient (LEP) Student Program	84.365	10084	33,454
Total U.S. Department of Education			1,996,183
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Basic School Breakfast Program	10.553	13390	$ 194,737
Total U.S. Department of Agriculture			194,737
Total Expenditures of Federal Awards			$ 2,190,920

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2011

ORGANIZATION

The Walnut Creek School District was established on November 1, 1860, and is located in Contra Costa County. The District operates five elementary schools, one intermediate school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Arthur M. Clarke	President	December 2012
Katie Peña	Clerk	December 2012
Angela P. Borchardt	Member	December 2014
Jon-Michael Johnson	Member	December 2014
Barbara S. Pennington	Member	December 2014

ADMINISTRATION

Patricia Wool, Ed. D.	Superintendent
Kevin Collins, Ed. D.	Chief Business Official
Toby Hopstone, Ed. D.	Director of Special Services

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	370	370
First through third	1,147	1,145
Fourth through sixth	1,067	1,069
Seventh and eighth	712	712
Home and hospital	-	1
Special education	49	49
Total	3,345	3,347

See accompanying note to supplementary information.

WALNUT CREEK SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2010-11 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	35,000	36,000	35,000	36,000	180	-	Complied
Grades 1 - 3	50,400	49,000	50,400	49,000				
Grade 1	50,400	49,000	50,400	49,000	50,620	180	-	Complied
Grade 2	50,400	49,000	50,400	49,000	50,620	180	-	Complied
Grade 3	50,400	49,000	50,400	49,000	50,620	180	-	Complied
Grades 4 - 6	-	-	54,000	-				
Grade 4	54,040	52,539	54,000	52,500	54,300	180	-	Complied
Grade 5	54,040	52,539	54,000	52,500	54,300	180	-	Complied
Grade 6	56,101	54,543	54,000	52,500	59,717	180	-	Complied
Grades 7 - 8	-	-	54,000	-				
Grade 7	56,101	54,543	54,000	52,500	59,717	180	-	Complied
Grade 8	56,101	54,543	54,000	52,500	59,717	180	-	Complied

See accompanying note to supplementary information.

WALNUT CREEK SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

	General Fund	ASB Fund
FUND BALANCE		
Balance, June 30, 2011, Unaudited Actuals	$ 10,176,202	$ -
Decrease in:		
Cash in county treasury	(4,379)	4,379
Balance, June 30, 2011, Audited Financial Statements/Due To Student Group	$ 10,171,823	$ 4,379

FORM ASSETS	Form Assets
Total Assets, June 30, 2011, Unaudited Actuals	$ -
Increase in:	
Capital Assets	61,094,325
Accumulated Depreciation	(24,399,003)
Total Assets, June 30, 2011, Audited Financial Statement	$ 36,695,322

FORM DEBT	Form Debt
Total Liabilities, June 30, 2011, Unaudited Actuals	$ 32,462,353
Increase in:	
General Obligation Bonds	1,441,157
Other Postemployment Benefits (OPEB)	228,263
Total Liabilities, June 30, 2011, Audited Financial Statement	$ 34,131,773

See accompanying note to supplementary information.

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

	(Budget) 2012 [1]	2011	2010	2009
GENERAL FUND [4]				
Revenues	$ 24,435,348	$ 25,994,445	$ 24,421,531	$ 25,354,660
Total Revenues and Other Sources	24,435,348	25,994,445	24,421,531	25,354,660
Expenditures	23,662,560	25,212,677	23,876,147	24,087,123
Total Expenditures and Other Uses	23,662,560	25,212,677	23,876,147	24,087,123
INCREASE (DECREASE) IN FUND BALANCE	$ 772,788	$ 781,768	$ 545,384	$ 1,267,537
ENDING FUND BALANCE	$ 8,709,323	$ 7,936,535	$ 7,154,767	$ 6,609,383
AVAILABLE RESERVES [2]	$ 8,114,100	$ 9,068,777	$ 8,486,592	$ 2,343,372
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	34.29%	35.97%	35.54%	9.73%
LONG-TERM OBLIGATIONS	$ 32,956,773	$ 34,131,773	$ 34,946,667	$ 31,836,626
K-12 AVERAGE DAILY ATTENDANCE AT P-2	3,355	3,345	3,195	3,167

The General Fund balance has increased by $1,327,152 over the past two years. The fiscal year 2011-2012 budget projects a further increase of $772,788 (9.7 percent). For a district this size, the State requires available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past three years and anticipates incurring an operating surplus during the 2011-2012 fiscal year. Total long-term obligations have increased by $2,295,147 over the past two years.

Average daily attendance has increased by 178 over the past two years. Additional growth of 10 ADA is anticipated during fiscal year 2011-2012.

[1] Budget 2012 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

[3] On behalf payments of $581,271 has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011.

[4] General Fund amounts do not include activity related to the consolidation of the Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Non-Capital Fund, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

WALNUT CREEK SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

	Cafeteria Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
ASSETS				
Deposits and investments	$ 594,619	$ 587,432	$ 363,667	$ 1,545,718
Receivables	114,437	-	-	114,437
Stores inventories	25,288	-	-	25,288
Total Assets	$ 734,344	$ 587,432	$ 363,667	$ 1,685,443
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,757	$ 24,470	$ 2,072	$ 31,299
Total Liabilities	4,757	24,470	2,072	31,299
Fund Balances:				
Nonspendable	25,287	-	-	25,287
Restricted	-	562,962	-	562,962
Assigned	77,659	-	250,000	327,659
Unassigned	626,641	-	111,595	738,236
Total Fund Balances	729,587	562,962	361,595	1,654,144
Total Liabilities and Fund Balances	$ 734,344	$ 587,432	$ 363,667	$ 1,685,443

See accompanying note to supplementary information.

WALNUT CREEK SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011

	Cafeteria Fund	Capital Facilities Fund	Special Reserve Capital Fund	Total Non-Major Governmental Funds
REVENUES				
Federal sources	$ 194,737	$ -	$ -	$ 194,737
Other State sources	12,035	-	-	12,035
Other local sources	739,115	144,798	404,466	1,288,379
Total Revenues	945,887	144,798	404,466	1,495,151
EXPENDITURES				
Current				
Pupil services:				
Food services	793,099	-	-	793,099
Facility acquisition and construction	-	256,351	355,852	612,203
Total Expenditures	793,099	256,351	355,852	1,405,302
Excess (Deficiency) of Revenues Over Expenditures	152,788	(111,553)	48,614	89,849
NET CHANGE IN FUND BALANCES	152,788	(111,553)	48,614	89,849
Fund Balance - Beginning	576,799	674,515	312,981	1,564,295
Fund Balance - Ending	$ 729,587	$ 562,962	$ 361,595	$ 1,654,144

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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.

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.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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

INDEPENDENT AUDITORS' REPORTS

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Governing Board
Walnut Creek School District
Walnut Creek, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walnut Creek School District as of and for the year ended June 30, 2011, which collectively comprise Walnut Creek School District's basic financial statements and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Walnut Creek School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Walnut Creek School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Walnut Creek School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Walnut Creek School District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Walnut Creek School District in a separate letter dated December 7, 2011.

Walnut Creek School District’s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Walnut Creek School District’s response and, accordingly, express no opinion on the response.

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

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 7, 2011

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

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

Governing Board
Walnut Creek School District
Walnut Creek, California

Compliance

We have audited Walnut Creek School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Walnut Creek School District's major Federal programs for the year ended June 30, 2011. Walnut Creek School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Walnut Creek School District's management. Our responsibility is to express an opinion on Walnut Creek School District's compliance based on our audit.

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

In our opinion, Walnut Creek School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-2 and 2011-4.

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Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-2 and 2011-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Walnut Creek School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Walnut Creek School District's responses and, accordingly, we express no opinion on the responses.

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

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 7, 2011

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Walnut Creek School District
Walnut Creek, California

We have audited Walnut Creek School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Walnut Creek School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Walnut Creek School District's management. Our responsibility is to express an opinion on Walnut Creek School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Walnut Creek School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Walnut Creek School District's compliance with those requirements.

In our opinion, Walnut Creek School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable

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	Procedures in Audit Guide	Procedures Performed
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Walnut Creek School District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Walnut Creek School District's response and, accordingly, express no opinion on the response.

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

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 7, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010, 84.398 (ARRA)	Title I Cluster (include ARRA)
84.410	Education Jobs Fund
84.394 (ARRA)	ARRA: State Fiscal Stablization Fund
84.027, 84.391 (ARRA), 84.173, 84.392 (ARRA), 84.027A, 84.391 (ARRA)	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Type of auditors' report issued on compliance for programs:	Unqualified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

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

2011-1 Site Accounts (30000) (Significant Deficiency)

Criteria
In order to maintain appropriate internal control over District assets and ensure complete and accurate financial reporting, all non-fiduciary fund revenue and expenditure transactions processed by the District should be reflected in the financial statements that are submitted to the State.

Condition
As mentioned in prior year that the District maintains two commercial bank accounts that are used to process school site related transactions. The financial activity processed through these accounts is not recorded in the general ledger and is therefore not included in the "Unaudited Actuals" financial report that is submitted to the State.

Questioned costs
None.

Effect
The Unaudited Actuals did not reflect all financial transactions of the District.

Cause
The District did not include the site accounts maintained in commercial banks in the General Fund to the District.

Recommendation
The District should consider either close the accounts or develop procedures to ensure that these activities are included in the financial statements (Unaudited Actuals) that are submitted to the State.

District Response
The District will work with the two schools to close the checking accounts and deposit funds with the county treasury or work with the county office of education to develop procedures to show outside checking account balances on the district's general ledger.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, material weaknesses, and/or material instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

2011-2 Allowable Cost (50000/30000) (Significant Deficiency)
U.S. Department of Education
Pass through CDE
NCLB - Title I, Part A – Basic Grants (84.010)
ARRA: NCLB – Title I, Part A – Basic Grants (84.389)

Criteria
Office of Management and Budget Circular Number A 87, Attachment B Section 11(h).

Condition
It was noted that the payroll expense for one employee was improperly allocated to the grant.

Questioned Costs
None. (Approximately $64,000 charged to General Fund which should have been charged to the program; and approximately $50,000 incorrectly charged to the program which should have been charged to General Fund).

Effect
Inappropriate expenses may be charged to the grant.

Cause
Procedures are not in place to ensure employees are properly charged to the program.

Recommendation
The District should establish procedures to review payroll charges to make sure all salaries and benefits charged are appropriate and properly supported in accordance with OMB Circular Number A-87, Attachment B Section 11(h).

District Response
While the wrong employee was charged to the grant, the employee who should have been charged to the grant was actually charged to the general fund. The CBO will work with payroll to ensure that all federally funded employees are properly charged and expensed in the future.

2011-3 Documentation of Employee Time and Effort (50000/30000) (Significant Deficiency)

U.S. Department of Education
Pass through CDE
NCLB – Title I, Part A – Basic Grants (CFDA# 84.010)
ARRA: NCLB – Title I, Part A – Basic Grants (CFDA# 84.389)
IDEA, Basic Local Assistance Entitlement, Part B (CFDA# 84.027)
ARRA: IDEA, Basic Local Assistance, Part B (CFDA# 84.391)
IDEA, Preschool Grants, Part B (CFDA# 84.173)
ARRA: IDEA, Preschool Grants, Part B (CFDA# 84.392)
IDEA, Preschool Local Entitlement, Part B (CFDA# 84.027A)
ARRA: IDEA, Preschool Local Entitlement, Part B (CFDA# 84.391)

Criteria

OMB Circular A-87 requires that salaries and wages for federally funded programs be supported by semi-annual certifications for personnel 100% funded by federal programs, and by personnel activity reports for personnel whose activities are partially funded by federal programs.

Condition

We noted that monthly time studies for multi-funded employees are not being completed. In addition, Semi-annual certifications are not consistently prepared for salaries funded 100% from federal programs.

Questioned Costs

None. Total salaries and benefits of $471,441 were charged to the Special Education programs and $222,908 were charged to the Title I programs. However, we were able to satisfy the validity of those charges by performance of alternative audit procedures that demonstrated that those salaries were reasonable for the programs.

Effect

District is not in compliance with OMB Circular A-87, Documentation of Employee Time and Effort requirement.

Cause

Procedures to ensure that documentation being prepared and maintained in accordance with OMB Circular A-87 to support salaries and benefits charged to federal programs are not being followed.

Recommendation

We recommend that the District implement procedures to ensure that all salaries charged to federal programs are properly supported by semi-annual certifications or month time studies as per the requirements of OMB Circular A-87.

District Response

The District has developed forms for fully federally funded and partially federally funded positions and has implemented the use of those forms for the 2011/12 school year.

2011-4 Reporting (50000/30000) (Significant Deficiency)
U.S. Department of Education
Pass through CDE
ARRA: State Fiscal Stabilization Fund (SFSF)(CFDA# 84.394)

Criteria
Section 1512 of the Recovery Act requires agencies receiving ARRA funds of $25,000 or greater to file quarterly reports and data reported should be cumulative in order to encompass the total amount of funds expended to date.

Condition
We noted third quarter ARRA report for SFSF funds reported funds expended or obligated $17,482 higher comparing to the amounts recorded in the general ledger. In addition, the fourth quarter ARRA report did not report cumulative expenditures to date, $634,752 of funds spent in prior year should have been included.

Questioned Costs
None.

Effect
District did not comply with Section 1512 reporting requirement.

Cause
The individual who prepared the ARRA report was not aware of these requirements.

Recommendation
We recommend that the District provide training to individuals involved in the ARRA reporting process. Reports prepared should be reviewed by someone other than the preparer to ensure accuracy and to verify the report is in compliance with federal reporting requirements.

District Response
Subsequent ARRA reports were correctly submitted and all ARRA funds have now been expensed.

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
10000	Attendance
40000	State Compliance
41000	CalSTRS
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

2011-5 Class Size Reduction (CSR) (40000) (Significant Deficiency)

Criteria
In accordance with the Education Code Section 52124.3, for fiscal years 2008-09 through 2011-12, classes averaging greater than or equal to 20.5, after rounding, may be reported for funding purposes, but at reduced funding levels, according to the following schedule: classes ranging from 20.45 to 21.44 (5% reduction), 21.45 to 22.44 (10% reduction), 22.45 to 22.94 (15% reduction), 22.95 to 24.94 (20% reduction), and 24.95 or greater (30% reduction).

Condition
The District made errors when classifying classes claimed for reduced funding.

Questioned Costs
None. Class size reduction funding claimed for fiscal year 2010-2011 was understated by $73,899 (69 eligible pupils x $1,071).

Effect
The District claimed less funding than it was entitled to receive for fiscal year 2010-2011.

Cause
The spreadsheet used to summarize class sizes was not formulated properly.

Recommendation
The District should redesign the CSR spreadsheet to make sure ranges of class sizes used in the calculation are consistent with Education Code Section 52124.3.

District Response
The formulas incorporated into the spreadsheet used to tally classes for the J7-CSR have been corrected and will be used to calculate the 2011/12 claim. The CBO will verify that correct calculations are used. The district will submit a revised J7-CSR for 2010/11.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2010 – 1 (30000)

MATERIAL WEAKNESS

FINANCIAL REPORTING – UNADUITED ACTUALS

Criteria: - Each year, school district are responsible for preparing complete and accurate financial information, which is reported to the California Department of Education in the form of the "Unaudited Actuals" Financial Report. Accordingly, district should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement.

Condition: - The District's "Unaudited Actuals" included misstatements that we consider to be material to the District's annual financial statements. Accordingly, it appears that internal control over financial reporting was inadequate in the areas where the audit adjustments were required.

Questioned Costs: - None.

Context: - The adjustments that were made to ensure that the financial statements were fairly stated are presented on page 55 of the prior year report for June 30, 2010.

Effect: When an effective system of internal control over financial reporting is not in place, there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Cause: Several employees and a consultant were involved in the year-end closing process. There appeared to be some miscommunication between the consultant and the District's newly hired fiscal analyst in regard to the completion of specific tasks, which resulted in misstatements to the financial statements.

Recommendation: The District should have developed a comprehensive financial reporting checklist to ensure all relevant areas are covered. The checklist can be divided between individuals involved in the closing process so that accountability for specific areas can be more clearly defined.

Current Status: Implemented.

2010 – 2 (30000)

MATERIAL WEAKNESS

FINANCIAL REPORTING – SITE ACCOUNTS

Criteria: - In order to maintain appropriate internal control over District assets and ensure complete and accurate financial reporting, all non-fiduciary fund revenue and expenditure transactions processed by the District should be reflected in the financial statements that are submitted to the State.

Condition: - The District maintains two commercial bank accounts that are used to process school site related transactions. The financial activity processed through these accounts is not recorded in the general ledger and is therefore not included in the "Unaudited Actuals" financial report that is submitted to the State.

Questioned Costs: - None.

Context: - The condition appears to be limited to the site accounts that are maintained in commercial bank accounts. Two elementary sites maintained their site account funds in commercial bank accounts; the remaining sites have their site funds accounted for in restricted resources within the General Fund.

Effect: - the activity processed through these site accounts, maintained in commercial banks, was not included in the General fund of the District.

Cause: - The District was unaware that the non-fiduciary activities processed through the site accounts, held in commercial banks, should have been recorded in the District's general ledger.

Recommendation: - The District should monitor the activity that is processed through the commercial bank accounts to ensure that District internal control procedures are being followed. In additions, the District should develop procedures to ensure that all non-fiduciary fund revenue and expenditure transactions are reflected in the financial statements that are submitted to the State, including site account activity processed through commercial bank accounts.

Current Status: Not implemented, see current year finding at 2011-1.

2010 – 3 (30000)

SIGNIFICANT DEFICIENCY

CASH RECEIPTS – SITE ACCOUNTS

Criteria: - Cash receipts collected from classroom-related activities should be counted and summarized on a "Classroom Remittance Form" that is signed by the classroom teacher who counts the cash, prior to it being submitted to the site secretary for deposit.

Condition: - The "Classroom Remittance Form" is not being used on a consistent basis by classroom teachers, who submit receipts to the site secretary for deposit.

Questioned Costs: - None.

Context: - The condition was noted during out testing of internal controls of the site account at Walnut Heights Elementary.

Effect: - There is no way to determine the completeness of cash receipts if cash is not consistently counted and summarized on "Classroom Remittance Forms," which are signed by the teachers who count cash receipts, prior to being submitted to the site secretary for deposit. As a result, errors or improprieties may occur and not be detected in a timely manner.

Causes: - The District has not adequately enforced site checking account procedures, which require receipts collected by classroom teachers to be summarized on the "Classroom Remittance Form," signed, and retained to support all deposits to the site account.

Recommendations: - The District should actively enforce site checking account procedures, which require collected by classroom teachers to be summarized on the "Classroom Remittance Form," signed, and retained to support all deposits to the site account.

Current Status: - Implemented.

Federal Award Findings and Questioned Costs

2010 – 4 (500000/300000)

SIGNIFICANT DEFICIENCY

U.S. Department of Education
Passed Through Contra Costa SELPA
Special Education Cluster:
IDEA Part B Local Assistance (CFDA 84.027)
IDEA Part B Preschool Entitlement (CFDA 84.027A)
IDEA Part B Preschool Grant (CFDA 84.173)
ARRA IDEA Part B Local Assistance (CFDA 84.391)
ARRA IDEA Part B Preschool Entitlement (CFDA 84.391)
ARRA IDEA Part B Preschool Grant (CFDA 84.392)

ALLOWABLE COSTS – PAYROLL EXPENDITURES

Criteria: - Internal control procedures over payroll should be in place to ensure that all payroll calculations, including timesheet calculations, are reviewed for accuracy and completeness, prior to processing payroll.

Condition: - During out testing of the District's payroll procedures, we note three employees were incorrectly aid based on the hours certified, on their monthly timesheets and authorized by the employees' supervisor.

Questioned Costs: - $222.90 (The amount the District overpaid the employees).
Context: - The condition was noted in three of thirty-five timesheets tested in the special education cluster.

Effect: - Errors in payroll calculations may be made and not be detected in a timely manner. In this instance, the District overpaid three employees and the District's internal control procedures did not detect the errors.

Cause: - Timesheets are often submitted to the business office just prior to the payroll deadline. In an effort to pay employees in a timely manner, the District frequently does not have sufficient time for a second employee to verify that employees are paid correctly based on the hours on the certified timesheets.

Recommendation: - The District should establish deadlines, for employees and their supervisors, to submit timesheets to the business office that will allow sufficient time for a second employee to verify that employees are paid correctly based on the hours on the certified timesheets. In addition, the District should notify the three employees of the payroll error and arrange for the overpayment to b repaid to the District.

Current Status: Implemented.

2010 – 5 (500000/300000)

SIGNIFICANT DEFICIENCY

U.S. Department of Education
Pass Through California Department of Education
ARRA: State Fiscal Stabilization Funds – CFDA 84.394 2009-2010
Passed Through Contra Costa SELPA
Special Education Cluster:
IDEA Part B Local Assistance (CFDA 84.027)
IDEA Part B Preschool Entitlement (CFDA 84.027A)
IDEA Part B Preschool Grant (CFDA 84.173)
ARRA IDEA Part B Local Assistance (CFDA 84.027)
ARRA IDEA Part B Preschool Entitlement (CFDA 84.391)
ARRA IDEA Part B Preschool Grant (CFDA 84.392)

CASH MANAGEMENT

Criteria: - In accordance with the Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post Award Requirements, Section 80.21 Payment, grantees and sub-grantees are required t promptly, but at least quarterly, remit to the federal agency interest earned on advances. Grantees and sub-grantees may keep interest amounts up to $100 per year for administrative purposes.

Condition: - The District did not calculate interest earned in excess of $100 on advanced federal funds.

Questioned Costs: - Amount unknown. The District has not performed the calculation to determine the excess interest earned, if any, on federal funds for fiscal year 2009-10.

Context: - On January 25, 2010, the California Department of Education (CDE) issued a letter notifying districts and county offices of education of the interest calculation requirement and provide guidelines on calculating interest earned on federal funds.

Effect: - The District did not comply with federal cash management compliance requirements. Based on the amount of federal funds advanced to the District for the major programs, identified above, and the County Treasurer's annual average rate of return of 0.34505% in fiscal year 2009-10, we determined that the amount of any unpaid excess interest would not be material to the major program or to the financial statements as a whole.

Cause: - The District did not receive the January 25, 2010 notification letter from the California Department of Education (CDE) and was unaware of the requirement to calculate interest earnings on advanced funds and remit excess earnings to the federal agency.

Recommendation: - The District should establish appropriate procedures to ensure they are aware of all applicable compliance requirements associated with federal programs, including developing a method to calculate and return, at least quarterly, interest earned in excess of $100 on federal funds advances to them. In addition, the District should perform the calculation to determine any excess interest earned on federal funds for fiscal year 2009-2010 and should submit a payment to the California Department of Education, if required.

Current Status: - Implemented.

State Award Findings

2010 – 6 (700000)

SIGNIFICANT DEFICIENCY

INSTRUCTIONAL MATERIAL PROGRAM

Criteria: - In accordance with Education Code Section 60119(a)(1)(C), the governing board shall make a written determination as to whether each pupil enrolled in a foreign language or health course has sufficient textbooks or instructional materials that are consistent with the content and cycles of the curriculum frameworks adopted by the state board for those subjects.

Condition: - The Governing Board did not make a written determination as to whether each pupil enrolled in health courses had sufficient textbooks or instructional materials that were consistent with the content and cycles of the curriculum framework adopted by the State Board of Education for health.

Questioned Costs: - None. The District's noncompliance does not result in a loss of State funding.

Context: - The District complied with all other instructional materials compliance requirements.

Effect: - The disclosures in the school accountability report cards regarding the sufficiency of health instructional materials were not supported by the most recent instructional material resolution approved by the Governing Board.

Cause: - The written determination for health courses was inadvertently omitted from the instructional material resolution, and the omission was not detected prior to being submitted to the Governing Board for approval.

Recommendation: - The District should establish procedures to ensure that all future instructional materials resolutions are reviewed for compliance prior to being submitted to the Governing Board for approval.

Current Status: Implemented.

2010 – 7 (72000)

SIGNIFICANT DEFICIENCY

SCHOOL ACCOUNTABILITY REPORT CARDS

Criteria: - In accordance with guidance provided by the California Department of Education, the disclosures regarding safety, cleanliness, and adequacy of school facilities, which are required to be presented in the school accountability report card, are to be based on the most recent available data collected by the District, which should be documented using a Facilities Inspection Tool that is retained for audit purposes.

Condition: The facilities information disclosed in the School Accountability Report Card (SARC) was not consistent with the facilities evaluation documentation used by the District.

Questioned Costs: - None.

Context: - The school accountability report card state that the disclosures regarding safety, cleanliness, and adequacy of school facilities were collected from the Facilities Inspection Tool (FIT) or equivalent school form. However, the equivalent school form used by the District did not conform to the reporting format presented in the school accountability report card and the District was not able to explain how the equivalent form supported the facilities disclosures made in the SARC.

Effect: - The disclosures, presented in the school accountability report card, regarding safety, cleanliness, and adequacy of school facilities, were not adequately supported in accordance with the state guidelines.

Cause: - The facilities information collected during the District's needs assessment was used to complete the SARC because the current year Facilities Inspection Tool was not scheduled to be completed until after the SARC was to be published.

Recommendation: - The District should establish appropriate procedures to ensure that all future school accountability report card disclosures, regarding safety, cleanliness, and adequacy of school facilities, are supported by most recently completed Facilities Inspection Tool.

Current Status: Implemented.

2010 – 8 (400000)

SIGNIFICANT DEFICIENCY

CLASS SIZE REDUCTION

Criteria: - In accordance with the Education Code Section 52124.3, for fiscal years 2008-09 through 2011-12, classes averaging greater than or equal to 20.5 after rounding, may be reported for funding purposes, but at reduced funding levels, according to the following schedule: classes ranging from 20.45 to 21.44 (5% reduction), 21.45 to 22.44 (10% reduction), 22.45 to 22.94 (15% reduction), 22.95 to 24.95 (20% reduction), and 24.95 or greater (30% reduction).

Condition: - The District made errors when classifying classes claimed for reduced funding.

Questioned Costs: - None. Class size reduction funding claimed for fiscal year 2009-10 was understated by $43,911; (41 eligible pupils x $1,071).

Context: - The District complies with all other class size reduction program compliance requirements.

Effect: - The District claimed less funding than it was entitled to receive for fiscal year 2009-10, based on the actual number of eligible pupils served in qualifying class size reduction classes.

Cause: - The spreadsheet used to categorize class sizes was not configured to classify classes according to the reduced funding ranges specified in Education Code Section 52124.3.

Recommendation: - The District should establish procedures to ensure that a second employee reviews the Form J-7CSR and supporting documents, prior to submitting the form to the State. In Addition, the District should file a revised Form J-7CSR for fiscal year 2009-10, and report a total of 956 eligible pupils.

Current Status: Not implemented, see current year finding at 2011-5.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Governing board of the
Walnut Creek School District
960 Ygnacio Valley Road
Walnut Creek, California 94086-5926

OPINION: $8,420,000 Walnut Creek School District (Contra Costa County, California) 2012 General Obligation Refunding Bonds

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Members of the Governing board:

We have acted as bond counsel to the Walnut Creek School District (the "District") in connection with the issuance by the District of $8,420,000 principal amount of Walnut Creek School District (Contra Costa County, California) 2012 General Obligation Refunding Bonds (the "Bonds"), pursuant to provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code (the "Act"), a resolution adopted by the Governing board of the District on June 18, 2012 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Bonds in its name and to perform its obligations under the Resolutions and the Bonds.

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

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

5. Subject to the District's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

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

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

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

Respectfully submitted,

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the WALNUT CREEK SCHOOL DISTRICT (the "District") in connection with the issuance by the District of its $8,420,000 Walnut Creek School District (County of Contra Costa, California) 2012 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Governing board of the District on June 18, 2012 (collectively, the "Resolution"). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

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

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

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

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

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

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

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

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

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

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2011-12 Fiscal Year, which is due not later than March 31, 2013, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

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

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

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

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

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

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

(i) average daily attendance of the District for the last completed fiscal year;
(ii) outstanding District indebtedness;
(iii) tax delinquencies, to the extent the County is no longer on the Teeter Plan; and
(iv) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

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

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

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

Section 5. Reporting of Listed Events.

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

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

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

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

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

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

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

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with

EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

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

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

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

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

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

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

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

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

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

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

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

Date: [Closing Date]

WALNUT CREEK SCHOOL DISTRICT

By ____
Authorized Officer

ACKNOWLEDGED:

KNN PUBLIC FINANCE, as Dissemination Agent

By ____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Walnut Creek School District

Name of Issues: Walnut Creek School District (County of Contra Costa, California) 2012 General Obligation Refunding Bonds

Date of Issuance: [Closing Date]

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

Dated: ___________________

KNN PUBLIC FINANCE, as Dissemination Agent

By ____

Title ____

cc: Paying Agent

APPENDIX D

BOOK-ENTRY SYSTEM

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede &Co. or such other name as requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the

Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

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

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

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