NEW ISSUE—BOOK-ENTRY ONLY

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA"
(See "MISCELLANEOUS — Ratings" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2014 Bonds. See "TAX MATTERS" herein.

$3,000,000
MARTINEZ UNIFIED SCHOOL DISTRICT (CONTRA COSTA COUNTY, CALIFORNIA) GENERAL OBLIGATION BONDS, ELECTION OF 2010, SERIES 2014A

$17,000,000
MARTINEZ UNIFIED SCHOOL DISTRICT (CONTRA COSTA COUNTY, CALIFORNIA) GENERAL OBLIGATION BONDS, ELECTION OF 2010, SERIES 2014B

Dated: Date of Delivery **Due: August 1, as shown herein**

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

The Martinez Unified School District (Contra Costa County, California) General Obligation Bonds, Election of 2010, Series 2014A (the "Series 2014A Bonds") and Martinez Unified School District (Contra Costa County, California) General Obligation Bonds, Election of 2010, Series 2014B (the "Series 2014B Bonds" and together with the Series 2014A Bonds, the "Series 2014 Bonds") are issued by the Martinez Unified School District (the "District"), located in the County of Contra Costa, California (the "County"), to finance specific construction, repair and improvement projects approved by the voters of the District. The Series 2014 Bonds are being issued under the laws of the State of California (the "State") and pursuant to a resolution of the Board of Education of the District.

The Series 2014 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other state law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series 2014 Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2014 BONDS" herein.

The Series 2014 Bonds will be issued as current interest bonds, as set forth on the inside front cover hereof. Interest on the Series 2014 Bonds is payable on each February 1 and August 1 to maturity, commencing August 1, 2014. Principal of the Series 2014 Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Series 2014 Bonds will be issued in denominations of $5,000 principal amount, or any integral multiple thereof, as shown on the inside front cover hereof.

The Series 2014 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 The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2014 Bonds. Individual purchases of the Series 2014 Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series 2014 Bonds purchased by them. See "THE SERIES 2014 BONDS – Form and Registration" herein. Payments of the principal of and interest on the Series 2014 Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar and transfer agent with respect to the Series 2014 Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Series 2014 Bonds. See "THE SERIES 2014 BONDS – Payment of Principal and Interest" herein.

The Series 2014 Bonds are subject to optional redemption prior to maturity as described herein. See "THE SERIES 2014 BONDS — Redemption" herein.

The Series 2014 Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District. It is anticipated that the Series 2014 Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York, on or about March 5, 2014.

PiperJaffray.

Dated: February 19, 2014

MATURITY SCHEDULE

BASE CUSIP[1]: 573428

$3,000,000
SERIES 2014A BONDS

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number[1]
2015	$1,150,000	2.000%	0.220%	HT9
2016	595,000	3.000	0.330	HU6
2017	605,000	4.000	0.540	HV4
2018	650,000	4.000	0.890	HW2

$17,000,000
SERIES 2014B BONDS

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number[1]
2019	$680,000	5.000%	1.200%	HX0
2020	735,000	5.000	1.610	HY8
2021	795,000	5.000	1.990	HZ5
2022	855,000	5.000	2.300	JA8
2023	920,000	5.000	2.550	JB6
2024	985,000	5.000	2.730	JC4
2025	1,055,000	5.000	2.910[C]	JD2
2026	1,130,000	5.000	3.090[C]	JE0
2027	1,205,000	3.250	3.550	JF7
2028	1,265,000	3.500	3.750	JG5
2029	1,330,000	3.625	3.870	JH3
2030	1,400,000	4.000	3.940[C]	JJ9
2031	1,475,000	4.000	4.030	JK6
2032	1,545,000	3.875	4.100	JL4
2033	1,625,000	4.000	4.160	JM2

[C] Yield to call at par on August 1, 2024.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)

BOARD OF EDUCATION

John L. Fuller, *President*
Deidre M. Siguenza, *Vice President*
Bobbi Horack, *Clerk*
Denise Elsken, *Member*
Kathi McLaughlin, *Member*

DISTRICT ADMINISTRATORS

Rami Muth, *Superintendent*
Andi Stubbs, *Chief Business Official*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP

Financial Advisor

Caldwell Flores Winters, Inc.
Emeryville, California

Paying Agent

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

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2014 Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The Series 2014 Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Series 2014 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of 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 Series 2014 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2014 Bonds.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Series 2014 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2014 Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, 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 Series 2014 Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of $3,000,000 aggregate principal amount of Martinez Unified School District (Contra Costa County, California) General Obligation Bonds, Election of 2010, Series 2014A (the "Series 2014A Bonds") and $17,000,000 aggregate principal amount of Martinez Unified School District (Contra Costa County, California) General Obligation Bonds, Election of 2010, Series 2014B (the "Series 2014B Bonds" and together with the Series 2014A Bonds, the "Series 2014 Bonds"), to be offered by the Martinez Unified School District (the "District").

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

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2014 Bonds. Quotations from and summaries and explanations of the Series 2014 Bonds and the resolutions of the Board of Education of the District providing for the issuance of the Series 2014 Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series 2014 Bonds.

Copies of documents referred to herein and information concerning the Series 2014 Bonds are available from the District by contacting: Martinez Unified School District, 921 Susana Street, Martinez, California 94553, Attention: Superintendent. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District was unified in 1963. The District provides educational services to the residents of the City of Martinez and to an unincorporated area east of the City in which the District operates an elementary school. The District encompasses an area of approximately 25 miles and has an estimated population of 35,000. The District operates 4 elementary schools (grades K-5), one middle school (grades 6-8), one high school (grades 9-12), one alternative education and independent study school and one adult education school. Total fiscal year 2013-14 enrollment is approximately 4,117.

The District is governed by a five-member Board of Education (the "Board of Education"), each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board of Education who is responsible for day to day District operations as well as the supervision of the District's other key personnel. Rami Muth is the District Superintendent and has served in this position since 2008.

The District has budgeted fiscal year 2013-14 general fund expenditures of approximately $31.65 million dollars. As of June 30, 2013, the District employed 348.20 full time equivalent employees (FTEs), consisting of 207.72 non-management certificated FTEs, 17.60 certificated management FTEs, 120.38 classified non-management FTEs, and 2.5 classified management FTEs. For additional information about the District, see APPENDIX A − "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

Taxable property located in the District has an assessed value of $5,524,966,985 in fiscal year 2013-14. Currently, a single taxpayer owns more than 35% of such assessed value. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2014 BONDS – Assessed Valuation of Property Within District – *Largest Taxpayers in District*."

THE SERIES 2014 BONDS

Authority for Issuance; Purpose

The Series 2014 Bonds are issued under the provisions of California Government Code Section 53506 *et seq.*, including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIIIA of the California Constitution and pursuant to resolutions adopted by the Board of Education of the District on December 9, 2013 and January 13, 2014.

At an election held on November 2, 2010, the District received authorization to issue bonds of the District in an aggregate principal amount not to exceed $45,000,000 to finance specific school facility construction, repair and improvement projects (the "2010 Authorization"). The measure required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of approximately 65.52%. On May 24, 2011, the District issued $24,998,562.75 aggregate initial principal amount of the District's General Obligation Bonds, Election of 2010, Series 2011 (the "Series 2011 New Money Bonds") as the first series of the authorized bonds under the 2010 Authorization. The Series 2014 Bonds represent the second and final series of the authorized bonds to be issued under the 2010 Authorization, and will be issued to finance authorized projects. See "*−Application and Investment of Series 2014 Bond Proceeds"* herein.

Proceeds of the Series 2014A Bonds are expected to be used by the District for the purchase of assets determined to have a useful life of between two and seven years. These assets may include but are not limited to personal computers and mobile computing devices, improvements to network and technological infrastructure, furniture and equipment. Proceeds of the Series 2014B Bonds are intended to be used by the District for capital improvements including, but not limited to, the modernization and construction of classroom and support facilities and related improvements determined to have a useful life of more than seven years.

Form and Registration

The Series 2014 Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 principal amount or integral multiples thereof. The Series 2014 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Series 2014 Bonds. Purchases of Series 2014 Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series 2014 Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series 2014 Bonds, beneficial owners ("Beneficial Owners") will not receive physical certificates representing their ownership interests. See APPENDIX F − "BOOK-ENTRY ONLY SYSTEM."

Payment of Principal and Interest

Interest. The Series 2014 Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing on August 1, 2014, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Series 2014 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15^{th} day of the calendar month immediately preceding an Interest Payment Date (the "Record Date") and on or prior to the succeeding Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from its dated date; provided, however, that if, at the time of authentication of any Series 2014 Bond, interest is in default on any outstanding Series 2014 Bonds, such Series 2014 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Series 2014 Bonds.

Payment of Series 2014 Bonds. The principal of the Series 2014 Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent") at the maturity thereof or upon redemption prior to maturity. Interest on the Series 2014 Bonds is payable in lawful money of the United States of America by check mailed on each Interest Payment Date (if a business day, or on the next business day if the Interest Payment Date does not fall on a business day) to the registered owner thereof (the "Owner") at such Owner's address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose, except that the payment shall be made by wire transfer of immediately available funds to any Owner of at least $1,000,000 of outstanding Series 2014 Bonds who shall have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series 2014 Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX F − "BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption of Series 2014 Bonds. The Series 2014A Bonds are not subject to optional redemption prior to their respective stated maturity dates.

The Series 2014B Bonds maturing on or before August 1, 2024, are not subject to optional redemption prior to their respective stated maturity dates. The Series 2014B Bonds maturing on or after August 1, 2025, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2024, at a redemption price equal to the principal amount of the Series 2014B Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Selection of Series 2014 Bonds for Redemption. If less than all of the Series 2014 Bonds are called for redemption, such Series 2014 Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Series 2014 Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series 2014 Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series 2014 Bond shall be deemed to consist of individual Series 2014 Bonds of denominations of $5,000 principal amount, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Series 2014 Bond will be given by the Paying Agent not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Series 2014 Bonds and the date of issue of the Series 2014 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Series 2014 Bonds to be redeemed; (vi) if less than all of the Series 2014 Bonds of any maturity are to be redeemed the distinctive numbers of the Series 2014 Bonds of each maturity to be redeemed; (vii) in the case of Series 2014 Bonds redeemed in part only, the respective portions of the principal amount of the Series 2014 Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series 2014 Bonds to be redeemed; (ix) a statement that such Series 2014 Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent or at such other place or places designated by the Paying Agent or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Series 2014 Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. The actual receipt by the Owner of any Series 2014 Bond or by any securities depository or information service of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Series 2014 Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above and when the redemption price of the Series 2014 Bonds called for redemption is set aside, the Series 2014 Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Series 2014 Bonds at the place specified in the notice of redemption, such Series 2014 Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series 2014 Bonds so called for redemption after such redemption date shall look for the payment of such Series 2014 Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the “Interest and Sinking Fund”) or the trust fund established for such purpose. All Series 2014 Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Right to Rescind Notice. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Series 2014 Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund of the District or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Series 2014 Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Series 2014 Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Defeasance of Series 2014 Bonds

The District may pay and discharge any or all of the Series 2014 Bonds by depositing in trust with the Paying Agent for such series or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund of the District, be fully sufficient to pay and discharge the indebtedness on such Series 2014 Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Unclaimed Moneys

Any money held in any fund or by the Paying Agent in trust for the payment of the principal of, redemption premium, if any, or interest on the Series 2014 Bonds and remaining unclaimed for two years after the principal of all of such series of Series 2014 Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys shall be transferred to the general fund of the District as provided and permitted by law.

Application and Investment of Series 2014 Bond Proceeds

The proceeds from the sale of the Series 2014 Bonds, to the extent of the principal amount thereof, will be deposited in the County treasury to the credit of the building fund of the District (the “Building Fund”) and shall be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Series 2014 Bonds were authorized. Any premium or accrued interest received by the District will be deposited in the Interest and Sinking Fund of the District in the County treasury. Interest and earnings on each fund will accrue to that fund.

All funds held by the Treasurer-Tax Collector of the County (the “County Treasurer”) in the Building Fund and the Interest and Sinking Fund are expected to be invested at the sole discretion of the County Treasurer on behalf of the District in such investments as are authorized by Section 53601 and following of the California Government Code, consistent with the investment policy of the County. See

APPENDIX E − "COUNTY OF CONTRA COSTA INVESTMENT POLICY SUMMARY OF POOLED INVESTMENT FUND." In addition, to the extent permitted by law, the District may request in writing that all or any portion of the funds held in the Building Fund may be invested in the Local Agency Investment Fund in the treasury of the State, or in investment agreements, including guaranteed investment contracts, float contracts or other investment products which will not adversely affect the rating on the Series 2014 Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

Estimated Sources and Uses of Funds

The proceeds of the Series 2014 Bonds are expected to be applied as follows:

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
General Obligation Bonds, Election of 2010, Series 2014

Estimated Sources and Uses of Funds

	Series 2014A Bonds	Series 2014B Bonds	Total
Sources of Funds:			
Principal Amount	$3,000,000.00	$17,000,000.00	$20,000,000.00
Plus Net Original Issue Premium	224,406.40	1,213,107.05	1,437,513.45
Total Sources of Funds	$3,224,406.40	$18,213,107.05	$21,437,513.45
Uses of Funds:			
Deposit to Building Fund	$3,000,000.00	$17,000,000.00	$20,000,000.00
Deposit to Interest and Sinking Fund[1]	180,456.40	964,057.05	1,144,513.45
Costs of Issuance[2]	30,000.00	170,000.00	200,000.00
Underwriter's Discount[3]	13,950.00	79,050.00	93,000.00
Total Uses of Funds	$3,224,406.40	$18,213,107.05	$21,437,513.45

(1) Consists of premium received by the District.
(2) Includes legal fees, rating agency fees, printing fees and other miscellaneous expenses the Underwriter has contracted to pay.
(3) Exclusive of costs of issuance the Underwriter has contracted to pay.

Debt Service

Debt service on the Series 2014 Bonds, assuming no early redemptions, is as shown in the following table.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
General Obligation Bonds, Election of 2010, Series 2014

	Series 2014A Bonds		Series 2014B Bonds		
Year Ending August 1,	Principal	Interest	Principal	Interest	Total Debt Service
2014		$36,925.83	--	$295,758.99	$332,684.82
2015	$1,150,000.00	91,050.00	--	729,268.76	1,970,318.76
2016	595,000.00	68,050.00	--	729,268.76	1,392,318.76
2017	605,000.00	50,200.00	--	729,268.76	1,384,468.76
2018	650,000.00	26,000.00	--	729,268.76	1,405,268.76
2019	----	--	$680,000.00	729,268.76	1,409,268.76
2020	--	--	735,000.00	695,268.76	1,430,268.76
2021	--	--	795,000.00	658,518.76	1,453,518.76
2022	--	--	855,000.00	618,768.76	1,473,768.76
2023	--	--	920,000.00	576,018.76	1,496,018.76
2024	--	--	985,000.00	530,018.76	1,515,018.76
2025	--	--	1,055,000.00	480,768.76	1,535,768.76
2026	--	--	1,130,000.00	428,018.76	1,558,018.76
2027	--	--	1,205,000.00	371,518.76	1,576,518.76
2028	--	--	1,265,000.00	332,356.26	1,597,356.26
2029	--	--	1,330,000.00	288,081.26	1,618,081.26
2030	--	--	1,400,000.00	239,868.76	1,639,868.76
2031	--	--	1,475,000.00	183,868.76	1,658,868.76
2032	--	--	1,545,000.00	124,868.76	1,669,868.76
2033	--	--	1,625,000.00	65,000.00	1,690,000.00
Total	$3,000,000.00	$272,225.83	$17,000,000.00	$9,535,046.67	$29,807,272.50

Outstanding Bonds

In addition to the Series 2014 Bonds, the District has outstanding two series of bonds, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District. On May 24, 2011, the District issued its Series 2011 New Money Bonds as its first series of bonds issued under the 2010 Authorization.

On May 24, 2011, the District also issued $13,075,000 aggregate principal amount of the Martinez Unified School District (County of Contra Costa, California) General Obligation Refunding Bonds, Series 2011 (the “Series 2011 Refunding Bonds”), to advance refund certain of the District’s outstanding general obligations from 1997, 1998 and 2001.

A summary of the District’s general obligation bonded debt is set forth on the following page.

Aggregate Debt Service

The following table summarizes the annual aggregate debt service requirements of all outstanding bonds of the District (including the Series 2014 Bonds), assuming no early redemptions.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
General Obligation Bonds – Aggregate Debt Service

Year Ending August 1,	Series 2011 New Money Bonds	Series 2011 Refunding Bonds	Series 2014A Bonds	Series 2014B Bonds	Aggregate Total Debt Service
2014	--	$4,212,250.00	$36,925.83	$295,758.99	$4,544,934.82
2015	$1,855,275.00	--	1,241,050.00	729,268.76	3,825,593.76
2016	1,891,050.00	--	663,050.00	729,268.76	3,283,368.76
2017	1,964,225.00	--	655,200.00	729,268.76	3,348,693.76
2018	2,047,200.00	--	676,000.00	729,268.76	3,452,468.76
2019	2,124,000.00	--	--	1,409,268.76	3,533,268.76
2020	2,209,625.00	--	--	1,430,268.76	3,639,893.76
2021	2,298,100.00	--	--	1,453,518.76	3,751,618.76
2022	2,393,018.76	--	--	1,473,768.76	3,866,787.52
2023	2,488,243.76	--	--	1,496,018.76	3,984,262.52
2024	2,586,212.50	--	--	1,515,018.76	4,101,231.26
2025	2,691,387.50	--	--	1,535,768.76	4,227,156.26
2026	2,797,962.50	--	--	1,558,018.76	4,355,981.26
2027	2,910,400.00	--	--	1,576,518.76	4,486,918.76
2028	3,025,218.76	--	--	1,597,356.26	4,622,575.02
2029	3,147,993.76	--	--	1,618,081.26	4,766,075.02
2030	3,272,550.00	--	--	1,639,868.76	4,912,418.76
2031	3,403,006.26	--	--	1,658,868.76	5,061,875.02
2032	3,543,187.50	--	--	1,669,868.76	5,213,056.26
2033	3,679,750.00	--	--	1,690,000.00	5,369,750.00
2034	3,827,631.26	--	--	--	3,827,631.26
2035	3,984,993.76	--	--	--	3,984,993.76
Total:	$58,141,031.32	$4,212,250.00	$3,272,225.83	$26,535,046.67	$92,160,553.82

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2014 BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Series 2014 Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

The Series 2014 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Series 2014 Bonds.

Property Taxation System

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

Local property taxation is the responsibility of various county officers. School districts whose boundaries extend into more than one county are treated for property tax purposes as separate jurisdictions in each county in which they are located. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer-tax collector of the county, the superintendent of schools of which has jurisdiction over the school district holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as *ex officio* treasurer of the school district.

Assessed Valuation of Property Within the District

Taxable property located in the District has a 2013-14 assessed value of $5,524,966,985. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See *"−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values"* below.

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

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

Shown in the following table is the assessed valuation of the various classes of property in the District in fiscal years 2004-05 through 2013-14.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Assessed Valuations
Fiscal Years 2004-05 through 2013-14

Fiscal Year	Local Secured	Utility	Unsecured	Total
2004-05	$4,466,562,770	$2,519,439	$175,325,391	$4,644,407,600
2005-06	4,799,879,093	2,461,842	167,577,846	4,969,918,781
2006-07	5,114,049,069	2,200,340	171,771,564	5,288,021,073
2007-08	5,717,397,202	100,000	182,542,704	5,900,039,906
2008-09	5,617,100,201	100,000	191,673,422	5,808,873,623
2009-10	5,473,969,280	75,000	200,628,578	5,674,672,858
2010-11	4,899,561,805	75,000	205,742,674	5,105,379,479
2011-12	5,325,169,347	75,000	167,577,883	5,492,822,230
2012-13	5,526,087,313	75,000	179,424,538	5,705,586,851
2013-14	5,340,557,434	75,000	184,334,551	5,524,966,985

Source: California Municipal Statistics, Inc.

Currently, a single taxpayer owns more than 35% of the fiscal year 2013-14 assessed value of taxable property within the District. See "– *Largest Taxpayers in District*" below.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also *"−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values"* below.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIIIA of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues" for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Bonding Capacity. As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2013-14 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately $138.12 million and its net bonding capacity is approximately $108.97 million (taking into account current outstanding debt before issuance of the Series 2014 Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

Assessed Valuation by Land Use. The following table gives a distribution of taxable property located in the District on the fiscal year 2013-14 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
2013-14 Assessed Valuation and Parcels by Land Use

Non-Residential:	2013-14 Assessed Valuation[(1)]	% of Total	No. of Parcels	% of Total
Agricultural/Rural	$151,938,303	2.84%	308	2.71%
Commercial	246,615,857	4.62	278	2.45
Vacant Commercial	6,580,010	0.12	42	0.37
Industrial	2,204,040,167	41.27	106	0.93
Vacant Industrial	10,148,101	0.19	41	0.36
Recreational	5,060,225	0.09	9	0.08
Government/Social/Institutional	16,601,744	0.31	377	3.32
Miscellaneous	6,501,329	0.12	38	0.33
Subtotal Non-Residential	$2,647,485,736	49.57%	1,199	10.55%
Residential:				
Single Family Residence	$2,387,682,981	44.71%	8,611	75.74%
Condominium/Townhouse	93,120,762	1.74	614	5.40
2-4 Residential Units	83,555,993	1.56	346	3.04
5+ Residential Units	98,288,856	1.84	75	0.66
Vacant Residential	30,423,106	0.57	524	4.61
Subtotal Residential	$2,693,071,698	50.43%	10,170	89.45%
TOTAL	$5,340,557,434	100.00%	11,369	100.00%

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

Assessed Valuation of Single-Family Homes. The following table shows the assessed valuation of single-family homes in the District for fiscal year 2013–14.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
2013-14 Per Parcel Assessed Valuation of Single Family Homes

	Number of Parcels	Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	8,611	$2,387,682,981	$277,283	$240,000

2013-14 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	23	0.267%	0.267%	$456,501	0.019%	0.019%
$25,000 - $49,999	382	4.436	4.703	15,564,770	0.652	0.671
$50,000 - $74,999	525	6.097	10.800	32,211,211	1.349	2.020
$75,000 - $99,999	328	3.809	14.609	28,722,453	1.203	3.223
$100,000 - $124,999	401	4.657	19.266	45,300,312	1.897	5.120
$125,000 - $149,999	573	6.654	25.920	78,197,361	3.275	8.395
$150,000 - $174,999	588	6.828	32.749	95,580,094	4.003	12.398
$175,000 - $199,999	568	6.596	39.345	106,487,827	4.460	16.858
$200,000 - $224,999	563	6.538	45.883	119,372,277	5.000	21.858
$225,000 - $249,999	588	6.828	52.712	139,451,168	5.840	27.698
$250,000 - $274,999	496	5.760	58.472	129,501,634	5.424	33.122
$275,000 - $299,999	409	4.750	63.221	117,345,393	4.915	38.036
$300,000 - $324,999	517	6.004	69.225	161,190,863	6.755	44.792
$325,000 - $349,999	412	4.785	74.010	138,567,736	5.803	50.595
$350,000 - $374,999	352	4.088	78.098	127,860,726	5.355	55.950
$375,000 - $399,999	314	3.646	81.744	121,244,395	5.078	61.028
$400,000 - $424,999	289	3.356	85.100	119,268,701	4.995	66.023
$425,000 - $449,999	217	2.520	87.620	94,992,780	3.978	70.002
$450,000 - $474,999	166	1.928	89.548	76,658,563	3.211	73.212
$475,000 - $499,999	96	1.115	90.663	46,652,142	1.954	75.166
$500,000 and greater	804	9.227	100.000	592,956,074	24.834	100.000
Total	8,611	100.000%		$2,387,682,981	100.000%	

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

Largest Taxpayers in District. The twenty taxpayers with the greatest combined ownership of taxable property in the District on the 2013-14 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are shown below.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Largest 2013-14 Local Secured Taxpayers

	Property Owner	Primary Land Use	2013-14 Assessed Valuation	Percent of Total[(1)]
1.	Equilon Enterprises LLC	Heavy Industrial	$1,873,263,899	35.08%
2.	Pacific Atlantic Terminals LLC	Heavy Industrial	152,145,229	2.85
3.	Tesoro Logistics Operations	Heavy Industrial	37,605,064	0.70
4.	Stauffer Chemical Company	Heavy Industrial	29,931,014	0.56
5.	Shell Chemical LP	Heavy Industrial	29,726,982	0.56
6.	Wal-Mart Real Estate Business Trust	Commercial	19,868,166	0.37
7.	Muir Station Center LLC	Shopping Center	19,809,167	0.37
8.	Muirwood Square Investors	Apartments	19,308,702	0.36
9.	Collier Village Oaks	Shopping Center	15,181,347	0.28
10.	Balco Properties Ltd.	Light Industrial	14,593,484	0.27
11.	Copart Inc.	Industrial Park	13,300,000	0.25
12.	The Center-Martinez	Light Industrial	12,943,676	0.24
13.	Hofmann Holdings LP	Office Building	11,206,000	0.21
14.	BLAI LP	Apartments	10,515,204	0.20
15.	Shurgard Storage Centers Inc.	Mini-Warehouse	9,775,659	0.18
16.	Browning Ferris Industries	Light Industrial	8,349,260	0.16
17.	Five Star Bank	Light Industrial	7,023,167	0.13
18.	Ridgecrest Apartments Association #2	Apartments	6,957,793	0.13
19.	Security Public Storage	Mini-Warehouse	6,659,189	0.12
20.	Mencius LLC	Light Industrial	6,346,756	0.12
			$2,304,509,758	43.15%

(1) 2013-14 local secured assessed valuation: $5,340,557,434
Source: California Municipal Statistics, Inc.

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. As shown above, a single taxpayer owned more than 35% of the total taxable property in the District. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See *"−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values"* above.

Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Series 2014 Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series 2014 Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Series 2014 Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table shows *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 5-000). This Tax Rate Area comprises approximately 25.79% of the total assessed value of the District.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 5-000)
Fiscal Years 2009-10 Through 2013-14

	2009-10	2010-11	2011-12	2012-13	2013-14
General Tax Rate	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000
City of Martinez	.0181	.0347	.0347	.0347	.0347
Bay Area Rapid Transit District	.0057	.0031	.0041	.0043	.0075
East Bay Regional Park District	.0108	.0084	.0071	.0051	.0078
Martinez Unified School District	.0619	.0629	.0608	.0633	.0658
Contra Costa Community College District	.0126	.0133	.0144	.0087	.0133
Total All Property Tax Rate	$1.1091	$1.1224	$1.1211	$1.1161	$1.1291
Contra Costa County Water District	$0.0048	$0.0041	$0.0051	$0.0045	$0.0042
Total Land Only Tax Rate	$0.0048	$0.0041	$0.0051	$0.0045	$0.0042

Source: California Municipal Statistics, Inc.

In accordance with the law which permitted the Series 2014 Bonds to be approved by at least a 55% popular vote, bonds approved by the District's voters at the November 2, 2010 election may not be issued unless the District projects that repayment of all outstanding bonds approved at such election will require a tax rate no greater than $60.00 per $100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2014 Bonds, the District projects that the maximum tax rate required to repay the Series 2014 Bonds and all other outstanding bonds approved at the November 2, 2010 election will be within that legal limit. The tax rate test applies only when new bonds are issued, and is not a legal limitation upon the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2014 Bonds in each year.

Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory scheme enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series 2014 Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. 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 on November 1. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The following table shows real property tax charges and corresponding delinquencies with respect to property located in the District for fiscal years 2008-09 through 2012-13.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2008-09 Through 2012-13

	Secured Tax Charge (1)	Amount Delinquent June 30	% Delinquent June 30
2008-09	$16,027,813.48	$640,309.99	3.99%
2009-10	15,606,487.68	417,732.57	2.68
2010-11	13,781,575.70	236,738.56	1.72
2011-12	15,316,858.90	416,139.65	2.72
2012-13	15,764,521.51	152,871.58	0.97

	Secured Tax Charge (2)	Amount Delinquent June 30	% Delinquent June 30
2008-09	$3,313,688.85	$78,209.98	2.36%
2009-10	3,353,714.34	62,863.36	1.87
2010-11	3,043,898.21	40,555.93	1.33
2011-12	3,207,796.48	32,408.18	1.01
2012-13	3,471,019.37	24,331.55	0.70

(1) 1% general fund apportionment.
(2) Bond debt service levy only.
Source: California Municipal Statistics, Inc.

Teeter Plan. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including the District, receives the full amount of uncollected taxes credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of 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 3% of the total of all taxes and assessments levied on the secured roll in that agency.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective January 1, 2014 for debt issued as of December 16, 2013. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. 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.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Statement Of Direct And Overlapping Bonded Debt

2013-14 Assessed Valuation: $5,524,966,985

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 1/1/14
Bay Area Rapid Transit District	1.051%	$6,813,370
Contra Costa Community College District	3.772	12,973,605
Martinez Unified School District	100.000	29,148,563[1]
City of Martinez	64.335	15,031,873
East Bay Regional Park District	1.623	3,294,284
Pleasant Hill Recreation and Park District	0.156	42,307
Contra Costa County Reassessment District of 2001	22.255	285,977
City of Martinez 1915 Act Bonds	100.000	505,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$68,094,979
OVERLAPPING GENERAL FUND DEBT:		
Contra Costa County General Fund Obligations	3.757%	$11,105,392
Contra Costa County Pension Obligations	3.757	11,650,457
Contra Costa Community College District Certificates of Participation	3.772	29,422
Contra Costa Fire Protection District Pension Obligations	8.146	8,141,520
Pleasant Hill Recreation and Park District Certificates of Participation	0.156	3,307
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$30,930,098
Less: Contra Costa County General Fund Obligations supported by revenue funds		4,440,877
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$26,489,221
GROSS COMBINED TOTAL DEBT		$99,025,077[2]
NET COMBINED TOTAL DEBT		$94,584,200

(1) Excludes Series 2014 Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:
Direct Debt ($29,148,563) 0.53%
Total Direct and Overlapping Tax and Assessment Debt 1.23%
Gross Combined Total Debt 1.79%
Net Combined Total Debt 1.71%

Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series 2014 Bonds is less than the amount to be paid at maturity of such Series 2014 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2014 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2014 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2014 Bonds is the first price at which a substantial amount of such maturity of the Series 2014 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2014 Bonds accrues daily over the term to maturity of such Series 2014 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2014 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2014 Bonds. Beneficial Owners of the Series 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2014 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2014 Bonds is sold to the public.

Series 2014 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2014 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2014 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2014 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2014 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2014 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2014 Bonds. Accordingly, the opinions of Bond Counsel are not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2014 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2014 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, legislative proposals have been made in recent years that would limit the exclusion from gross income of interest on obligations like the Series 2014 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2014 Bonds. Prospective purchasers of the Series 2014 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2014 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2014 Bonds ends with the issuance of the Series 2014 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series 2014 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2014 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2014 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Series 2014 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Series 2014 Bonds at the time of issuance substantially in the form set forth in Appendix C hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District.

Legality for Investment in California

Under the provisions of the California Financial Code, the Series 2014 Bonds are legal investments for commercial banks in California to the extent that the Series 2014 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the California Government Code, the Series 2014 Bonds are eligible securities for deposit of public moneys in the State.

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series 2014 Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than 290 days following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2013-14 fiscal year (which is due no later than April 15, 2015) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D − “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). During the preceding five years, the District failed to file complete annual reports with respect to its previous undertakings with regard to said Rule relating to the (i) Martinez Unified School District General Obligation Bonds, Election of 1995, Series 1997, (ii) Martinez Unified School District General Obligation Bonds, Election of 1995, Series 1998, and (iii) Martinez Unified School District 2001 General Obligation Refunding Bonds. In addition, the District failed to file notice of a rating upgrade by Moody’s in April 2013. The District has since filed such reports and notice with respect to such previous undertakings with regard to said Rule.

No Litigation

No litigation is pending or threatened concerning or contesting the validity of the Series 2014 Bonds or the District’s ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District’s ability to issue and retire the Series 2014 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series 2014 Bonds or District officials who will sign certifications relating to the Series 2014 Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2014 Bonds.

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

MISCELLANEOUS

Ratings

Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Rating Services (“Standard & Poor’s”) have assigned their respective ratings of “Aa2” and “AA” to the Series 2014 Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions. The ratings reflect only the view of the rating agency furnishing the same, and any explanation of the significance of such ratings should be obtained only from the rating agency providing the same. Such ratings are not a recommendation to buy, sell or hold the Series 2014 Bonds There is no assurance that any ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2014 Bonds. Neither the Underwriter nor the District have undertaken any responsibility after the offering of the Series 2014 Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Series 2014 Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series 2014 Bonds.

Underwriting

The 2014 Bonds are being purchased for reoffering to the public by Piper Jaffray & Co. (the "Underwriter") pursuant to the terms of a bond purchase contract executed on February 19, 2014, by and between the District and the Underwriter (the "Purchase Contract"). The Underwriter has agreed to purchase the Series 2014A Bonds at a price of $3,180,456.40, and to purchase the Series 2014B Bonds at a price of $17,964,057.05. The Purchase Contract provides that the Underwriter will purchase all of the Series 2014 Bonds, subject to certain terms and conditions set forth in the Purchase Contract, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series 2014 Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has provided the following language for inclusion in this Official Statement: The Underwriter and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables the Underwriter to distribute certain new issue municipal securities underwritten by or allocated to the Underwriter, which could include the Series 2014 Bonds. Under the Agreement, the Underwriter could share with Pershing LLC a portion of the fee or commission paid to the Underwriter. The Underwriter has also entered into a separate distribution agreement (the "Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") that enables CS&Co to distribute certain new issue municipal securities underwritten by or allocated to the Underwriter which could include the Series 2014 Bonds. Under the Distribution Agreement, the Underwriter will share with CS&CO a portion of the fee or commission paid to the Underwriter.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Series 2014 Bonds. Quotations from and summaries and explanations of the Series 2014 Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series 2014 Bonds.

The District has duly authorized the delivery of this Official Statement.

MARTINEZ UNIFIED SCHOOL DISTRICT

By: /s/ Rami Muth
Rami Muth,
Superintendent

APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the Martinez Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series 2014 Bonds is payable from the general fund of the District or from State revenues. The Series 2014 Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County of Contra Costa on property within the District in an amount sufficient for the timely payment of principal of and interest on the Series 2014 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2014 BONDS" in the front portion of this Official Statement.

THE DISTRICT

Introduction

The District was unified in 1963. The District provides educational services to the residents of the City of Martinez and to an unincorporated area east of the City in which the District operates an elementary school. The District encompasses an area of approximately 25 miles and has an estimated population of 35,000. The District operates 4 elementary schools (grades K-5), one middle school (grades 6-8), one high school (grades 9-12), one alternative education and independent study school and one adult education school. Total fiscal year 2013-14 enrollment is approximately 4,117.

The District is governed by a five-member Board of Education (the "Board of Education"), each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board of Education who is responsible for day to day District operations as well as the supervision of the District's other key personnel. Rami Muth is the District Superintendent and has served in this position since 2008.

Board of Education

Current members of the Board, together with their office and the date their term expires, are listed below:

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)

Board of Education

Name	Office	Term Expires
John L. Fuller	President	December 2016
Deidre M. Siguenza	Vice President	December 2014
Bobbi Horack	Clerk	December 2014
Denise Elsken	Member	December 2016
Kathi McLaughlin	Member	December 2016

Superintendent and Business Services Personnel

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and certain other key administrative personnel is set forth below.

Rami Muth, Superintendent. Superintendent Muth began her first year of teaching in Benicia Unified School District in 1973 after completing her bachelor of arts at California State University, Long Beach. After gaining her administrative credential, Ms. Muth became a principal in Fairfield Suisun Unified School District in 1999. In addition to serving as principal, Superintendent Muth worked within Fairfield Suisun Unified School District as the Director of GATE and Secondary Literacy. She joined the District in 2006 as Director of Curriculum of Instruction and became Superintendent of the District in 2008.

Andi Stubbs, Chief Business Official. Ms. Stubbs began her career in education in the Pittsburg Unified School District in 1993 as a junior high school science and music teacher, shortly after earning her teaching credential at California State University, Hayward. After eight years of teaching a variety of subjects in grades K-12, Ms. Stubbs completed her Master's degree/credential in Education Administration, and began her administrative career as the Vice Principal of Calistoga Junior/High School, where she served for four years. Following her tenure there, Ms. Stubbs worked as an elementary school principal for an additional four years while completing coursework in School Business Management through the University of Southern California. After working for a time as the Director of Business Services for the Old Adobe Union School District in Petaluma, she joined the District as Chief Business Official in 2011.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution. In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District receives approximately 32.4% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), budgeted at approximately $10.82 million in fiscal year 2013-14. As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State's voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two–thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also would apply to trailer bills that appropriate funds and are identified by the State Legislature "as related to the budget in the budget bill." The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two–thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2013-14 State budget on June 27, 2013.

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

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

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

Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over $4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Series 2014 Bonds, and the District takes no responsibility for informing owners of the Series 2014 Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, **www.dof.ca.gov**, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at **www.lao.ca.gov**. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, **www.treasurer.ca.gov**. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2013-14 State Budget. The Governor signed the fiscal year 2013-14 State budget (the "2013-14 State Budget") on June 27, 2013. The 2013-14 State Budget represents a multiyear plan that maintains a $1.1 billion reserve and pays down certain budgetary debt. The 2013-14 State Budget provides for $97.1 billion in revenues and transfers for fiscal year 2013-14 (down slightly from the $98.2 billion estimated for fiscal year 2012-13), and $96.3 billion in total expenditures for fiscal year 2013-14 (up slightly from the $95.7 billion estimates for fiscal year 2012-13). However, unlike recent years, the State enters fiscal year 2013-14 with a positive prior year general fund balance, approximately $872 million, as compared to a negative general fund balance of $1.7 billion at the start of fiscal year 2012-13. The 2013-14 State Budget, accordingly, is able to set aside a $1.1 billion reserve in a special fund for economic uncertainties.

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

With the passage of The Schools and Local Public Safety Protection Act (the "Temporary Tax Measure") at the November 6, 2012 election, the 2013-14 State Budget reinvests in, rather than cuts, education funding. The Temporary Tax Measure increased the personal income tax rates on the State's highest income taxpayers by up to 3% for a period of seven years beginning with the 2012 tax year, and increased the sales tax by one-quarter percent for a period of four years beginning on January 1, 2013. For kindergarten through twelfth grade ("K-12") education, the 2013-14 State Budget provides $55.3 billion (or $8,220 per student) in Proposition 98 funding in fiscal year 2013-14, which is slightly lower than the $56.5 billion estimated in fiscal year 2012-13 but an increase of more than $8 billion (or $1,045 per student) from fiscal year 2011-12 levels. The 2013-14 State Budget projects $67.1 billion (or $10,010 per student) in Proposition 98 funding in fiscal year 2016-17. Total funding under the 2013-14 State Budget for all K-12 education in fiscal year 2013-14 is approximately $70 billion.

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

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

- Local Control Funding Formula. An increase of $2.1 billion in Proposition 98 general funds for school districts and charter schools, and $32 million in Proposition 98 general funds for county offices of education, to support first-year funding provided through the LCFF.

- Common Core Implementation. An increase of $1.25 billion in one-time Proposition 98 general funds to support the implementation of the Common Core, which are new standards for evaluating student achievement in English-language arts and mathematics. Such funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials and technology. Local education agencies will be required to develop a plan to spend this money over the next two years and to hold a public hearing on such plan.

- Career Technical Education Pathways Grant Program. An increase of $250 million in Proposition 98 general funds for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.

- K-12 Mandates Block Grant. An increase of $50 million in Proposition 98 general funds to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.

- K-12 Deferrals. An increase of $1.6 billion in Proposition 98 general funds in fiscal year 2012-13 and an increase of $242.3 million in Proposition 98 general funds in fiscal year 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over such two-year period will reduce K-12 inter-year deferrals to $5.6 billion by the end of fiscal year 2013-14.

- Special Education Funding Reform. The 2013-14 State Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

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

The complete 2013-14 State Budget is available from the California Department of Finance website at **www.dof.ca.gov.** The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

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

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert $1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of $1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see *"− Dissolution of Redevelopment Agencies"* below). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010.

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

Dissolution of Redevelopment Agencies. The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") and Assembly Bill No. 27 (First Extraordinary Session) ("AB1X 27"), which the Governor signed on June 29, 2011. AB1X 26 suspended most redevelopment agency activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB1X 26 dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of AB1X 26 are described further below.

In July of 2011, various parties filed an action before the Supreme Court of the State of California (the "Court") challenging the validity of AB1X 26 and AB1X 27 on various grounds *(California Redevelopment Association v. Matosantos).* On December 29, 2011, the Court rendered its decision in *Matosantos* upholding virtually all of AB1X 26 and invalidating AB1X 27. In its decision, the Court also modified various deadlines for the implementation of AB1X 26. The deadlines for implementation of AB1X 26 below take into account the modifications made by the Court in *Matosantos*.

On February 1, 2012, and pursuant to *Matosantos*, AB1X 26 dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

AB1X 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its "enforceable obligations." For this purpose, AB1X 26 defines "enforceable obligations" to include "bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency" and "any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy." AB1X 26 specifies that only payments included on an "enforceable obligation payment schedule" adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution. However, until a successor agency adopts a "recognized obligation payment schedule" the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under AB1X 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a "redevelopment property tax trust fund" created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in AB1X 26. AB1X 26 generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 (now each January 2 and June 1 pursuant to AB 1484, as described below) thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller's administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;

- To the former redevelopment agency's successor agency for payments listed on the successor agency's recognized obligation payment schedule for the ensuing six-month period;

- To the former redevelopment agency's successor agency for payment of administrative costs; and

- Any remaining balance to school entities and local taxing agencies.

It is possible that there will be additional legislation proposed and/or enacted to "clean up" various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a "tax claw back" provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This "tax claw back" provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

Proposed 2014-15 State Budget. The Governor released his proposed fiscal year 2014-15 State budget (the "2014-15 Proposed State Budget") on January 10, 2014. The 2014-15 Proposed State Budget proposes a multiyear plan that is balanced, while paying off budgetary debt from past years and setting aside reserves. The 2014-15 Proposed State Budget projects general fund revenues in the amount of $100.1 billion in fiscal year 2013-14 and $106.1 billion in fiscal year 2014-15, which is an additional $3 billion and $1.6 billion in revenues in fiscal years 2013-14 and 2014-15, respectively, as compared to projections from the 2013-14 State Budget. According to the 2014-15 Proposed State Budget, the primary reason for such additional revenues is the increased level of capital gains realizations for 2013 and 2014 and, accordingly, higher forecasts for personal income tax. Of the total State general fund revenues for fiscal year 2014-15, personal income taxes are expected to contribute $69.8 billion (65.8%), sales and use taxes are expected to contribute $24.1 billion (22.7%) and corporation taxes are expected to contribute $8.7 billion (8.2%). Under the 2014-15 Proposed State Budget, general fund expenditures for fiscal year 2014-15 are $106.8 billion (an increase of $8.3 billion from fiscal year 2013-14 general fund expenditures), of which $45.3 billion (42.4%) is allocated to K-12 education.

The 2014-15 Proposed State Budget proposes to reduce budgetary debt (totaling $24.9 billion at the end of fiscal year 2013-14) by more than $11 billion in fiscal year 2014-15 (which includes the payment of more than $6 billion to eliminate the remaining deferred payments to school districts and community college districts), and to fully eliminate all budgetary debt by fiscal year 2017-18. Additionally, the 2014-15 Proposed State Budget sets aside $2.3 billion in reserves, consisting of $1.6 billion in a rainy day fund (the "Rainy Day Fund") and $693 million in the general fund traditional reserve. Such amount is $700 million below the revised reserve level at the end of fiscal year 2013-14. The 2014-15 Proposed State Budget also proposes to the voters certain constitutional amendments relating to the Rainy Day Fund, which amendments are intended to increase the size of the Rainy Day Fund, base deposits on capital gains revenues, create a Proposition 98 reserve and require certain deposits therein, limit withdrawals and allow amounts otherwise required to be transferred to the Rainy Day Fund to be applied to pay down various budgetary liabilities.

Despite the recent budgetary improvements as compared to recent years, the 2014-15 Proposed State Budget acknowledges that the additional tax revenues from capital gains are temporary in nature and that the additional revenues from Proposition 30 will expire in 2016 and 2018. Further, the 2014-15 Proposed State Budget observes several risks that the State should plan for, including: the inevitable occurrence of another recession, ongoing fiscal challenges of the federal government, the budget's heavy dependency on the performance of the stock market in fiscal year 2014-15, the high levels of State debts and liabilities, including unfunded retirement liabilities, and ongoing court involvement relating to the State's prisons and dissolved redevelopment agencies. With respect to the State Teachers' Retirement System ("CalSTRS"), the 2014-15 Proposed State Budget notes that there is an increasing unfunded liability of approximately $80.4 billion and, absent any changes, CalSTRS is expected to exhaust its assets in approximately 30 years. As contributions to the CalSTRS pension fund were established in statute and can only be changed by the Legislature, the 2014-15 Proposed State Budget acknowledges that the Governor's administration will need to begin working with the State Legislature, school districts, teachers and the pension system on a sustainable funding plan, which is expected to be adopted as part of the fiscal year 2015-16 budget.

As it relates to K-12 education, the 2014-15 Proposed State Budget provides Proposition 98 funding of $61.6 billion for fiscal year 2014-15, as well as an additional $1.5 billion and $1.8 billion for fiscal years 2013-14 and 2012-13, respectively. This translates to K-12 Proposition 98 per-pupil expenditures of $8,469 in fiscal year 2013-14 and $9,194 in fiscal year 2014-15. Such amounts are significant increases when compared to recent years, such as the $7,006 provided in fiscal year 2011-12. Total per-pupil expenditures from all sources are projected to be $11,985 in fiscal year 2013-14 and $12,833 in fiscal year 2014-15, including funds provided for prior year "settle-up" obligations. The 2014-15 Proposed State Budget notes that attendance in public schools began to decline in fiscal year 2012-13. For fiscal year 2013-14, K-12 A.D.A. is estimated to be 5,963,132, a slight increase of 702 from fiscal year 2012-13. K-12 A.D.A. is estimated to drop by 7,002 in fiscal year 2014-15 to 5,956,130.

The 2014-15 Proposed State Budget provides a second-year investment of $4.5 billion in the LCFF, which is expected to eliminate more than 28% of the remaining funding gap between actual funding and the target level of funding (see "– Allocation of State Funding to School Districts; Local Control Funding Formula" herein). With respect to K-12 school facilities, the 2014-15 Proposed State Budget acknowledges the ongoing discussion of the State's role, if any, in future school facilities funding and notes several problems with the current program that should be addressed in any future plan. While such discussion is ongoing, the 2014-15 Proposed State Budget transfers $211 million of remaining bond authority from the specialized programs to the core new construction and modernization programs to continue construction of new classrooms and modernization of existing classrooms, and dedicates $188 million of one-time Proposition 98 general funds to an emergency repair program to provide funds to local educational agencies for costs of repairing or replacing building systems that post a health and safety threat. The 2014-15 Proposed State Budget also includes reforms and investments relating to adult education, the implementation of Common Core standards, and energy efficiency (Proposition 39).

Certain workload adjustments for K-12 programs included in the 2014-15 Proposed State Budget include the following:

- K-12 Deferrals. An increase of more than $2.2 billion in Proposition 98 general funds in fiscal year 2014-15 which, when combined with the $3.3 billion in Proposition 98 general funds provided from fiscal years 2012-13 and 2013-14, will be applied to eliminate all remaining outstanding deferral debt for K-12 education.

- School District Local Control Funding Formula. Additional growth of approximately $4.5 billion in Proposition 98 general funds for school districts and charter schools in fiscal year 2014-15.

- Charter Schools. An increase of $74.3 million in Proposition 98 general funds to support projected charter school A.D.A. growth.

- Special Education. A decrease of $16.2 million in Proposition 98 general funds to reflect a decline in Special Education A.D.A.

- Cost-of-Living Adjustment Increases. $33.3 million to support a 0.86% cost-of-living adjustment ("C.O.L.A.") for categorical programs that remain outside of the LCFF. C.O.L.A. for school districts and county offices of education are provided within the increases for school district and county office of education under the LCFF.

- Emergency Repair Program. An increase of $188.1 million in one-time Proposition 98 general fund resources for the emergency repair program, as described above.

- Local Property Tax Adjustments. An increase of $287.1 million in Proposition 98 general funds for school districts and county offices of education under the LCFF in fiscal year 2013-14 as a result of lower offsetting property tax revenues. A decrease of $529.7 million in Proposition 98 general funds for school districts and county offices of education in fiscal year 2014-15 as a result of increased offsetting local property tax revenues.

- A.D.A. A decrease of $214.5 million in fiscal year 2013-14 for school districts and county offices of education under the LCFF as a result of a decrease in projected A.D.A. from the 2013-14 State Budget. A decrease of $42.9 million in fiscal year 2014-15 for school districts and county offices of education as a result of projected decline in A.D.A. for fiscal year 2014-15.

The complete 2014-15 Proposed 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 therein, and such information is not incorporated herein by such reference.

LAO Overview of 2014-15 Proposed State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2014-15 Proposed State Budget entitled "The 2014-15 Budget: Overview of the Governor's Budget" on January 14, 2014 (the "2014-15 Proposed Budget Overview"), in which the LAO acknowledges that the State has made substantial progress in recent years in addressing its prior budgetary problems. The LAO notes that such progress has been facilitated by the recovering economy, the stock market, increased revenues from temporary taxes of Proposition 30, and the State Legislature's recent decisions to make few new non-Proposition 98 spending commitments. Further, the LAO commends the 2014-15 Proposed State Budget's emphasis on debt repayment, which the LAO expects to place the State on even stronger fiscal footing. Nonetheless, the LAO is not without any suggestions. For example, although the LAO agrees that the State will need to work with school districts and teachers to reach an agreement on a long-term CalSTRS funding plan, the LAO suggests that the State set aside money during fiscal year 2014-15 in anticipation of the adoption of a long term CalSTRS funding plan.

With respect to the Proposition 98 budget plan in the 2014-15 Proposed State Budget, the LAO states that the Proposition 98 budget plan provides a reasonable mix of programmatic funding increases and pay downs of outstanding obligations. The LAO commends the proposal to eliminate K-14 budgetary deferrals, and recognizes that the use of new funding for one-time purposes helps the State minimize any future disruption in school funding as a result of revenue volatility or an economic slowdown. The LAO, however, observes that the Proposition 98 minimum guarantee in fiscal year 2014-15 will be highly sensitive to changes in general fund revenues and could experience large swings over the coming months. The LAO also expresses concern with the Governor's proposal to set in statute the specific share of Proposition 98 funding that would be dedicated to the implementation of the LCFF each year moving forward, commenting that doing so would remove the State Legislature's discretion to appropriate funding and make key budget decisions.

The 2014-15 Budget Overview is available on the LAO website at **www.lao.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 therein, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2014-15 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposal. Accordingly, the District cannot predict the impact that the final fiscal year 2014-15 State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2014-15 State budget may be affected by national and State economic conditions and other factors which the District cannot predict.

Future Budgets and Budgetary Actions. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for K-12 education. The State budget will be affected by national and State economic conditions and other factors over which the District cannot predict and will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2014-15 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District.

Allocation of State Funding to School Districts; Local Control Funding Formula

Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received 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 were known as "basic aid districts." Districts that received some equalization aid were commonly referred to as "revenue limit districts." The District would be a revenue limit district.

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

- A Base Grant for each local education agency, equivalent to $7,643 per unit of A.D.A. in fiscal year 2013-14. Such Base Grant per unit of A.D.A., adjusted by grade span variation and to be adjusted annually for cost-of-living, is as follows: $6,845 for grades K-3, $6,947 for grades 4-6, $7,154 for grades 7-8 and $8,289 for grades 9-12. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.

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

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

- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, local education agencies would receive the greater of the Base Grant or the ERT.

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

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

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

The following table sets forth (i) the District's actual A.D.A., enrollment and base revenue limit per unit of A.D.A. for fiscal years 2009-10 through 2012-13, and (ii) the District's budgeted A.D.A., enrollment and Base Grant per unit of A.D.A. for fiscal year 2013-14, for K-12, including special education.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Average Daily Attendance, Enrollment and Base Revenue Limit/Base Grant
Fiscal Years 2009-10 through 2013-14

Fiscal Year	Average Daily Attendance(1)	Enrollment	Base Revenue Limit Base Grant Per Unit of Average Daily Attendance
2009-10(2)	3,815	4,027	5,233
2010-11(3)	3,858	4,061	5,239
2011-12(4)	3,936	4,124	5,203
2012-13(5)	3,898	4,096	5,260
2013-14(6)	3,952(7)	4,133	varies(8)

(1) A.D.A. for the second period of attendance, typically in mid-April of each school year.
(2) The District had a 18.355% base revenue limit deficit factor and a 4.25% cost of living adjustment in fiscal year 2009-10, which resulted in net funding of a negative 7.75% and a funded base revenue limit of $5,233, which includes a one-time base revenue limit reduction of $1,177.
(3) The District had a 17.963% base revenue limit deficit factor and a negative 0.39% cost of living adjustment in fiscal year 2010-11, which resulted in a funded base revenue limit of $5,239.
(4) The District had a 20.602% base revenue limit deficit factor and a negative 2.24% cost of living adjustment in fiscal year 2011-12, which resulted in a funded base revenue limit of $5,203.
(5) The District also expects a 22.272% revenue limit deficit factor and a 3.24% cost of living adjustment in fiscal year 2012-13, which results in a funded base revenue limit of $5,260.
(6) Figures are projections. Fiscal year 2013-14 figures are based on the LCFF and are not completely comparable to prior fiscal years.
(7) A.D.A. by grade span variation is as follows: 1,214 for grades K-3; 886 for grades 4-6; 560 for grades 7-8; and 1,294 for grades 9-12. Figures may not add up to the aggregate amount due to rounding.
(8) Base Grant per unit of A.D.A. by grade span variation is as follows: $7,675 for grades K-3; $7,056 for grades 4-6; $7,266 for grades 7-8; and $8,638 for grades 9-12. Such amounts represent the targeted amount of Base Grant per unit of A.D.A. in fiscal year 2013-14, and do not include any supplemental and concentration grants under the LCFF. Such amounts are not expected to be fully funded in fiscal year 2013-14, and are estimated in the aggregate to be approximately $7,498 per unit of A.D.A.
Source: Martinez Unified School District.

In its first interim report, the District projects that it will receive approximately $21.65 million in aggregate revenues allocated under the LCFF in fiscal year 2013-14, or approximately 66.96% of its general fund revenues. Such amount includes the supplemental grants estimated to be $1.8 million in fiscal year 2013-14. The District does not expect to receive any concentration grants in fiscal year 2013-14. The District expects that it will receive approximately $2.5 million in additional revenues under the LCFF than it would have received under the prior revenue limit funding system.

The District also expects to receive a small portion of its budget from State lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is currently budgeted at $767,632 for fiscal year 2013-14.

Local Sources of Education Funding

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. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, 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. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received 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 were known as "basic aid districts." Districts that received some State aid were commonly referred to as "revenue limit districts."

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, "basic aid districts" would continue to receive the same level of State aid as allotted in fiscal year 2012-13. See "−Allocation of State Funding to School Districts; Local Control Funding Formula" herein for more information about the LCFF. The District is not a basic aid district.

Local property tax revenues account for approximately 74.5% of the District's aggregate revenues allocated under the LCFF, and are projected to be $16.16 million, or 49.99% of total general fund revenues in fiscal year 2013-14.

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below.

Parcel Tax

In November 2008, the voters of the District approved the levy of a parcel tax of $50 per parcel per year to support high academic achievement for local students by maintaining small class sizes, updated textbooks and classroom materials, improved access to modern technology, science education, art, music, band programs, library services and school counselors (the "Parcel Tax"). The Parcel Tax was authorized to be levied for a period not to exceed five years and expires on June 30, 2014. In November 2012, the voters of the District approved the renewal of the Parcel Tax for an additional five years. In fiscal year 2013-14, the Parcel Tax is expected to provide approximately $500,000 in revenues to the District.

Significant Accounting Policies and Audited Financial Reports

The 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 Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District.

Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2013, which are included as Appendix B.

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. The following table contains data abstracted from financial statements prepared by the District's independent auditor, Goodell, Porter, Sanchez & Bright, LLP, Certified Public Accountants, Sacramento, California for fiscal years 2008-09 through 2012-13. Goodell, Porter, Sanchez & Bright, LLP has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has neither audited nor reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The following table shows the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2008-09 through 2012-13.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2008-09 through 2012-13

	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
REVENUES					
Revenue Limit Sources:					
State Apportionments	$4,345,259	$1,819,769	$5,227,599	$4,300,367	$3,839,966
Local Sources	17,638,186	16,995,173	15,364,474	16,650,243	17,238,884
Total Revenue Limit	21,983,445	18,814,942	20,592,073	20,950,610	21,078,850
Federal Revenue	3,109,064	2,613,194	1,779,886	2,293,451	1,581,960
Other State Revenue	3,774,687	6,309,887	6,278,560	6,098,351	6,571,961
Other Local Revenue(1)	2,477,501	3,751,429	3,004,616	2,909,427	2,907,196
Total Revenues	31,344,697	31,489,452	31,655,135	32,251,839	32,139,967
EXPENDITURES					
Certificated Salaries	15,487,041	15,131,439	14,397,004	14,389,552	15,209,994
Classified Salaries	3,668,008	3,588,038	3,685,272	3,928,825	3,997,062
Employee Benefits	6,505,523	6,493,063	6,236,094	6,420,902	6,775,745
Books and Supplies	1,104,227	1,233,156	805,217	1,042,077	862,816
Services and Other Operating Expenditures	2,762,707	2,752,684	3,143,185	3,297,619	3,119,190
Capital Outlay	47,434	49,451	72,678	21,362	8,798
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Other Outgo	137,851	246,085	179,872	212,624	230,556
Total Expenditures	29,712,791	29,493,916	28,519,322	29,312,961	30,204,161
Excess of Revenues Over (Under) Expenditures	1,631,906	1,995,536	3,135,813	2,938,878	1,935,806
Other Financing Sources (Uses)					
Operating Transfers In	203,762	-	-	-	-
Operating Transfers Out	(215,504)	(2,496,664)	(1,463,833)	(1,400,000)	(1,320,000)
Other Sources	7,665	600,000	-	-	-
Other Uses	-	-	-	-	-
Total Other Financing Sources and Uses	(4,077)	(1,896,664)	(1,463,833)	(1,400,000)	(1,320,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	1,627,829	98,872	1,671,980	1,538,878	615,806
Fund Balances, July 1	4,140,381	5,768,210	6,491,415	8,163,395	9,702,273
Fund Balances, June 30	$5,768,210	$5,867,082	$8,163,395	$9,702,273	$10,318,079(2)

(1) Includes revenues from the Parcel Tax.
(2) The District expects to gradually reduce its general fund balance as it looks to spend certain of its reserves to pay for additional staff members.
Source: District Audited Financial Reports for fiscal years 2008-09 through 2012-13.

The following table shows the general fund balance sheet of the District for fiscal years 2008-09 through 2012-13.

MARTINEZ UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2008-09 Through 2012-13

	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
ASSETS					
Cash	$1,283,857	$2,288,056	$2,563,287	$5,248,434	$5,800,886
Investments	860,529	868,227	872,644	1,285,821	1,289,695
Accounts Receivable	4,572,360	3,431,053	5,668,967	3,779,974	3,661,092
Total Assets	$6,716,746	$6,587,336	$9,104,898	$10,314,229	$10,751,673
LIABILITIES					
Accounts Payable	$606,789	$461,429	$165,346	$396,237	$433,594
Deferred Revenue	341,747	258,825	776,157	215,719	-
Due to Other Funds	-	-	-	-	-
Total Liabilities	948,536	720,254	941,503	611,956	433,594
Fund Balances[1]:					
Reserved	5,371	1,033,592	-	-	-
Legally Restricted Balances	2,392,355	-	-	-	-
Unreserved:					
Designated	3,370,484	4,653,512	-	-	-
Undesignated (Deficit)	-	179,978	-	-	-
Nonspendable	-	-	5,371	5,370	5,371
Restricted	-	-	444,287	360,475	513,618
Committed	-	-	626,846	629,694	632,122
Assigned	-	-	6,149,633	7,785,345	162,000
Unassigned	-	-	937,258	921,389	9,004,968
Total Fund Balances	5,768,210	5,867,082	8,163,395	9,702,273	10,318,079[2]
Total Liabilities and Fund Balances	$6,716,746	$6,587,336	$9,104,898	$10,314,229	$10,751,673

[1] GASB 54, which became effective for fiscal year 2010-11, caused the District to change its Fund Balance classifications from "Reserved" and "Designated" to "Nonspendable," "Restricted," "Committed," "Assigned" and "Unassigned." Had the classifications under GASB 54 been effective in previous fiscal years, the unaudited fund balances would have been as follows: for fiscal year 2008-09: Nonspendable $5,371, Restricted $2,392,355, Committed $0, Assigned $3,370,484 and Unassigned $0; and for fiscal year 2009-10: Nonspendable $0, Restricted $1,033,592, Committed $0, Assigned $4,653,512 and Unassigned $179,978.
[2] The District expects to gradually reduce its general fund balance as it looks to spend certain of its reserves to pay for additional staff members.
Source: Martinez Unified School District Audited Financial Reports for fiscal years 2008-09 through 2012-13.

District Budget Process and County Review

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

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

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

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the county superintendent in that fiscal year or in the next succeeding year.

The District has never received a negative certification. The District did file a qualified certification in its second interim financial report for fiscal year 2009-10. However, the District filed positive certifications in its first and second interim financial reports since its second interim financial report for fiscal year 2009-10.

The following table summarizes the District's adopted general fund budgets for fiscal years 2011-12 through 2013-14, unaudited actuals for fiscal years 2011-12 through 2012-13 and first interim report for fiscal year 2013-14.

MARTINEZ UNIFIED SCHOOL DISTRICT
General Fund Budgets for Fiscal Years 2011-12 through 2013-14, Unaudited Actuals for Fiscal Years 2011-12 Through and 2012-13, and First Interim Report for Fiscal Year 2013-14

	2011-12 Original Budget	2011-12 Unaudited Actuals[1]	2012-13 Original Budget	2012-13 Unaudited Actuals[1]	2013-14 Original Budget[2]	2013-14 First Interim Report[2]
REVENUES						
Revenue Limit Sources	$20,523,398.00	$20,950,610.10	$21,290,980.00	$21,078,849.04	$21,655,614.16	$21,732,603.00
Federal Revenue	1,907,653.00	2,296,451.21	1,390,333.00	1,366,240.73	1,344,390.00	1,395,881.26
Other State Revenue	5,805,199.00	6,098,351.18	5,871,938.05	6,571,961.35	6,391,344.95	7,369,404.95
Other Local Revenue[3]	2,316,469.00	2,906,579.48	2,765,633.18	2,904,766.26	2,948,183.95	2,897,897.81
TOTAL REVENUES	30,552,719.00	32,248,991.97	31,318,884.23	31,921,818.28	32,339,523.06	33,395,787.02
EXPENDITURES						
Certificated Salaries	15,053,319.00	14,389,549.83	14,727,891.13	15,209,993.89	15,759,546.27	15,768,489.91
Classified Salaries	3,715,833.00	3,928,825.35	3,970,597.21	3,997,061.72	4,097,381.29	4,254,296.19
Employee Benefits	6,245,214.00	6,420,902.38	7,049,013.95	6,775,745.14	7,138,176.44	7,322,076.59
Books and Supplies	898,687.00	1,042,076.84	998,403.88	862,815.56	994,874.70	1,060,787.99
Services, Other Operating Expenses	3,300,243.00	3,297,619.29	3,877,795.73	3,119,190.36	3,508,450.79	3,390,413.48
Capital Outlay	5,000.00	21,362.49	5,000.00	8,797.53	5,000.00	5,000.00
Other Outgo (excluding Direct Support/Indirect Costs)	250,000.00	270,809.25	258,932.00	251,396.52	198,432.00	198,432.00
Transfers of Direct Support/Indirect Costs	(46,787.00)	(58,184.52)	(49,205.00)	(20,840.73)	(51,443.00)	(51,443.00)
TOTAL EXPENDITURES	29,421,529.00	29,312,960.91	30,838,428.90	30,204,159.99	31,650,418.49	31,948,053.16
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,131,190.00	2,936,031.06	480,455.33	1,717,658.29	689,104.57	1,447,733.86
OTHER FINANCING SOURCES (USES)						
Inter-fund Transfers In	-	-	-	-	-	-
Inter-fund Transfers Out	1,422,658.00	1,400,000.00	1,320,000.00	1,320,000.00	1,470,000.00	1,470,000.00
Other Sources (Uses)	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
TOTAL, OTHER FINANCING SOURCES (USES)	(1,422,658.00)	(1,400,000.00)	(1,320,000.00)	(1,320,000.00)	(1,470,000.00)	(1,470,000.00)
NET INCREASE (DECREASE) IN FUND BALANCE	(291,468.00)	1,536,031.06	(839,544.67)	397,658.29	(780,895.43)	(22,266.14)
BEGINNING BALANCE, as of July 1	5,297,346.61	7,536,549.40	8,072,658.73	9,072,580.46	8,397,594.20	9,470,238.75
Audit Adjustments	-		-	-	-	-
As of July 1 – Audited	5,297,346.61	7,536,549.40	8,072,658.73	9,072,580.46	8,397,594.20	9,470,238.75
Other Restatements	-	-	-	-	-	-
Adjusted beginning Balance	5,297,346.61	7,536,549.40	8,0722,658.73	9,072,580.46	8,397,594.20	9,470,238.75
ENDING BALANCE	$5,005,878.61	$9,072,580.46	$7,233,114.06	$9,470,238.75	$7,616,698.77	$9,447,972.61[4]

(1) The District uses the modified accrual basis of accounting, which affects when revenues and expenditures are recognized and reported. Certain amounts do not match the District's audited financial statements due to corrections to the District's stated revenues and/or expenditures during the audit process.
(2) Figures are projections
(3) Includes revenues from the Parcel Tax.
(4) The District expects to gradually reduce its general fund balance as it looks to spend certain of its reserves to pay for additional staff members
Source: Martinez Unified School District Adopted general fund budgets for fiscal years 2011-12, 2012-13 and 2013-14; unaudited actuals for fiscal years 2011-12 and 2012-13; and first interim report for fiscal year 2013-14.

District Debt Structure

Long-Term Debt Summary. A schedule of the District's long-term obligations for the year ended June 30, 2013, consisted of the following:

Long-Term Debt	Beginning Balance July 1, 2012	Additions	Deletions	Ending Balance June 30, 2013	Due Within One Year
General Obligation Bonds	$37,018,563		$3,875,000	$33,143,563	$3,995,000
Accreted Interest	1,024,349	$1,568,751	-	2,593,100	-
Other Postemployment Benefits	2,141,488	886,074	260,826	2,766,736	-
Compensated Absences	180,000	-	58,922	121,078	121,078
Totals	$40,364,400	$2,454,825	$4,194,748	$38,624,477	$4,116,078

Source: Martinez Unified School District Audit Financial Report for fiscal year 2012-13.

General Obligation Bonds. The District has two series of bonds outstanding, excluding the Series 2014 Bonds, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District. The following table summarizes the District's bonds that were outstanding as of June 30, 2013:

Bond	Maturity Date August 1,	Interest Rate	Amount of Original Issue	Outstanding July 1, 2012	Redeemed Current Year	Outstanding June 30, 2010
Series 2011 New Money Bonds	2035	2.75-4.25%	$24,998,563	$24,998,563		$24,998,563
Series 2011 Refunding Bonds	2014	3.0	13,075,000	12,020,000	$3,875,000	8,145,000
			$38,073,563	$37,018,563	$3,875,000	$33,143,563

The accreted interest for the outstanding bonds as of June 30, 2013 is as follows:

Bond	Maturity Date August 1,	Interest Rate	Outstanding July 1, 2012	Accretion Current Year	Payments Current Year	Outstanding June 30, 2010
Series 2011 New Money Bonds	2035	2.75-4.25%	$1,024,349	$1,568,751	-	$2,593,100
			$1,024,349	$1,568,751	-	$2,593,100

See also "THE SERIES 2014 BONDS—*Outstanding Bonds*" and *"−Aggregate Debt Service"* in the front portion of this Official Statement for the annual debt service requirements for these bonds.

Other Post Employment Benefits (OPEBs)

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with CalSTRS and CalPERS (defined below), the District provides certain post retirement healthcare benefits in accordance with District employment contracts. For a description of the District's program, which is a single-employer defined benefit healthcare plan that provides medical, dental and vision insurance benefits, see Note 8 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

The Governmental Accounting Standards Board ("GASB") released its Statement Number 45 ("Statement Number 45"), which requires municipalities to account for other post-employment benefits (meaning other than pension benefits) ("OPEB") liabilities much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. Statement Number 45 was phased in over a three-year period based upon the entity's revenues. Statement Number 45 became effective for the District beginning in the fiscal year ended June 30, 2009.

The contribution requirement of plan members and the District are established under a funding policy approved by the District's Board of Education, and may be amended by the District from time to time. The District's current funding policy is to contribute an amount sufficient to pay the current year's retiree claim costs and plan expenses, with additional amounts to prefund benefits as determined annually by the District's Board of Education. Although the District has not established an irrevocable trust to prefund its OPEB liability, it does have approximately $632,122 set aside in a special reserve for its OPEB obligations.

Total Compensation Systems, Inc., Agoura Hills, California, has prepared an actuarial valuation covering the District's retiree health benefits and reports that, as of October 31, 2012, the District had an accrued unfunded liability of $7,943,100. For more information regarding the actuarial valuation, the District's annual required contribution for 2012-13 and the District's net OPEB obligation at June 30, 2013, as well as the basic assumptions upon which the valuation was based, see Note 8 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

Tax and Revenue Anticipation Notes. The District has not issued, and does not expect to issue, any tax and revenue anticipation notes in fiscal year 2013-14. The District does not expect to issue any tax and revenue anticipation notes in fiscal year 2014-15.

Labor Relations

As of June 30, 2013, the District employed 348.20 full time equivalent employees (FTEs), consisting of 207.72 non-management certificated FTEs, 17.60 certificated management FTEs, 120.38 classified non-management FTEs, and 2.5 classified management FTEs. For the year ended June 30, 2013, the total certificated and classified payrolls are $15,209,994 and $3,997,062, respectively.

District employees are represented by employee bargaining units as follows:

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
Martinez Education Association (MEA)	207.72	June 30, 2015
California Schools Employees Association (CSEA)	113.38	June 30, 2015
Martinez Administrative Schools Association (MASA)	20.10	N/A
Martinez Confidential Supervisor Unit (CONF/SUPS)	7.0	N/A

Source: Martinez Unified School District.

Retirement Benefits

The District participates in retirement plans with CalSTRS which covers all full-time certificated District employees, and the State Public Employees' Retirement System ("CalPERS"), which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

CalSTRS. Contributions to CalSTRS are fixed in statute. Teachers contribute 8% of salary to CalSTRS, while school districts contribute 8.25%. In addition to the teacher and school contributions, the State contributes 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Unlike typical defined benefit programs, however, neither the CalSTRS employer nor the State contribution rate varies annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to systemwide unfunded liability resulting from recent benefit enhancements.

Because of the downturn in the stock market, an actuarial valuation as of June 30, 2003 showed a $118 million shortfall in the baseline benefits—one-tenth of 1% of accrued liability. Consequently, the surcharge kicked in for the first time in the fiscal year 2004-05 at 0.524% for three quarterly payments, which amounted to an additional $92 million from the State's general fund in fiscal year 2004-05. However, in addition to the small shortfall in pre-enhancement benefits (triggering the surcharge), the June 30, 2003, valuation also showed a substantial $23 billion unfunded liability for the entire system, including enhanced benefits. As indicated above, there is no required contribution from teachers, school districts or the State to fund this unfunded liability.

As of June 30, 2012, an actuarial valuation for the entire system, including enhanced benefits, showed an estimated unfunded actuarial liability of $71.0 billion, an increase of $6.5 billion from the June 30, 2011 valuation. The funded ratio of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2012, June 30, 2011 and June 30, 2010, based on the actuarial assumptions, was approximately 67%, 69% and 71%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions.

CalSTRS has developed options to address the shortfall but most would require legislative action. In addition, in the Governor's 2005–06 proposed State budget and the 2005-06 May revise of the 2005-06 proposed State budget, the Governor previously proposed increasing the fixed contribution rate from 8.25% to 10.25% for school districts. Subsequently, the final 2005-06 State budget was adopted with a contribution rate of 8.25%. In addition to such prior proposal by the Governor to increase the fixed contribution rate for school districts, other proposals have been previously suggested that would modify the District's obligation to make contributions to CalSTRS to closely parallel the full cost of the retirement benefits provided by CalSTRS, which proposals would include components for unfunded liability. If such proposals were adopted, the District's annual obligations to CalSTRS would likely increase substantially. Governor Brown, however, in August 2012, signed a pension reform measure that is expected to reduce future pension obligations of public employers like the District with respect to employees hired on or after January 1, 2013. See *"−Governor's Pension Reform"* below.

The District's employer contributions to CalSTRS for fiscal years 2010-11, 2011-12 and 2012-13 were $1,229,166, $1,228,068, and $1,225,357, respectively, and were equal to 100% of the required contributions for each year. The District has budgeted employer contributions to CalSTRS of $1,300,162 for fiscal year 2013-14.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

CalPERS. All qualifying classified employees of K-12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability.

According to the CalPERS State and Schools Actuarial Valuation as of June 30, 2012, the CalPERs Schools plan had a funded ratio of 75.5% on a market value of assets basis. The funded ratio as of June 30, 2011, June 30, 2010, June 30, 2009 and June 30, 2008 was 78.7%, 69.5%, 65.0% and 93.8%, respectively. According to the actuarial valuation as of June 30, 2012, the latest decline in the funded ratio was because the investment return experienced by CalPERS in fiscal year 2011-12 was less than the assumed 7.5%. In June 2009, the CalPERS Board of Administration adopted a new employer rate smoothing methodology for local governments and school employer rates. It was designed to ease the impact of the investment losses which were then expected in fiscal year 2008-09 on affiliated public employers while strengthening the long-term financial health of the pension fund. Under such methodology, certain investment losses are amortized and paid off over a fixed and declining 30-year period instead of a rolling 30-year amortization period. In March, 2012, the CalPERs Board of Administration adopted new economic actuarial assumptions to be used with the June 30, 2011 actuarial valuation; in particular, lowering the price inflation assumption from 3.00% to 2.75%. Lowering the price inflation assumption resulted in a reduced discount rate, which is the fund's assumed rate of return calculated based on expected price inflation and the expected real rate of return, from 7.75% to 7.5%. According to CalPERS, this reduction in the discount rate is anticipated to increase State and school district employer contributions for each fiscal year beginning in fiscal year 2012-13 by 1.2% to 1.6% for miscellaneous plans (which includes general office and others) and by 2.2% to 2.4% for safety plans beginning in fiscal year 2012-13.

In April, 2013, the CalPERS Board of Administration approved changes to the CalPERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. Beginning with the June 30, 2013 actuarial valuation, CalPERS will employ a new amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period (as compared to the current policy of spreading investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period). Such changes, the implementation of which are delayed until fiscal year 2015-16 for the State, schools and all public agencies, are expected to increase contribution rates in the near term but lower contribution rates in the long term.

The District's employer contributions to CalPERS for fiscal years 2010-11, 2011-12 and 2012-13 were $436,312, $450,460 and $428,118, respectively, and were equal to 100% of the required contributions for each year. The District has budgeted employer contributions to CalPERS of $488,267.16 for fiscal year 2013-14.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

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

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 10."

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements); (ii) full pension costs would be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Statement Number 67 will take effect in fiscal years beginning after June 15, 2013, and Statement Number 68 will take effect in fiscal years beginning after June 15, 2014.

Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures

The District participates in four joint ventures under joint powers agreements ("JPA's"): The Contra Costa County Schools Insurance Group (CCCSIG) for workers' compensation insurance; the Contra Costa and Solano Counties School Districts' Self-Insurance Authority (CCSCSDSIA) for property and liability insurance, Schools Excess Liability Fund (SEFL) for excess liability, property, and workers' compensation coverage, and Schools Self-Insurance of Contra Costa County (SSICCC) for dental and vision. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPA arranges for and/or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA. See Appendix B— "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, NOTE 12C."

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIIIA. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

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 2% 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.

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

Article XIIIB of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB state and local governmental 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 appropriation 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.

The District's budgeted appropriations from "proceeds of taxes" (sometimes referred to as the "Gann limit") for the 2012-13 fiscal year are equal to the allowable limit of $19,919,082, and estimates an appropriations limit for the 2013-14 fiscal year of $18,137,665. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIIIC and Article XIIID of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in *Santa Clara County Transportation Authority v. Guardino.* This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9% percentage, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State Appropriations Limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 school Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to schools is 4% of the minimum State spending for education mandated by the Accountability Act, as described above.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 school districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 school districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 school districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 school districts were guaranteed the greater of (a) 40.9% of general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a "credit" to be paid in future years when general fund revenue growth exceeds personal income growth.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "DISTRICT FINANCIAL MATTERS — State Funding of Education; State Budget Process."

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, as well as Propositions 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

APPENDIX B

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

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MARTINEZ UNIFIED SCHOOL DISTRICT
COUNTY OF CONTRA COSTA
MARTINEZ, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

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FINANCIAL SECTION

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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VIRGINIA K. PORTER, CPA
BEVERLY A. SANCHEZ, CPA
SUZY H. BRIGHT, CPA
RICHARD E. GOODELL, CPA
MICHELLE M. HANSON, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Education
Martinez Unified School District
Martinez, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and budgetary comparison information and accounting by employer for postemployment benefits on pages 48 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Martinez Unified School District's basic financial statements. The financial and statistical information listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The financial and statistical information listed as supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial and statistical information listed as supplementary information and the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the Martinez Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Martinez Unified School District's internal control over financial reporting and compliance.

Goodell, Porter, Sanchez & Bright, LLP

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 9, 2013

The discussion and analysis of Martinez Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

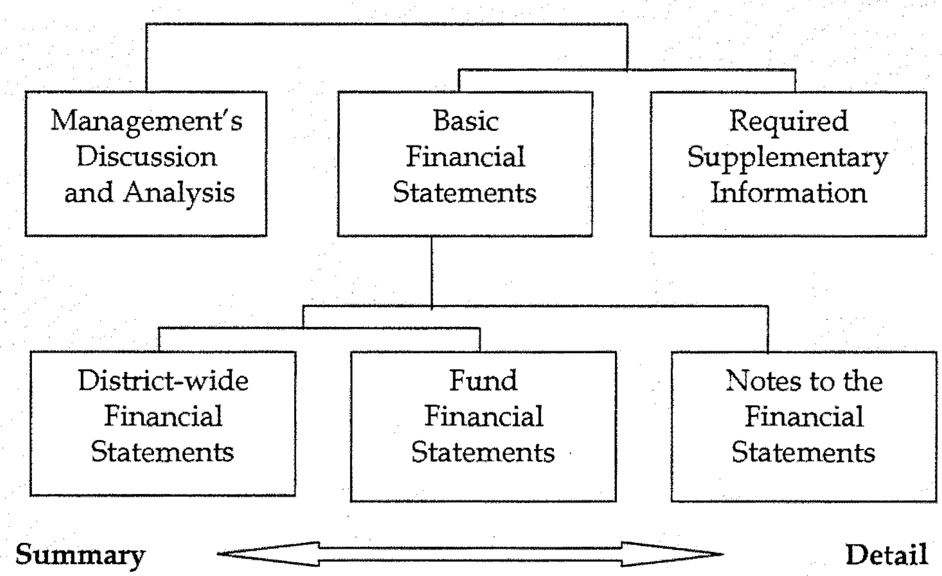
- The General Fund total revenue limit sources increased by $125,456 from 2011-2012 to 2012-2013.
- General Fund revenues and other financial sources exceeded expenditures and other uses by $615,806, ending the year with available reserves of $9,004,968, which is more than the State recommended reserve level of 3%.
- The total of the District's fixed assets, land, site, buildings, and equipment, valued on an acquisition cost basis was $86,303,147. After depreciation, the June 30, 2013 book value for fixed assets totaled $51,428,450.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the Martinez Unified School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section



The first two statements are *district-wide financial statements,* the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column. A comparison of the District's General Fund budget is included.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section (Concluded)

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

Reporting on the District as a Whole

Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2012-2013?"

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.

- Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

- Governmental Funds

  Most of the District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, the Bond Interest and Redemption Fund, the Building Fund and the Special Reserve Fund for Capital Outlay Projects. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They 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 operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

- Fiduciary Funds

  The District is the trustee, or fiduciary, for its student activity and scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. 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.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net position was $47.3 million at June 30, 2013. Of this amount $10.3 million was unrestricted. Net investment in capital assets, account for $31.6 million of the total net position. A comparative analysis of government-wide data is presented in Table 1.

(Table 1)
Comparative Statement of Net Position

	Governmental Activities	
	2013	Restated 2012
Assets		
Cash and investments	$ 33,392,737	$ 41,602,524
Receivables	3,947,355	4,116,885
Prepaid expenditures	65,413	100,300
Capital assets	51,428,450	43,336,526
Total assets	$ 88,833,955	$ 89,156,235
Liabilities		
Deficit cash	$ 47,554	$ 56,735
Accounts payable and other current liabilities	2,627,996	1,444,646
Deferred revenue	242,876	571,487
Long-term liabilities	38,624,477	40,364,400
Total liabilities	$ 41,542,903	$ 42,437,268
Net Position		
Net investment in capital assets	$ 31,588,271	$ 30,301,164
Restricted	5,375,904	4,834,487
Unrestricted	10,326,877	11,583,316
Total net position	$ 47,291,052	$ 46,718,967

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net position increased $572 thousand this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 73% of total expenses. The purely administrative activities of the District accounted for just 7% of total costs. The remaining 20% was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo. (See Figure 2).

(Table 2)
Comparative Statement of Change in Net Position

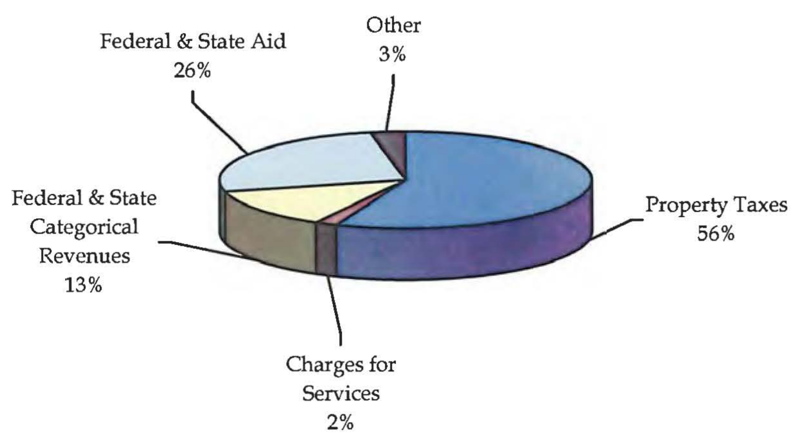
	Governmental Activities	
	2013	2012
Revenues		
Program revenues	$ 5,744,818	$ 5,916,820
General revenues		
Taxes levied for general purposes	17,250,883	16,650,243
Taxes levied for debt service	4,222,833	3,802,472
Taxes levied for other specific purposes	520,229	517,200
Federal and State Aid not restricted to specific purposes	9,999,427	10,302,618
Interest and investment earnings	125,665	192,743
Interagency revenues	13,000	4,000
Miscellaneous	1,168,322	1,192,067
Total revenues	39,045,177	38,578,163
Expenses		
Instruction	21,791,241	21,050,533
Instruction related services	3,859,805	3,740,033
Pupil support services	2,405,747	2,265,373
General administration	2,509,541	2,437,762
Plant services	3,420,397	3,636,879
Other	4,486,361	4,334,773
Total expenses	38,473,092	37,465,353
Increase in net position	$ 572,085	$ 1,112,810

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

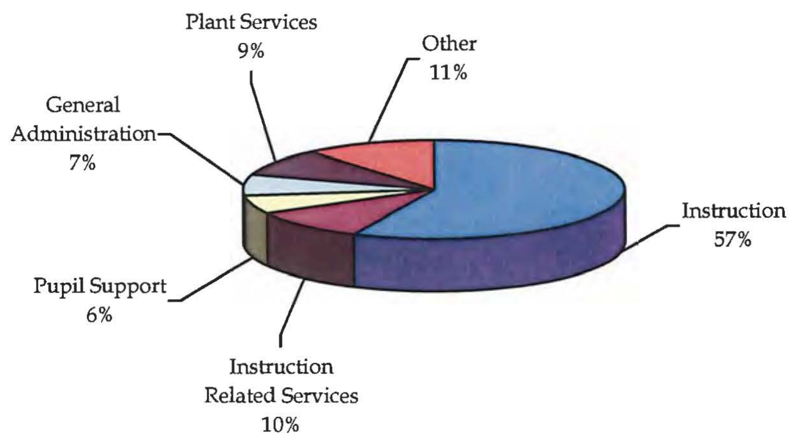
Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was $38.5 million. The amount that our local taxpayers financed for these activities through property taxes was $22 million. Federal and State aid not restricted to specific purposes totaled $10 million. State and Federal Categorical revenue totaled over $5.0 million or 13% of the revenue of the entire District (see Figure 1).

Sources of Revenue for the 2012-2013 Fiscal Year
Figure 1



Expenses for the 2012-2013 Fiscal Year
Figure 2



FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of $35.6 million, a decrease of $9.2 million from the previous fiscal year's combined ending balance of $44.7 million. The General Fund balance increased $616 thousand and the Building Fund balance decreased $9.7 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- Budget revisions to the adopted budget required after approval of the State budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The final revised budget for the General Fund reflected a net increase to the ending balance of $437,412.

The District's General Fund ended the year by increasing $616 thousand. The State recommends an ending reserve for economic uncertainties of 3%. The District's ending available reserve was 28.6%, which included the reserve for economic uncertainties.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2012-2013 fiscal year, the District had invested $86,303,147 in a broad range of capital assets, including land, school buildings, athletic facilities, administrative buildings, site improvements, vehicles, work in process and equipment. The capital assets net of depreciation were $51,428,450 at June 30, 2013, which is an increase of $8,091,924 from the previous year, due to acquisitions totaling $10,281,500 and depreciation expense of $2,189,576. The amount previously reported at June 30, 2012 has been restated and increased by $159,266.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Concluded)

Table 3
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2013 and 2012

	2013	Restated 2012	Difference Increase (Decrease)
Land	$ 5,694,895	$ 5,694,895	
Site Improvements	5,845,695	6,192,492	$ (346,797)
Buildings	28,072,450	29,483,761	(1,411,311)
Machinery and Equipment	340,250	374,449	(34,199)
Work in Process	11,475,160	1,590,929	9,884,231
Totals	$ 51,428,450	$ 43,336,526	$ 8,091,924

Long-Term Debt

At June 30, 2013, the District had $38.6 million in long-term debt outstanding.

Table 4
Comparative Schedule of Outstanding Debt
June 30, 2013 and 2012

	2013	2012
General Obligation Bonds	$ 33,143,563	$ 37,018,563
Bond Accreted Interest	2,593,100	1,024,349
Other Post-employment Benefits	2,766,736	2,141,488
Compensated Absences	121,078	180,000
Totals	$ 38,624,477	$ 40,364,400

The District continues to maintain excellent credit ratings on all of its debt issues.

Decreases in total long-term debt were $1.7 million in 2012-2013. The long-term debt paid by the District was approximately $4.2 million in 2012-2013.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt (Concluded)

The general obligation bonds are financed by the local taxpayers and represent 93% of the District's total outstanding debt.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The financial well-being of the District is tied in large measure to the state funding formula.

The latest enrollment projections indicate a leveling of enrollment for the next school year. Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California.

The future predictions require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Andi Stubbs, Chief Business Official, Martinez Unified School District, 921 Susana Street, Martinez, CA 94553, (925) 335-5925.

MARTINEZ UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

			Governmental Activities
Assets			
Cash (Note 2)			$ 26,112,376
Investments (Note 2)			7,280,361
Accounts Receivable (Note 4)			3,947,355
Prepaid Expenses (Note 1H)			65,413
Capital Assets, Net of Depreciation (Note 6)			51,428,450
Total Assets			$ 88,833,955
Liabilities			
Deficit Cash (Note 2)			$ 47,554
Accounts Payable and Other Current Liabilities			2,627,996
Deferred Revenue (Note 1H)			242,876
Long-term Liabilities (Note 9)			
Due Within One Year	$	4,116,078	
Due After One Year		34,508,399	
Total Long-Term Liabilities			38,624,477
Total Liabilities			$ 41,542,903
Net Position			
Net Investment in Capital Assets			$ 31,588,271
Restricted For:			
Capital Projects			630,059
Debt Service			4,214,554
Education Programs			531,291
Unrestricted			10,326,877
Total Net Position			$ 47,291,052

MARTINEZ UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Governmental Activities	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Instruction	$ 21,791,241	$ 199,887	$ 3,529,688	$ (18,061,666)
Instruction-Related Services:				
Supervision of Instruction	803,850		371,179	(432,671)
Instructional Library, Media and Technology	306,535	1,136	48,190	(257,209)
School Site Administration	2,749,420	2,061	132,328	(2,615,031)
Pupil Services:				
Home-To-School Transportation	78,574		5,059	(73,515)
Food Services	1,091,850	522,116	546,440	(23,294)
All Other Pupil Services	1,235,323	3,140	283,109	(949,074)
General Administration:				
Data Processing	410,718			(410,718)
All Other General Administration	2,098,823	9,335	64,815	(2,024,673)
Plant Services	3,420,397	4,515	4,762	(3,411,120)
Ancillary Services	126,853			(126,853)
Community Services	1,500	432	982	(86)
Interest on Long-Term Debt	1,917,035			(1,917,035)
Other Outgo	251,397		15,644	(235,753)
Depreciation (unallocated)	2,189,576			(2,189,576)
Total Activities	$ 38,473,092	$ 742,622	$ 5,002,196	(32,728,274)

General Revenues:	
Property Taxes Levied For:	
General Purposes	17,250,883
Debt Service	4,222,833
Other Specific Purposes	520,229
Federal and State Aid Not Restricted to Specific Purposes	9,999,427
Interest and Investment Earnings	125,665
Interagency revenues	13,000
Miscellaneous	1,168,322
Total General Revenues	33,300,359
Change in Net Position	572,085
Net Position Beginning (Restated - Note 14)	46,718,967
Net Position Ending	$ 47,291,052

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MARTINEZ UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Bond Interest and Redemption Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
Assets						
Cash (Note 2)	$ 5,800,886	$ 4,124,554	$ 14,192,736		$ 1,994,200	$ 26,112,376
Investments (Note 2)	1,289,695			$ 5,990,666		7,280,361
Accounts Receivable (Note 4)	3,661,092				286,263	3,947,355
Total Assets	$ 10,751,673	$ 4,124,554	$ 14,192,736	$ 5,990,666	$ 2,280,463	$ 37,340,092
Liabilities and Fund Balances						
Liabilities:						
Deficit Cash (Note 2)				$ 47,554		$ 47,554
Accounts Payable	$ 433,594		$ 889,352	173,937	$ 189,794	1,686,677
Deferred Revenue (Note 1H)					31,203	31,203
Total Liabilities	433,594		889,352	221,491	220,997	1,765,434
Fund Balances (Note 1H):						
Nonspendable	5,371				5,000	10,371
Restricted	513,618	$ 4,124,554			17,673	4,655,845
Committed	632,122				1,406,734	2,038,856
Assigned	162,000		13,303,384	5,769,175	630,059	19,864,618
Unassigned	9,004,968					9,004,968
Total Fund Balances	10,318,079	4,124,554	13,303,384	5,769,175	2,059,466	35,574,658
Total Liabilities and Fund Balances	$ 10,751,673	$ 4,124,554	$ 14,192,736	$ 5,990,666	$ 2,280,463	$ 37,340,092

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MARTINEZ UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Total fund balance - governmental funds			$	35,574,658
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.				
Capital assets, at historical cost:	$	86,303,147		
Accumulated depreciation:		(34,874,697)		
Net:				51,428,450
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net position are:				65,413
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:				(941,319)
Unamortized bond premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as a reduction in annual interest expense over the life of the debt. Unamortized premium included in deferred revenue at year-end was:				(211,673)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
General obligation bonds	$	33,143,563		
Accreted Interest		2,593,100		
Other post-employment benefits		2,766,736		
Compensated absences		121,078		
Total				(38,624,477)
Total net position - governmental activities			$	47,291,052

MARTINEZ UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Bond Interest and Redemption Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
Revenues						
Revenue Limit Sources						
State Apportionments	$ 3,839,966					$ 3,839,966
Local Sources	17,238,884				$ 12,000	17,250,884
Total Revenue Limit	21,078,850				12,000	21,090,850
Federal Revenue	1,581,960				750,401	2,332,361
Other State Revenue	6,571,961	$ 27,054			430,536	7,029,551
Other Local Revenue	2,907,196	4,204,393	$ 65,654	$ 19,457	1,395,964	8,592,664
Total Revenues	32,139,967	4,231,447	65,654	19,457	2,588,901	39,045,426
Expenditures						
Certificated Salaries	15,209,994				954,275	16,164,269
Classified Salaries	3,997,062		28,231		697,287	4,722,580
Employee Benefits	6,775,745		8,860		455,867	7,240,472
Books and Supplies	862,816		971,375		673,940	2,508,131
Services and Other						
Operating Expenditures	3,119,190		232,450	30,530	524,513	3,906,683
Capital Outlay	8,798		8,480,206	697,573	101,543	9,288,120
Debt Service:						
Principal Retirement		3,875,000				3,875,000
Interest and Fiscal Charges		261,008			252	261,260
Other Outgo	230,556				20,841	251,397
Total Expenditures	30,204,161	4,136,008	9,721,122	728,103	3,428,518	48,217,912
Excess of Revenues Over (Under) Expenditures	1,935,806	95,439	(9,655,468)	(708,646)	(839,617)	(9,172,486)
Other Financing Sources (Uses):						
Operating Transfers In (Note 5)					1,320,000	1,320,000
Operating Transfers Out (Note 5)	(1,320,000)					(1,320,000)
Total Other Financing Sources (Uses)	(1,320,000)	0	0	0	1,320,000	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	615,806	95,439	(9,655,468)	(708,646)	480,383	(9,172,486)
Fund Balances - July 1, 2012	9,702,273	4,029,115	22,958,852	6,477,821	1,579,083	44,747,144
Fund Balances - June 30, 2013	$ 10,318,079	$ 4,124,554	$ 13,303,384	$ 5,769,175	$ 2,059,466	$ 35,574,658

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

Net change (decrease) in fund balances - total governmental funds		$	(9,172,486)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was:			
Expenditures for capital outlay:	$ 10,281,500		
Depreciation expense:	(2,189,576)		
Net:			8,091,924
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			3,875,000
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:			(1,734,032)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:			58,922
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:			(625,248)
Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. Amortization of the debt issuance costs for the period was:			(34,887)
Amortization of debt issue premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period was:			112,892
Total change in net position - governmental activities		$	572,085

MARTINEZ UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust Scholarship Fund	Agency Fund Student Body
Assets		
Cash (Note 2)	$ 107,360	$ 269,186
Total Assets	$ 107,360	$ 269,186
Liabilities		
Due to Student Groups		$ 269,186
Total Liabilities	$ 0	$ 269,186
Net Position		
Held in Trust For Scholarships	$ 107,360	
Total Net Position	$ 107,360	$ 0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MARTINEZ UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

		Private Purpose Trust Scholarship Fund
Additions		
Interest and Investment Earnings	$	403
Other Revenue		13,358
Total Additions		13,761
Deductions		
Scholarships Awarded		8,050
Total Deductions		8,050
Change in Net Position		5,711
Total Net Position - July 1, 2012		101,649
Total Net Position - June 30, 2013	$	107,360

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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 Martinez Unified School District, this includes general operations, food service and student related activities of the District. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. The District determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus and the modified accrual basis of accounting.

C. Basis of Accounting

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

Revenues - exchange and non-exchange transactions:

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Revenues - exchange and non-exchange transactions (Concluded):

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

Deferred revenue:

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

Expenses/expenditures:

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. Expenditures incurred in the unrestricted resources shall be reduced first from the committed resources, then from assigned resources and lastly, the unassigned resources.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

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

MAJOR GOVERNMENTAL FUNDS:

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes amounts accounted for separately by the District in the Special Reserve Fund for Post-Employment Benefits.

Bond Interest and Redemption Fund is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

Building Fund is used to account for the acquisition of major government capital facilities and buildings from the sale of bonds.

Special Reserve Fund for Capital Outlay Projects is used to account for resources assigned to improvements and maintenance projects as determined by the Governing Board of the District.

NON-MAJOR GOVERNMENTAL FUNDS:

Special Revenue Funds are used to report the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service and capital outlay, and that comprise a substantial portion of the fund's resources. The District maintains three non-major special revenue funds:

1. Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

2. Cafeteria Fund is used to account separately for federal, state, and local resources received and expenditures authorized by the Board to operate the District's food service program.

3. Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes and for items of maintenance approved by the State Allocation Board, except for State apportionments, which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

NON-MAJOR GOVERNMENTAL FUNDS (CONCLUDED):

Capital Projects 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. The District maintains one non-major capital projects funds:

1. Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA). Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981.

FIDUCIARY FUNDS:

Private Purpose Trust Funds are used to account for assets held by the District as trustee for individuals, private organizations or other governments and are therefore not available to support the District's own programs. The District maintains one private purpose trust fund, the Scholarship Fund, which is used to provide financial assistance to students of the District.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. Agency funds are custodial in nature 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 maintains six agency funds to account for the activities of the various Student Body clubs at the District. The amounts reported for student body funds represent the combined totals of all schools within the District.

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Board of Education and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised are presented for the General Fund and Major Special Revenue Funds as required supplementary information in the financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Concluded)

The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. The District has recorded budget transfers to make the final budget agree with actual revenues and expenditures. (See Note 3)

F. Encumbrances

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

G. 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.

H. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in commercial bank accounts are insured to $250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investments losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county either are secured by federal depository insurance or are collateralized.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

Investments Valuation - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. However, the District's financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial.

State Investment Pool - The District participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

Deposits and Investment Risk Disclosures - In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

2. Prepaid Expenditures

Prepaid expenditures on the government-wide financial statements include the costs of issuance associated with the general obligation bonds. These costs will be amortized annually over the life of the obligation. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when purchased. Amounts reported as prepaid expenses on the Statement of Net Position includes unamortized bond issuance costs.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

3. Capital Assets

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over an estimated useful life of 5-50 years depending on the asset class.

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Deferred revenue on the government-wide financial statements include unamortized bond issuance premium.

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

7. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets " or "restricted net position".

8. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

9. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned, based primarily on the extent to which the District is bound to honor constraints on how specific amounts are to be spent:

Nonspendable Fund Balance - Includes the portions of fund balance not appropriable for expenditures.

Restricted Fund Balance - Includes amounts subject to externally imposed and legally enforceable constraints.

Committed Fund Balance - Includes amounts subject to District constraints self-imposed by formal action of the District Governing Board.

Assigned Fund Balance - Includes amounts the District intends to use for a specific purpose. Assignments may be established by the District Governing Board, Superintendent or Chief Business Official of the District.

Unassigned Fund Balance - Includes the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned to specific purposes.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

9. Fund Equity (Continued)

Fund Balances

The District's fund balances at June 30, 2013 consisted of the following:

	General Fund	Bond Interest and Redemption Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Nonspendable:						
Revolving Fund	$ 5,371				$ 5,000	$ 10,371
Total Nonspendable Fund Balance	5,371				5,000	10,371
Restricted For:						
Legally Restricted Categorical Funding	513,618					513,618
Debt Service		$ 4,124,554				4,124,554
Adult Education Program					17,673	17,673
Total Restricted Fund Balance	513,618	4,124,554			17,673	4,655,845
Committed For:						
Adult Education Purposes					1,401,923	1,401,923
Future Facilities Maintenance/Repairs					4,811	4,811
Future Post Employment Obligations	632,122					632,122
Total Committed Fund Balance	632,122	0			1,406,734	2,038,856
Assigned For:						
Purpose of Fund			$ 13,303,384	$ 5,769,175	630,059	19,702,618
To Offset the Ongoing Structural Deficit and Restore Available Reserves	162,000					162,000
Total Assigned Fund Balance	162,000	0	13,303,384	5,769,175	630,059	19,864,618
Unassigned:						
Reserve for Economic Uncertainties	945,725					945,725
Other Unassigned	8,059,243					8,059,243
Total Unassigned Fund Balance	9,004,968	0	0	0	0	9,004,968
Total Fund Balances	$ 10,318,079	$ 4,124,554	$ 13,303,384	$ 5,769,175	$ 2,059,466	$ 35,574,658

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain unrestricted fund balance in its General Fund sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

9. Fund Equity (Concluded)

Fund Balance Policy (Concluded)

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels because of temporary revenue shortfalls or unpredicted one-time expenditures.

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of 3% of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, consistent with the recommended level promulgated by the State of California.

Additional detailed information, along with the complete *Fund Balance Policy* can be obtained from the District.

10. Revenue Limit/Property Tax

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

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Concluded)

10. Revenue Limit/Property Tax (Concluded)

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

I. Impact of Recently Issued Accounting Principles

The GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements* providing financial reporting guidance for service concession arrangements (SCAs). Although this statement is effective for fiscal year 2012-2013, the District does not have any SCAs and therefore the adoption of GASB 60 does not have any impact on the District's financial statements.

The GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* in November 2010. GASB 61 provides criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring the financial reporting entity includes only organizations which the elected officials are financially accountable or that are determined by the District to be misleading to exclude. This statement is effective beginning in fiscal year 2013-2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

The GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* in December 2010. GASB 62 incorporates into authoritative literature guidance that is included in pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board (FASB), Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures, which does not conflict with or contradict GASB pronouncements. The District was required to implement the Statement 62 in fiscal year 2012-2013, although adoption of Statement 62 does not have any impact on the District's financial statements.

The GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in June 2011. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components, assets, deferred outflows of resources, liabilities and deferred inflows of resources. The District was required to implement the Statement 63 in fiscal year 2012-13.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Impact of Recently Issued Accounting Principles (Concluded)

The GASB issued Statement 65, *Items previously reported as Assets and Liabilities* in March, 2013. GASB 65 was intended to compliment Statement No. 63 by identifying items previously reported as assets and liabilities that should be classified as deferred outflows or deferred inflows going forward. This statement is effective beginning in fiscal year 2013-2014.

The GASB issued Statement 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* in June 2012 to improve financial reporting by state and local governmental pension plans with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective beginning in fiscal year 2013-2014.

NOTE 2 - CASH AND INVESTMENTS

A. Summary of Cash and Investments

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

Governmental Activities	Fiduciary Funds	Total
$33,345,183	$376,546	$33,721,729

The District had the following cash and investments at June 30, 2013:

	Fair Value	Carrying Amount	Credit Quality Rating
Cash			
Cash in Commercial Banks	$ 295,535	$ 295,535	Not Rated
Cash in Revolving Fund	10,370	10,370	Not Rated
Cash in County Treasury (Net of $47,554 deficit cash balance in Special Reserve Fund for Capital Outlay Projects)	26,099,199	26,135,463	Not Rated
Total Cash	26,405,104	26,441,368	
Investments			
Local Agency Investment Fund (LAIF)	7,282,350	7,280,361	Not Rated
Total Investments	7,282,350	7,280,361	
Total Cash and Investments	$ 33,687,454	$ 33,721,729	

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

B. Policies and Practices

The District is authorized by State statutes and in accordance with the District's Investment Policy (Policy) to invest in the following:

- Securities issued or guaranteed by the Federal Government or its agencies

- State Local Agency Investment Fund (LAIF)

- Insured and/or collateralized certificates of deposit

The Policy, in addition to State statues, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The District's investments comply with the established policy.

Cash in Commercial Banks

Cash balances held in commercial bank accounts are insured to $250,000 by the Federal Deposit Insurance Corporation. These amounts are held within various financial institutions. As of June 30, 2013 the carrying amount of the District's accounts was $305,905, all of which was insured.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as an involuntary participant of a common investment pool, which totaled $1,546,705,574. The fair market value of this pool as of that date, as provided by the pool sponsor, was $1,544,559,458. Interest is deposited into participating funds. The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis.

The District ended the year with a negative cash balance in the Special Reserve Fund for Capital Outlay Projects of $47,554. Under policies set by the Contra Costa County Treasurer's Office, the District is allowed to carry a negative cash balance in the fund as long as combined cash is positive. The District is charged interest on the negative balance by the County Treasurer.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

C. Risk Disclosures

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures.

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 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.

At June 30, 2013 the District had the following investment maturities:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less than 1	1 to 4	More than 4
County Treasury	$26,099,199	$20,511,361	$5,264,208	$323,630
Local Agency Investment Fund	7,282,350	5,374,374	1,907,976	
Total	$33,381,549	$25,885,735	$7,172,184	$323,630

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the District was not exposed to credit risk.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

C. Risk Disclosures (Concluded)

Custodial Credit Risk (Concluded) - Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year-end, the District was not exposed to custodial credit risk.

Concentration of Credit Risk - This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the District was not exposed to concentration of credit risk.

Foreign Currency Risk - This is the risk that exchange rate will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2013, expenditures exceeded appropriations in individual funds as follows:

Fund	Excess Expenditures
Major Governmental Funds:	
Building Fund	
Classified Salaries	$ 3,716
Employee Benefits	834
Books and Supplies	69,314
Special Reserve Fund for Capital Outlay Projects	
Capital Outlay	187,116
Non-Major Governmental Funds:	
Cafeteria Fund	
Food and Supplies	68,232
Deferred Maintenance Fund	
Capital Outlay	1,000
Debt Service-Interest	64

The District incurred unanticipated expenditures for which the budgets were not revised.

NOTE 4 - ACCOUNTS RECEIVABLE

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

	General Fund	Other	Total
Federal Government			
Categorical Aid Programs	$ 479,112	$ 114,491	$ 593,603
State Government			
Revenue Limit	867,941		867,941
Categorical Aid Programs	337,383		337,383
Lottery	150,477		150,477
Other	1,094,750	149,387	1,244,137
Total State Government	2,450,551	149,387	2,599,938
Local Government	731,429		731,429
Miscellaneous		22,385	22,385
Total Accounts Receivable	$ 3,661,092	$ 286,263	$ 3,947,355

NOTE 5 - INTERFUND TRANSACTIONS

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

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2012-2013 fiscal year were as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund		$ 1,320,000
Non-Major Governmental Funds:		
Adult Education Fund	$ 1,250,000	
Deferred Maintenance Fund	70,000	
Total	$ 1,320,000	$ 1,320,000

Transfer of $1,250,000 from the General Fund to the Adult Education Fund for Adult Education State Apportionment received in the General Fund.

Transfer of $70,000 from the General Fund to the Deferred Maintenance Fund for Deferred Maintenance State Apportionment received in General Fund.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, is shown below:

	(Restated) Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$ 5,694,895			$ 5,694,895
Work in progress	1,590,929	$ 9,884,231		11,475,160
Total capital assets, not being depreciated	7,285,824	9,884,231	$ 0	17,170,055
Capital assets being depreciated:				
Buildings	54,002,418	97,395		54,099,813
Improvements of sites	13,446,820	243,205		13,690,025
Equipment	1,286,585	56,669		1,343,254
Total capital assets, being depreciated	68,735,823	397,269	0	69,133,092
Less accumulated depreciation for:				
Buildings	24,518,657	1,508,706		26,027,363
Improvements of sites	7,254,328	590,002		7,844,330
Equipment	912,136	90,868		1,003,004
Total accumulated depreciation	32,685,121	2,189,576	0	34,874,697
Total capital assets, being depreciated, net	36,050,702	(1,792,307)	0	34,258,395
Governmental activities capital assets, net	$ 43,336,526	$ 8,091,924	$ 0	$ 51,428,450

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
Unallocated	$2,189,576

NOTE 7 - GENERAL OBLIGATION BONDS

In 2011, the Martinez Unified School District issued General Obligation Bonds, Series 2011 New Money Bonds in the principal amount of $24,998,563 to finance specific construction, repair and improvement projects approved by the voters of the District. The District also issued General Refunding Bonds, Series 2011 Refunding Bonds in the principal amount of $13,075,000 for the purpose of refunding the District's 1997 and 1998 General Obligation Bonds, which matured August 1, 1998 through August 1, 2015, and a portion of the General Refunding Bonds, Series 2001.

The Series 2011 New Money Bonds were issued as capital appreciation bonds that will convert to current interest bonds in August 2015. The Series 2011 Refunding Bonds were issued as current interest bonds.

NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)

The Bonds are payable solely from ad valorem property taxes levied and collected by the County of Contra Costa. The Board of Supervisors of the County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates).

As described above, the District has defeased various General Obligation Bonds issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the advanced refunding met the requirements of an in-substance debt defeasance and therefore removed as a liability from the District's government-wide financial statements.

General Obligation Bonds

Series	Maturity Date August 1	Interest Rate %	Amount of Original Issue	Outstanding July 01, 2012	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2013
2011	2035	2.75-4.25	$ 24,998,563	$ 24,998,563			$ 24,998,563
2011	2015	3.0	13,075,000	12,020,000		$ 3,875,000	8,145,000
Total			$ 38,073,563	$ 37,018,563	$ 0	$ 3,875,000	$ 33,143,563

Accreted Interest

Series	Maturity Date August 1	Interest Rate %	Outstanding July 01, 2012	Accretion Current Year	Payments Current Year	Outstanding June 30, 2013
2011	2035	2.75-4.25	$ 1,024,349	$ 1,568,751		$ 2,593,100
Total			$ 1,024,349	$ 1,568,751	$ 0	$ 2,593,100

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

The annual requirements to amortize the general obligation bonds payable, outstanding as of June 30, 2013 are as follows:

Year Ended June 30	Principal	Interest	Total
2014	$ 3,995,000	$ 162,425	$ 4,157,425
2015	4,150,000	62,250	4,212,250
2016	53,015	1,802,260	1,855,275
2017	85,640	1,805,410	1,891,050
2018	150,890	1,813,335	1,964,225
2019-2023	2,046,295	9,025,649	11,071,944
2024-2028	5,013,355	8,460,851	13,474,206
2029-2033	9,233,144	7,158,812	16,391,956
2034-2036	8,416,224	3,076,151	11,492,375
Totals	$ 33,143,563	$ 33,367,143	$ 66,510,706

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

The Martinez Unified School District accounts for postemployment benefits under GASB Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension. This accounting requires the District to report its liability for other postemployment benefits (OPEB) consistent with newly established generally accepted accounting principles by reflecting an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

Plan Description

The District provides retiree health benefits based on age and service. Following is a description of the current retiree benefit plan. Some retirees are entitled to benefits under prior grandfathered plans.

	Certificated	Classified	Management	Confidential and Supervisors
Benefits types provided	Medical and Dental	Medical, Dental and Vision	Medical and Dental	Medical, Dental and Vision
Duration of Benefits	To age 65	To age 65	To age 65	To age 65
Required Service	15 years	15 years	15 years	15 years
Minimum Age	55	55	55	55
Dependent coverage	No	No	No	No
District Contribution %	100%	100%	100%	100%
District Cap	Kaiser Single for Medical	Kaiser Single for Medical	Kaiser Single for Medical	Kaiser Single for Medical

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's policy is to pay the benefits as a cash outlay after retirement (the pay-as-you-go method). However, at June 30, 2013, the District committed $630 thousand in the General Fund for the payment of future postemployment benefits.

Annual OPEB Cost

For fiscal year ended June 30, 2013, the District's annual OPEB cost (expense) was $886,074. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the most recent three years was as follows:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$886,074	29.4%	$2,766,736
2012	$986,941	51.2%	$2,141,488
2011	$984,705	50.5%	$1,659,427

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	$ 881,738
Interest on OPEB Obligation	107,074
Adjustment to annual required contribution	(102,738)
Annual OPEB cost (expense)	886,074
Contributions made	(260,826)
Increase in net OPEB obligation	625,248
Net OPEB obligation (asset) - beginning of year	2,141,488
Net OPEB obligation (asset) - end of year	$2,766,736

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONCLUDED)

Funding Status and Funding Progress

As of November 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $7.9 million, all of which is unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of November 1, 2012 was as follows:

Actuarial accrued liability (AAL)	$7,943,100
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$7,943,100
Funded ratio (actuarial value of plan assets/AAL)	0.00%

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 benefits 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 November 1, 2012, actuarial valuation, the "entry age normal" actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return, an annual healthcare cost trend rate of 4% per year, and an assumed payroll increase rate of 3%. The UAAL is being amortized using the level percentage of projected payroll method using a 30-year amortization period. The remaining amortization period at June 30, 2013, was thirty years.

NOTE 9 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2013, is shown below.

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
General Obligation Bonds	$ 37,018,563		$ 3,875,000	$ 33,143,563	$ 3,995,000
Accreted Interest	1,024,349	$ 1,568,751		2,593,100	
Other Post-employment Benefits	2,141,488	886,074	260,826	2,766,736	
Compensated Absences	180,000		58,922	121,078	121,078
Totals	$ 40,364,400	$ 2,454,825	$ 4,194,748	$ 38,624,477	$ 4,116,078

The compensated absences and Other Postemployment Benefits will be paid by the General Fund. Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description. The Martinez Unified School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy. Active plan members are required to contribute 8.0% of their salary and the Martinez Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Martinez Unified School District's contributions to STRS for the fiscal year ending June 30, 2013, 2012, and 2011 were $1,225,357, $1,228,068 and $1,229,166, respectively, and equal 100% of the required contributions for each year.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees Retirement System (CalPERS)

Plan Description. The Martinez Unified School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Room 1820, Sacramento, CA 95814.

Funding Policy. Active plan members are required to contribute 7.0% of their salary and the Martinez Unified School 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 2012-2013 was 11.417% of annual payroll. The contribution requirements of the plan members are established by State statute. The Martinez Unified School District's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012 and 2011 were $145,553, $450,460 and $436,312, respectively and equal 100% of the required contributions for each year.

C. Social Security

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

D. On Behalf Payment

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS and contributions to PERS for the year ended June 30, 2013. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 11 - STUDENT BODY FUNDS

The Student Body Funds often engage in activities, which involve cash transactions. These transactions are not subject to adequate internal accounting control prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. Litigation

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

B. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

C. Joint Ventures

The District participates in four joint ventures under joint powers agreements (JPAs); the Contra Costa County Schools Insurance Group (CCCSIG) for workers' compensation insurance; the Contra Costa and Solano Counties School Districts' Self-Insurance Authority (CCSCSDSIA) for property and liability insurance, Schools Excess Liability Fund (SELF) for excess liability, property, and workers' compensation coverage, and Schools Self-Insurance of Contra Costa County (SSICCC) for dental and vision. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPA arranges for and/or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2013, the District contracted with Contra Costa and Solano Counties School Districts' Self-Insurance Authority (CCSCSDSIA) Insurance Company for property and liability insurance coverage and (CCSCSDSIA) Insurance Company for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2013, the District participated in the Schools Excess Liability Fund (SELF), an insurance purchasing pool. The intent of the SELF is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SELF. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SELF. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SELF. Participation in the SELF is limited to districts that can meet the SELF selection criteria.

NOTE 14 - RESTATEMENT OF NET POSITION

The amounts previously reported as net assets at June 30, 2012 on the Government-Wide Statement of Net Position have been restated to correct amounts reported for capital assets. Amounts reported for work in progress were understated. The effect of this restatement is an increase in the June 30, 2012 total net assets of $159,266 as follows:

	Government-Wide Financial Statements
Net Position, June 30, 2012 as originally reported	$46,559,701
Understatement of Work In Progress	159,266
Net Position, June 30, 2012, as restated	$46,718,967

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2013, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MARTINEZ UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			
	Original	Final	Actual Amounts (GAAP Basis)	Variance with Final Budget - Positive (Negative)
Revenues				
Revenue Limit Sources:				
State Apportionments	$ 4,441,256	$ 3,888,340	$ 3,839,966	$ (48,374)
Local Sources	16,849,724	17,238,884	17,238,884	
Total Revenue Limit	21,290,980	21,127,224	21,078,850	(48,374)
Federal Revenue	1,390,333	1,366,241	1,581,960	215,719
Other State Revenue	5,871,938	6,571,961	6,571,961	
Other Local Revenue	2,767,133	2,905,338	2,907,196	1,858
Total Revenues	31,320,384	31,970,764	32,139,967	169,203
Expenditures				
Certificated Salaries	14,727,891	15,209,994	15,209,994	
Classified Salaries	3,970,597	3,997,062	3,997,062	
Employee Benefits	7,049,014	6,775,745	6,775,745	
Books and Supplies	998,404	862,816	862,816	
Services and Other Operating Expenditures	3,877,796	3,128,381	3,119,190	9,191
Capital Outlay	5,000	8,798	8,798	
Other Outgo	209,727	230,556	230,556	
Total Expenditures	30,838,429	30,213,352	30,204,161	9,191
Excess of Revenues Over Expenditures	481,955	1,757,412	1,935,806	178,394
Other Financing Sources (Uses):				
Operating Transfers Out	(1,320,000)	(1,320,000)	(1,320,000)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(838,045)	437,412	615,806	178,394
Fund Balances - July 1, 2012	8,699,705	9,702,273	9,702,273	0
Fund Balances - June 30, 2013	$ 7,861,660	$ 10,139,685	$ 10,318,079	$ 178,394

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MARTINEZ UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/11	March 1, 2010	$ -	$ 9,734,922	$ 9,734,922	0%	$ 16,360,654	60%
6/30/12	March 1, 2010	$ -	$ 9,734,922	$ 9,734,922	0%	$ 16,515,225	59%
6/30/13	November 1, 2012	$ -	$ 7,943,100	$ 7,943,100	0%	$ 16,680,400	48%

NOTE 1 - PURPOSE OF SCHEDULES

A. Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B. Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

SUPPLEMENTARY INFORMATION SECTION

MARTINEZ UNIFIED SCHOOL DISTRICT

MARTINEZ, CALIFORNIA

JUNE 30, 2013

ORGANIZATION

The Martinez Unified School District was unified in 1963. The District encompasses an area of approximately 24 square miles in Contra Costa County. There was no change in the District boundaries during the year. The District operates four elementary schools, one junior high school, one high school, one continuation high school, a full-time independent study program, and an adult school.

GOVERNING BOARD

Name	Office	Term Expires
Kathi McLaughlin	President	November, 2016
John Fuller	Vice President	November, 2016
Denise Elsken	Clerk	November, 2016
Bobbi Horack	Member	November, 2014
Deidre Sigvenza	Member	November, 2014

ADMINISTRATION

Rami Muth
Superintendent

Andi Stubbs
Chief Business Official

Regina Webber
Accounting Supervisor

MARTINEZ UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Second Period Report	Annual Report
Elementary		
Kindergarten	297	296
First through Third	866	867
Fourth through Sixth	820	819
Seventh and Eighth	538	537
Special Education	59	60
Extended Year	3	3
Home and Hospital	2	2
Total Elementary	2,585	2,584
High School		
Nine through Twelve	1,196	1,185
Continuation Education	93	93
Special Education	20	20
Extended Year	2	2
Home and Hospital	2	2
Total High School	1,313	1,302
Totals	3,898	3,886

Average daily attendance is a measurement of the numbers 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 the school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

MARTINEZ UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Grade Level	1986-1987 Minutes Requirement	1982-1983 Actual Minutes	2012-2013 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	31,680	36,000	180	In Compliance
Grade 1	50,400	50,490	53,405	180	In Compliance
Grade 2	50,400	50,490	53,405	180	In Compliance
Grade 3	50,400	50,490	53,405	180	In Compliance
Grade 4	54,000	48,830	54,715	180	In Compliance
Grade 5	54,000	48,830	54,715	180	In Compliance
Grade 6	54,000	48,830	54,264	180	In Compliance
Grade 7	54,000	51,169	54,264	180	In Compliance
Grade 8	54,000	51,169	54,264	180	In Compliance
Grade 9	64,800	56,520	65,036	180	In Compliance
Grade 10	64,800	56,520	65,036	180	In Compliance
Grade 11	64,800	56,520	65,036	180	In Compliance
Grade 12	64,800	56,520	65,036	180	In Compliance

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 instruction 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 1982-1983 actual minutes or the 1986-1987 requirements, whichever is greater, as required by *Education Code* Section 46201.

Commencing with the 2009-2010 school year and continuing through the 2014-2015 school year, a school district may reduce up to five days of instruction or the equivalent instructional minutes without incurring penalties, as described in *Education Code* Section 46201.2

MARTINEZ UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Martinez Unified School District.

MARTINEZ UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Program Name:	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
US Department of Agriculture:			
Passed Through California Department of Education (CDE): **			
National School Lunch	10.555	13391	$ 374,032
Especially Needy School Breakfast	10.553	13390	97,613
Basic School Breakfast	10.553	13525	8,862
Summer Food Program	10.559	13004	6,785
Total US Department of Agriculture			487,292
US Department of Education:			
Passed Through CDE:			
NCLB: Title I, Part A, Basic Grants	84.010*	14329	295,965
NCLB: Title II, Improving Teacher Quality	84.367	14341	156,226
NCLB (ESEA): Title III, Limited English Proficient (LEP) Student Program	84.365	14346	60,245
Special Education:			
IDEA Basic Local Assistance Entitlement, Part B	84.027 *	13379	552,886
IDEA Preschool Local Entitlement, Part B, Section 611	84.027A*	13682	35,943
IDEA Part B, Mental Health Allocation	84.027A*	14468	104,281
IDEA Part B, Preschool Grants	84.173 *	13430	13,964
Federal Pell Grant Program	84.063	N/A	178,168
Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	84.048	14894	16,686
Adult Education:			
Adult Basic Education - ESL	84.002A	14508	25,593
Adult Secondary Education	84.002	13978	14,735
English Literacy & Civics	84.002A	14109	11,025
Workability II, Transportation Partnership	84.158	10006	156,001
Vocational Education Act: Post Secondary and Adult (Carl Perkins Act)	84.048	14893	55,755
Received Direct:			
Indian Education	84.060	10011	167,596
Total US Department of Education			1,845,069
Total Federal Programs			$ 2,332,361

* Denotes a major program.

** The total fair market value of commodities received was not included, and in 2012-2013 was valued at $56,077.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MARTINEZ UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Special Reserve Fund for Postemployment Benefits
June 30,2013, Annual Unaudited Actual Financial Report Fund Balance	$ 9,470,238	$ 632,122
Adjustments and Reclassifications Increasing (Decreasing) the Fund Balance:		
Understatement of NCLB: Title II, Teacher Quality Federal Revenue	26,764	
Understatement of NCLB Title III, Limited English Proficient (LEP) Student Program Federal Revenue	10,787	
Understatement of Pell Grant Federal Revenue	178,168	
To conform with GAAP, activity reported separately by the District in certain Special Revenue Funds is reported in the General Fund in these financial statements.	632,122	(632,122)
Net Adjustments and Reclassifications	847,841	(632,122)
June 30,2013, Audited Financial Statement Fund Balance	$ 10,318,079	$ 0

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Unaudited Actuals for the year ended June 30, 2013.

MARTINEZ UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

General Fund	Budget 2013-2014	2012-2013	2011-2012	2010-2011
Revenues and Other Financial Sources	$ 32,341,023	$ 32,139,967	$ 32,251,839	$ 31,655,135
Expenditures	31,650,418	30,204,161	29,312,961	28,519,322
Other Uses and Transfers Out	1,470,000	1,320,000	1,400,000	1,463,833
Total Outgo	33,120,418	31,524,161	30,712,961	29,983,155
Change in Fund Balance (Deficit)	(779,395)	615,806	1,538,878	1,671,980
Ending Fund Balance	$ 9,322,037	$ 10,318,079	$ 9,702,273	$ 8,163,395
Available Reserves	$ 8,425,610	$ 9,004,968	$ 921,389	$ 937,258
Reserve for Economic Uncertainties	$ 0	$ 945,725	$ 921,389	$ 937,258
Unassigned Fund Balance	$ 8,425,610	$ 8,059,243	$ 0	$ 0
Available Reserves as a Percentage of Total Outgo	25.4%	28.6%	3.0%	3.1%
Total Long-Term Debt	$ 34,508,399	$ 38,624,477	$ 40,364,400	$ 42,695,379
Average Daily Attendance at P-2	3,912	3,898	3,936	3,858

The District General Fund balance has increased $3,826,664 during the past three years. A decrease of $779,395 is expected for 2013-2014. For a District this size the state recommends available reserves of 3% of total expenditures, transfers out and other outgo (total outgo). Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainty contained within the General Fund. To comply with GASB 54, the amounts presented for 2012-2013 include the Special Reserve Fund for Post-employment Benefits. If the Special Reserve Fund for Post-employment Benefits were not included with the General Fund, the Ending Fund Balance would be reduced $632,694.

General long-term debt has decreased $4,070,902 during the past two years.

Average daily attendance has increased by 40 ADA during the past two years.

The amounts presented as Budget 2013-2014 are provided for additional analysis and have not been audited.

MARTINEZ UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
JUNE 30, 2013

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
Assets					
Cash	$ 1,213,276	$ 145,951	$ 4,811	$ 630,162	$ 1,994,200
Accounts Receivable	263,878	22,385			286,263
Total Assets	$ 1,477,154	$ 168,336	$ 4,811	$ 630,162	$ 2,280,463
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	$ 21,355	$ 168,336		$ 103	$ 189,794
Deferred Revenue	31,203				31,203
Total Liabilities	52,558	168,336		103	220,997
Fund Balances:					
Nonspendable	5,000				5,000
Restricted	17,673				17,673
Committed	1,401,923		$ 4,811		1,406,734
Assigned				630,059	630,059
Total Fund Balances	1,424,596	0	4,811	630,059	2,059,466
Total Liabilities and Fund Balances	$ 1,477,154	$ 168,336	$ 4,811	$ 630,162	$ 2,280,463

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MARTINEZ UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
Revenues					
Revenue Limit Sources:					
Local Sources		$ 12,000			$ 12,000
Total Revenue Limit		12,000			12,000
Federal Revenue	$ 263,109	487,292			750,401
Other State Revenue	383,418	47,118			430,536
Other Local Revenue	599,374	557,503	$ 32	$ 239,055	1,395,964
Total Revenues	1,245,901	1,103,913	32	239,055	2,588,901
Expenditures					
Certificated Salaries	954,275				954,275
Classified Salaries	404,575	292,712			697,287
Employee Benefits	356,828	99,039			455,867
Books and Supplies	105,340	563,605	806	4,189	673,940
Services and Other Operating Expenditures	342,941	145,868	33,868	1,836	524,513
Capital Outlay			65,475	36,068	101,543
Debt Service:					
Interest and Fiscal Charges	97	91	64		252
Other Outgo	6,443	14,398			20,841
Total Expenditures	2,170,499	1,115,713	100,213	42,093	3,428,518
Excess of Revenues Over (Under) Expenditures	(924,598)	(11,800)	(100,181)	196,962	(839,617)
Other Financing Sources:					
Operating Transfers In	1,250,000		70,000		1,320,000
Excess of Revenues and Other Sources Over (Under) Expenditures	325,402	(11,800)	(30,181)	196,962	480,383
Fund Balances - July 1, 2012	1,099,194	11,800	34,992	433,097	1,579,083
Fund Balances - June 30, 2013	$ 1,424,596	$ 0	$ 4,811	$ 630,059	$ 2,059,466

MARTINEZ UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND – STUDENT BODY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Beginning Balances	Additions	Deductions	Ending Balances
ALHAMBRA HIGH SCHOOL				
ASSETS				
Cash	$ 191,382	$ 607,581	$ 637,733	$ 161,230
LIABILITIES				
Due to Student Groups	$ 191,382	$ 607,581	$ 637,733	$ 161,230
MARTINEZ JUNIOR HIGH SCHOOL				
ASSETS				
Cash	$ 58,311	$ 346,009	$ 328,110	$ 76,210
LIABILITIES				
Due to Student Groups	$ 58,311	$ 346,009	$ 328,110	$ 76,210
LAS JUNTAS SCHOOL				
ASSETS				
Cash	$ 4,827	$ 11,777	$ 12,618	$ 3,986
LIABILITIES				
Due to Student Groups	$ 4,827	$ 11,777	$ 12,618	$ 3,986
MORELLO PARK SCHOOL				
ASSETS				
Cash	$ 5,196	$ 40,427	$ 37,763	$ 7,860
LIABILITIES				
Due to Student Groups	$ 5,196	$ 40,427	$ 37,763	$ 7,860
JOHN MUIR ELEMENTARY SCHOOL				
ASSETS				
Cash	$ 12,645	$ 12,000	$ 8,254	$ 16,391
LIABILITIES				
Due to Student Groups	$ 12,645	$ 12,000	$ 8,254	$ 16,391
JOHN SWETT SCHOOL				
ASSETS				
Cash	$ 686	$ 3,363	$ 540	$ 3,509
LIABILITIES				
Due to Student Groups	$ 686	$ 3,363	$ 540	$ 3,509
TOTAL AGENCY FUNDS				
ASSETS				
Cash	$ 273,047	$ 1,021,157	$ 1,025,018	$ 269,186
LIABILITIES				
Due to Student Groups	$ 273,047	$ 1,021,157	$ 1,025,018	$ 269,186

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Average Daily Attendance

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

B. 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 and number of days offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. 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 requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

E. Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Unaudited Actual Financial Report to the audited financial statements.

F. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District.

G. Combining Statements and Individual Fund Schedules

Combining statements and individual fund schedules are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements and schedules present more detailed information about the financial position and financial activities of the District's individual funds.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Education
Martinez Unified School District
Martinez, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martinez Unified School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Martinez Unified School District's basic financial statements and have issued our report thereon dated December 9, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies, may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-1, 2013-2 and 2013-3 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Martinez Unified School District's Responses to Findings

Martinez Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Martinez Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Goodell, Porter, Sanchez & Bright, LLP
GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 9, 2013

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Education
Martinez Unified School District
Martinez, California

Report on Compliance for Each Major Federal Program

We have audited Martinez Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Martinez Unified School District's major federal programs for the year ended June 30, 2013. Martinez Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Martinez Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Martinez Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Martinez Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Martinez Unified School District, complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Martinez Unified School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Martinez Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Martinez Unified 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 the internal control over compliance* is a deficiency, or a 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. 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.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Goodell, Porter, Sanchez & Bright, LLP

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 9, 2013

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education
Martinez Unified School District
Martinez, California

We have audited Martinez Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* that could have a direct and material effect on each of Martinez Unified School District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with State laws and regulations of Martinez Unified School District's State government programs based on our audit of the types of compliance requirements referred to below. 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 the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*. Those standards 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 the applicable State laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Martinez Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of Martinez Unified School District's compliance with those requirements.

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

Description	Procedures in the Audit Guide	Procedures Performed
Attendance reporting	6	Yes
Teacher certification and mis-assignments	3	Yes
Kindergarten Continuance	3	Yes

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Description	Procedures in the Audit Guide	Procedures Performed
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction (Including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction, for Charter Schools	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instructional Minutes - Classroom Based	4	Not Applicable

Opinion on Each State Government Program

In our opinion, Martinez Unified School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its State government programs for the year ended June 30, 2013.

Purpose of this Report

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

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 9, 2013

FINDINGS AND QUESTIONED COSTS SECTION

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	_x_ No
Significant deficiency(ies) identified that are not considered to be material weakness?	_x_ Yes	___ None reported
Noncompliance material to financial statements noted?	___ Yes	_x_ No

Federal Awards

Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	_x_ No
Significant deficiency(ies) identified that are not considered to be material weakness?	___ Yes	_x_ None reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?	___ Yes	_x_ No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
84.027, 84.027A, 84.173	Special Education, IDEA Cluster
84.010	NCLB: Title I, Part A, Basic Grants Low Income and Neglected

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

State Awards

Internal control over state programs:		
Material weakness(es) identified?	___ Yes	_x_ No
Significant deficiency(ies) identified that are not considered to be material weakness?	___ Yes	_x_ None reported
Type of auditor's report issued on compliance for state programs:	Unqualified	

Section II - Financial Statements Findings

2013 - 1 - VACATION PAYOUT CONTROLS - 30000

Criteria: Sound accounting policies require an internal control system be in place to ensure each vacation payout is properly approved, reviewed by the Director of Human Resources and initiated for payment by the human resources department.

Statement of Condition: During our testing of compensated absences, we noted one employee received approval from their Supervisor for various vacation payouts during the year that were not approved by the Director of Human Resources. In addition, the employee initiated the payout through the accounting software without bypassing Human Resources.

Questioned Costs: The condition referred to above was the result of our tests of attribute of the control system. There was only one employee who initiated their own vacation payout after approval from their Supervisor and determined that error did not extend to the total population. Therefore, we did not extend testing beyond our initial sample size.

Cause: Procedures were not followed to prevent employees from initiating and approving vacation payouts.

Effect or Potential Effect: Although we did not determine the vacation payout was incorrect, allowing a Supervisor other than the Director of Human Resources to approve vacation payouts places the District at risk for errors occurring in reporting employee vacation balances at year-end, since payout hours might be missed if not reviewed by the Director of Human Resources.

Recommendation: We recommend all employee vacation payouts be approved and initiated by human resources department. Any discrepancies in employee vacation balances should be discussed directly with the Director of Human Resources.

District Response: The Chief Business Official will ensure that all employee vacation payouts are approved and initiated by the district's Human Resources Department.

2013 - 2 - CASH RECEIPTS - 30000

Criteria: Sound accounting policies provide that the receipt of cash and checks submitted to the District be deposited in a timely manner.

Statement of Condition: During our testing of cash receipts, it was noted numerous checks were not deposited within a month of the check date. It appears this occurs both due to sites not submitting the checks in a timely and the District Office not depositing receipts when received.

Questioned Costs: No questioned costs were determined as a result of our testing.

Section II - Financial Statements Findings (Continued)

2013 - 2 – CASH RECEIPTS – 30000 (CONCLUDED)

Cause: The checks to be deposited are being held either at sites or the District Office prior to being deposited.

Effect or Potential Effect: The possibility exists that controls may be circumvented if checks are held for undue periods of time prior to deposit. The checks may become stale-dated, the payer's account may be closed, or the District may lose potential interest earned on undeposited funds.

Recommendation: We recommend the District communicate to those involved in the receipt of funds, the importance of submitting all items received in a timely fashion for deposit. Procedures should be implemented to ensure that checks received by the District, whether at sites or at the District Office, are deposited in a timely fashion.

District Response: During the testing month, some cash receipts were not deposited timely by the District Office due to staffing transitions within the Fiscal Services Department. In subsequent months, both site and District Office deposits have been made in a timely manner. This had been a finding in the previous year's audit, which district staff had been addressing both internally and with site personnel. Duties of District Office staff have been reassigned in a way that will help ensure timely deposits, and department staff continues to work with school personnel to ensure timely deposits at each site.

2013 – 3 – ASSOCIATED STUDENT BODY - 30000

Criteria: Sound accounting practices governing associated student body funds require the following:

1. Retention of supporting documentation is necessary to support all disbursements and deposits of student body funds.
2. Student Body deposits should be made in a timely manner to minimize the risk of loss due to errors or misappropriation of assets.
3. Expenditures using student body funds should be used for student activities only.

Statement of Condition: During our testing of student body we noted the following:

1. John Swett Elementary- We determined that checks received for deposit were held for an excessive time prior to being deposited.
2. Martinez Junior High School- We noted student body records did not include date of checks received either by log, receipt, or copies of checks.
3. Alhambra High School- We noted supporting documentation for one invoice was inadequate to determine if expenditure was properly charged to student body. In addition, we found student body purchased thank-you gifts and senior gifts using student body funds.

Section II - Financial Statements Findings (Concluded)

2013 - 3 - ASSOCIATED STUDENT BODY - 30000 (CONCLUDED)

Questioned Costs:
The conditions referred to above were the result of our tests of an attribute of the control system. We considered defining the dollar amount by extending the error rate to the total population, but determined this type of analysis would likely result in an incorrect conclusion.

Cause: Procedures for student body activity are not consistently followed.

Effect or Potential Effect: Inadequate controls over various student body accounts may result in errors, misappropriation or misuse of funds, in which case the District would be liable to reimburse the student accounts for any losses.

Recommendation: We recommend the District implement procedures at all sites with student body accounts that will establish appropriate and consistent internal controls. Each student body should establish guidelines and procedures detailing items to be retained as support for payment and deposits to improve the audit trail for student accounts.

District Response: District staff will communicate with site staff responsible for student body accounts the needed changes to internal controls, with follow-up to ensure new procedures have been implemented.

Section III - Federal Award Findings and Questioned Costs

No matters are reported.

Section IV - State Award Findings and Questioned Costs

No matters are reported.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2013

Findings/Recommendations	Current Status	Explanation if Not Fully Implemented
1. To ensure District assets are protected and to ensure the District receives the maximum earnings on District assets, deposits should be made more frequently.	Accepted Not Implemented	See current year finding 2013-2.
2. To improve internal controls over payroll disbursements. Employee timesheets should be signed by a supervisor unrelated to the employee.	Accepted Implemented	
3. Vacation activity should be reviewed for every employee. Recorded balances should be based on reliable documentation. In addition, the District should also enforce the existing vacation carryover policy.	Accepted Implemented	
4. The District should review the bank activity at year end to accurately report the balance in the District's general ledger and ensure all activity recorded in the bank account is recorded in the general leger.	Accepted Implemented	
5. Receipt count sheets should be utilized and signed by more than one person in order to maximize good controls and mitigate misappropriation of assets.	Accepted Implemented	

Findings/Recommendations	Current Status	Explanation if Not Fully Implemented
6. The District should develop monitoring procedures to ensure the correct forms for continuing a student for a second year of kindergarten are used at all sites. Additionally, the District should revise the 2011-2012 P-2 and annual attendance reports to reduce kindergarten attendance for the student incorrectly claimed.	Accepted Implemented	

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the Series 2014 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2014 Bonds in substantially the following form:

[Date of Delivery]

Martinez Unified School District
Martinez, California

Martinez Unified School District
(Contra Costa County, California)
General Obligation Bonds, Election of 2010, Series 2014A

Martinez Unified School District
(Contra Costa County, California)
General Obligation Bonds, Election of 2010, Series 2014B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Martinez Unified School District (the "District") in connection with the issuance by the District, which is located in the County of Contra Costa (the "County"), of $3,000,000 aggregate principal amount of bonds designated as "Martinez Unified School District (Los Angeles County, California) General Obligation Bonds, Election of 2010, Series 2014A" (the "Series 2014A Bonds") and $17,000,000 aggregate principal amount of bonds designated as "Martinez Unified School District (Los Angeles County, California) General Obligation Bonds, Election of 2010, Series 2014B" (the "Series 2014B Bonds" and together with the Series 2014A Bonds, the "Series 2014 Bonds"), authorized at an election held in the District on November 2, 2010. The Series 2014 Bonds are issued under and pursuant to a resolution of the Board of Education of the District adopted on December 9, 2013 (the "Resolution").

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2014 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2014 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2014 Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated February 19, 2014, or other offering material relating to the Series 2014 Bonds and express no opinion with respect thereto.

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

1. The Series 2014 Bonds constitute valid and binding obligations of the District.

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

3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series 2014 Bonds and the interest thereon.

4. Interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2014 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Martinez Unified School District (the "District") in connection with the issuance of $3,000,000 aggregate principal amount of Martinez Unified School District (Contra Costa County, California), General Obligation Bonds, Election of 2010, Series 2014A (the "Series 2014A Bonds") and $17,000,000 aggregate principal amount of Martinez Unified School District (Contra Costa County, California), General Obligation Bonds, Election of 2010, Series 2014B (the "Series 2014B Bonds" and together with the Series 2014A Bonds, the "Bonds"). The Bonds are being issued pursuant to resolutions adopted by the Board of Education of the District on December 9, 2013 (the "District Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

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

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

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

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

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) hereof.

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

"Official Statement" shall mean the Official Statement, dated February 19, 2014 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

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

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

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than 290 days following the end of the District's fiscal year (which due date shall be April 15 of each year, so long as the fiscal year ends on June 30), commencing with the report for the 2013-2014 Fiscal Year (which is due not later than April 15, 2015), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e) hereof. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

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

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

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

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

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

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year.

(ii) The District's average daily attendance.

(iii) The District's outstanding debt.

(iv) Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County of Contra Costa (the "County").

(v) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

(c) In addition to any of the information expressly required to be provided under subsections (a) and (b), the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

Section 5. **Reporting of Significant Events.** (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of the credit or liquidity providers or their failure to perform;

(v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes; or

(ix) bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

(i) unless described in paragraph 5(a)(v) hereof, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) modifications to rights of Bond Holders;

(iii) optional, unscheduled or contingent Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) 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; or

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b) hereof, the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a) hereof, or determines that knowledge of a Listed Event described in Section 5(b) hereof would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the District Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e) hereof.

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

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the District Resolution for amendments to the District Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

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

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Contra Costa or in U.S. District Court in or nearest to the County of Contra Costa. A default under this Disclosure Certificate shall not be deemed an event of default under the District Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. 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 (if the Dissemination Agent is other than the District), 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) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: March 5, 2014

MARTINEZ UNIFIED SCHOOL DISTRICT

By: ___________________________________

EXHIBIT A

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

Name of Issuer:	MARTINEZ UNIFIED SCHOOL DISTRICT
Name of Issue:	Martinez Unified School District (Contra Costa County, California), General Obligation Bonds, Election of 2010, Series 2014A Martinez Unified School District (Contra Costa County, California), General Obligation Bonds, Election of 2010, Series 2014B
Date of Issuance:	March 5, 2014

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated March 5, 2014. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

MARTINEZ UNIFIED SCHOOL DISTRICT

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APPENDIX E

COUNTY OF CONTRA COSTA INVESTMENT POLICY SUMMARY OF POOLED INVESTMENT FUND

In accordance with Education Code Section 41001, substantially all District operating funds are required to be held by the Treasurer-Tax Collector of the County (the "County Treasurer"). The following information has been provided by the County Treasurer. The District has not independently verified this information and takes no responsibility for the accuracy or completeness thereof. Further information may be obtained from the County Treasurer.

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CONTRA COSTA COUNTY

TREASURER'S

ANNUAL INVESTMENT POLICY

FISCAL YEAR 2013-2014

APPROVED BY THE BOARD OF SUPERVISORS

JUNE 2013

The Contra Costa County Treasurer will annually present to both the Board of Supervisors (Board) and the Treasury Oversight Committee (Committee) a statement of investment policy, which the Board shall review and approve at a public meeting. Any changes in the policy shall also be reviewed and approved by the Board at a public meeting (Gov't Code §53646(a)(1)).

OFFICE OF COUNTY TREASURER-TAX COLLECTOR
625 COURTS STREET, ROOM 100
MARTINEZ, CALIFORNIA 94553

Table of Contents

CONTRA COSTA COUNTY

TREASURER'S ANNUAL INVESTMENT POLICY

1.0 PURPOSE

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines of surplus funds entrusted to the care of the Contra Costa County Treasurer's Office (Treasurer's Office) in accordance with applicable sections of California Government Code. All portfolio activities will be judged by the standards of the Policy and its ranking of investment objectives.

2.0 SCOPE

This Policy applies to all funds over which the Treasurer's Office has been granted fiduciary responsibility and direct control for their management.

3.0 PARTICIPANTS

This Policy restricts deposits to those agencies mandated by California Government Code as treasury deposits. However, subject to the consent of the Treasurer's Office and in accordance with section 53684, exemptions may be granted to non-mandatory depositing agencies, if it is determined that the additional deposit provides a benefit to the investment pool as a whole while not creating unmanageable liquidity risk.

4.0 IMPLEMENTATION

In order to provide direction to those responsible for management of surplus funds, the County Treasurer has established this Policy and presented it to the Treasury Oversight Committee and the Board of Supervisors, and has made available the report to the legislative body of local agencies that participates in the County Treasurer's investment program.

The Policy explains investable funds; authorized instruments; credit quality required; maximum maturities and concentrations; collateral requirements; qualifications of broker-dealers and financial institutions doing business with, or on behalf of, the County; limits on gifts and honoraria; the reporting requirements; the Treasury Oversight Committee; the manner of appropriating costs; and the criteria to request withdrawal of funds.

5.0 OBJECTIVES

Gov't Code §53600.5: When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its controls.

5.1 Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and market risk.

5.1.a *Credit Risk*

The Treasurer will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

1. Limiting investments to the safest type of securities

2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Treasurer's Office will do business
3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

5.1.b *Market Risk*

The Treasurer's Office will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
2. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

5.2 Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

5.3 Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities may be sold prior to maturity when deemed prudent and necessary. Reasons of selling include but not limited to:

1. **A security with declining credit may be sold early to minimize loss of principal.**
2. **A security swap would improve the quality, yield, or target duration in the portfolio.**
3. **Liquidity needs of the portfolio require that the security be sold.**
4. **Portfolio rebalancing would bring the portfolio back into compliance.**

Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

5.4 Public Trust: All investments will be in conformance with state law and county ordinances and policies. The investment of public funds is a task that must maintain the public trust.

6.0 GENERAL STRATEGY

6.1 Buy and Hold: The Treasurer will generally use the passive investment strategy known as BUY AND HOLD whereas securities are purchased with the intent of holding them to maturity. Interest income and the reinvestment of interest income usually are the only sources of return in the portfolio.

The investment program will focus on purchasing securities that will limit or reduce the potential default risk and ensure the reliability of cash flows from interest income. Generally, purchases will be laddered throughout the portfolio in order to minimize the number and cost of investment transactions.

6.2 Directed Investment: Local agencies may direct the investment, exchange, liquidation and reinvestment of their assets, but must meet the provisions of the investment objectives of this policy. The withdrawal of funds in the Treasury shall coincide with investment maturities or authorized sales of securities by the local agency's legislative or governing body.

7.0 STANDARD OF CARE

The following policies are designed in accordance with Government Code to provide transparency to the investment program while enhancing portfolio controls:

7.1 Prudent Investor Standard: "Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part to an overall strategy, investments may be acquired as authorized by law." (Gov't Code §53600.3.1)

7.2 Limits on Honoraria, Gifts, and Gratuities

In accordance with California Government Code Section 27133(d), this Policy establishes limits for the Director of Finance; individuals responsible for management of the portfolios; and members of the Investment Group and Review Group who direct individual investment decisions, select individual investment advisors and broker/dealers, and conduct day-to-day investment trading activity. The limits also apply to members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of $50 in a calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities in a calendar year in excess of the amount specified in Section 18940.2(a) of Title 2, Division 6 of the California Code of Regulations. This limitation is $420 for the period January 1, 2011, to December 31, 2012. Any violation must be reported to the State Fair Political Practices Commission.

Please refer to the Contra Costa County Treasurer-Tax Collector's Conflict of Interest Code for further explanation of the prohibited activities, and their enforcements and exceptions.

7.3 Delegation of Authority

7.4.a Subject to Section 53607, the board of supervisors may, by ordinance, delegate to the county treasurer the authority to invest or reinvest the funds of the county and the funds of other depositors in the county treasury, pursuant to Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5. The county treasurer shall thereafter assume full responsibility for those transactions until the board of supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, as provided in Section 53607 (Gov't Code §27000.1).

7.4.b The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year (Gov't Code §53607).

7.4.c Responsibility for the operation of the investment program is hereby delegated to the County Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer.

7.5 Treasury Oversight Committee: In compliance with a Board Order of the Contra Costa County Board of Supervisors, the County Contra Costa County Treasury Oversight Committee was established in November 6 of 1995. The intent of the Committee is to allow local agencies, including school districts, as well as the public, to participate in reviewing the policies that guide the investment of public funds. The mandate for the existence of the Committee was suspended in 2004 by the State of California; however, the Committee serves an important function and the Treasurer's Office has elected to continue the program.

7.5.a The Committee shall annually review and monitor the County's Investment Policy.

7.5.b The Committee shall cause an annual audit to determine the County Treasurer's compliance with the Investment Policy and all investment funds in the county Treasury.

8.0 SAFEKEEPING AND CUSTODY

8.1 Delivery vs. Payment: All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the County Treasurer's safekeeping institution prior to the release of funds.

8.2 Third-party Safekeeping: Securities will be held by an independent third-party safekeeping institution selected by the County Treasurer. All securities will be evidenced by safekeeping receipts in the County's name or in a name designated by the County Treasurer. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)

8.2.a A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered or non-registered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisors, consultants or managers using the agency's funds, by book entry, physical delivery or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term of remaining maturity at the time of the investment, no investment shall be made in any security other than a security underlying a repurchase or reverse repurchase agreement authorized by this section.

8.2.b In compliance with this section, the securities of Contra Costa County and its agencies shall be in safekeeping at The Bank of New York Trust Company, N. A., a counterparty bank's trust department or as defined in the debt indenture and contract.

8.3 Internal Controls: The County Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Treasurer are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual that shall be reviewed and updated periodically by the County Treasurer.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

9.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS

9.1 All transactions initiated on behalf of the Pooled Investment Fund and Contra Costa County shall be executed only through either of the following:

1. Government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York;
2. Banks and financial institutions that directly issue their own securities which have been placed on the Approved List of Broker/Dealers and Financial Institutions;
3. Brokers/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed.

Broker/dealers and financial institutions which have exceeded the political contribution limits as contained in Rule G-37 of the Municipal Securities Rulemaking Board within a four year period to the County Treasurer or an member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approval List of Broker/Dealers and Financial Institutions.

9.2 Qualifications: All financial institutions and broker/dealers who desire to become qualified for investment transactions must complete Contra Costa County Treasurer's Office Broker/Dealer Due Diligence Questionnaire which can be obtained at www.cctax.us. An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Treasurer's Office.

9.3 List of Approved Financial Institutions, Security Brokers and Dealers
A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness and qualifications stated in section 9.2. However, the County Treasury will not be limited to the financial institutions and brokers/dealers on the list. Others will be included as long as conditions for authorized financial institutions and brokers/dealers set forth in this Policy are met. Additionally, deletions and additions are based on the maintenance of required credit quality as rated by a nationally recognized statistical-rating organization (NRSRO) or reliable financial sources.

10.0 SUITABLE AND AUTHORIZED INVESTMENTS

10.1 Authorized Investment Types: (Gov't Code §53601 et seq.) The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

10.1.a **Bonds issued by the local agencies**, including bonds payable solely out of the revenues from a revenue-producing property, owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

10.1.b **United States Treasury notes, bonds, bills or certificates of indebtedness**, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

10.1.c **Registered state warrants or treasury notes or bonds of this state**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of the state.

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

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

10.1.f **Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments**, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

10.1.g **Bankers acceptances otherwise known as bills of exchange or time drafts** drawn on and accepted by a commercial bank. Purchases of banker's acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the banker's acceptances of any one commercial bank pursuant to this section. This subdivision does not preclude a municipal utility district from investing any money in its treasury in any manner authorized by the Municipal Utility District Act (Division 6, commencing with Section 11501, of the Public Utilities Code).

10.1.h **Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (i) or paragraph (ii):

1. The entity meets the following criteria:

- **A.** Is organized and operating in the United States as a general corporation.
- **B.** Has total assets in excess of five hundred million dollars ($500,000,000).
- **C.** Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).

2. The entity meets the following criteria:

- **A.** Is organized within the United States as a special purpose corporation, trust, or limited liability company.
- **B.** Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
- **C.** Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635:

- **i.** Not more than 40 percent of the local agency's money may be invested in eligible commercial paper.
- **ii.** Not more than 10 percent of the total assets of the investments held by a local agency may be invested in any one issuer's commercial paper.

10.1.i **Negotiable certificates of deposit** issued by a nationally- or state-chartered bank or a savings association or federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's money that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposits do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

10.1.j Repurchase and reverse repurchase agreements

1. Investments in ***repurchase agreements*** or ***reverse repurchase agreements*** of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

2. Investments in repurchase agreements may be made on any investment authorized in this section when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

3. Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

   A. The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

   B. The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

   C. The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

   D. Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

4. Prior approval of the governing body; only with primary dealers:

   A. Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

   B. For purposes of this policy, "significant banking relationship" means any of the following activities of a bank:

      i. Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

ii. Financing of a local agency's activities.

iii. Acceptance of a local agency's securities or funds as deposits.

5. Definitions and terms of repos, securities and securities lending:

A. "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

B. "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

C. "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

D. "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

E. For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

F. For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

10.1.k Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

10.1.l Shares of beneficial interest

1. Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

2. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (l5 U.S.C. Sec. 80a-1 et seq.).

3. If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

A. Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

B. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), inclusive, and with assets under management in excess of five hundred million dollars ($500,000,000).

4. If investment is in shares issued pursuant to paragraph (2), the company shall have met the following criteria:

A. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

B. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), inclusive, and with assets under management in excess of five hundred million dollars ($500,000,000).

5. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's money that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

10.1.m **Moneys held by a trustee or fiscal agent** and pledged to the payment of security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are not specific statutory provision, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

10.1.n **Notes, bonds, or other obligations that are at all times secured by a valid first-priority security interest** in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

10.1.o **Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond** of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

10.1.p **Shares of beneficial interest issued by a joint power authority** organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing shares shall have retained an investment adviser that meets all of the following criteria:

1. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
2. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n) inclusive.
3. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

11.0 <u>RESTRICTIONS AND PROHIBITIONS</u>

11.1 Restrictions set by the Treasurer

11.1.a All investments purchased by the Treasurer's Office shall be of investment grade. The minimum credit rating of purchased investments shall be as defined by Government Code 53600 et. seq.

11.1.b All legal securities issued by a tobacco-related company are prohibited. A tobacco-related company is defined as 1) an entity that makes smoking products from tobacco used in cigarettes, cigars and/or snuff, or for smoking in pipes or 2) a company that has total revenues of 15 percent or more from the sale of such tobacco products. The tobacco-related issuers restricted from any investment are Alliance One, Altria Group, Inc., Auri Inc., British American Tobacco PLC, Imperial Tobacco Group PLC, Kirin International Holding Inc., Lorillard, Philip Morris International, Reynolds American, Inc., Schweitzer-Mauduit International Inc., Smokefree Innotec Inc., Star Scientific Inc., Universal Corp., and Vector Group, Ltd. Annually the Treasury staff will update the list of tobacco-related companies.

11.1.c Financial futures or financial option contracts will each be approved on a per trade basis by the County Treasurer.

11.1.d Reverse repurchase agreements will be used strictly for the purpose of supplementing income with a limit of 10 percent of the total portfolio with prior approval of the Treasurer.

11.1.e SBA loans require prior approval of the Treasurer in every transaction.

11.1.f Securities purchased through brokers will be held in safekeeping at The Bank of New York Trust Company, N.A. or as designated by the specific contract(s) for government securities and tri-party repurchase agreements.

11.1.g Swaps and Trades will each be approved on a per-trade basis by Treasurer or Assistant Treasurer.

11.1.h Bank CDs or non-negotiable CDs will be collateralized at 110 percent by government securities or 150 percent by current mortgages. There will be no waiver of the first $100,000 collateral except by special arrangement with the Treasurer.

11.2 Prohibitions by Government Code (§53601.6)

11.2.a A local agency shall not invest any funds pursuant to this Article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages.

11.2.b A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1,et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

12.0 INVESTMENT PARAMETERS

12.1 Diversification: Investments shall be diversified so as to minimize the risk of loss and to maximize the rate of return by:

1. Limiting investment to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
2. Limiting investment in securities that have higher credit risks,
3. Investing in securities with varying maturities, and
4. Continuously investing a portion of the portfolio in readily available funds such as investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

12.2 Maximum Maturities: To the extent possible, the County Treasurer shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The Treasurer shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

12.3 Exception to Maximum Maturity: In accordance with Government Code §53601 the County Treasurer retains the right to petition the Board of Supervisors for approval to invest in securities with a final maturity in excess of five years. The Board of Supervisors adoption of any resolution allowing maturities beyond five years shall be considered an allowed modification to this policy and any investments made in accordance with the modification shall be allowable under this policy.

12.4 Investment Criteria[1]: All limitations set forth in this Policy are applicable only at the time of purchase. The County Treasurer has the full discretion to rebalance the portfolio when it is out of compliance owing to various reasons, such as market fluctuation.

INVESTMENT TYPE	MAXIMUM % of PORTFOLIO	MAXIUM MATURITY	MAXIMUM % of ISSUE	OTHER RESTRICTIONS
Bonds issued by local agencies, §53601 (a)	100%	5 years	100%	
U.S. Treasury Obligations, §53601 (b)	100%	5 years	100%	
Registered State Warrants, and CA Treasury Notes and bonds, §53601 (c)	100%	5 years	100%	
Bonds and Notes issued by other local agencies in California, §53601 (e)	100%	5 years	100%	
Obligations of U.S. Agencies or government sponsored enterprises, §53601 (f) U.S. Agencies Callables	100% 100%	5 years 5 years	100% 25%	
Bankers Acceptances), §53601 (g) *Domestic: ($5B min. assets) *Foreign: ($5B min. assets)	40% 40%	180 days 180 days	30% Aggregate 5% Aggregate	
Commercial paper, §53601 (h) and §53635 (a)	40%	270 days or less	10% Aggregate	No more than 10 % of the local agency's money may be invested in the outstanding commercial paper of any single issuer.
Negotiable Certificates of Deposit ($5 billion minimum assets), §53601 (i)	30%	5 years	10% Aggregate	
Repurchase Agreements secured by U.S. Treasury or agency obligation (102% collateral), §53601 (j)	100%	1 year	See limitations for Treasuries and Agencies above	Generally limited to Wells Fargo Bank, Bank of America or other institutions with whom the County treasury has executed tri-party agreements. Collateral will be held by a third party to the transaction that may include the trust department of particular banks. Collateral will be only securities that comply with Government Code 53601.
Reverse Repurchase Agreements and Securities Lending Agreements, §53601 (j)	20%	92 days	See limitations for Treasuries and Agencies above	
Corporate bonds, Medium Term Notes & Covered, §53601 (k)	30%	5 years	5% Aggregate	
Shares of beneficial interest issued by diversified mgt. companies §53601 (l)	20%	N/A	10% Aggregate	
Moneys held by a trustee or fiscal agent, §53601 (m)	20%	N/A		
Collateralized Time Deposits	15%	5 years	5% Aggregate	Collateralized at 110 % by gov't securities or 150 % by current mrtgs. (§53652).
Mrtg Backed Securities/CMO's: Asset Backed Securities §53601 (o)	20% 20%	5 Years 5 Years	5% Aggregate	No Inverse Floaters No Range Notes No Interest only strips derived from a pool of mortgages

[1] The rating requirement for each investment type is referenced in the relevant sections of California Government Code.

INVESTMENT TYPE	MAXIMUM % of PORTFOLIO	MAXIUM MATURITY	MAXIMUM % of ISSUE	OTHER RESTRICTIONS
Joint Powers Authority, CalTRUST, §53601 (P)	As limited by CalTRUST	N/A	As limited by CalTRUST	
Local Agency Investment Fund (LAIF), §16429.1	As Limited by LAIF	N/A	As limited by LAIF	

13.0 CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)

13.1 General Information (Gov't Code §16305.9).

13.1.a All money in the Local Agency Investment Fund shall be held in trust in the custody of the State Treasurer.

13.1.b All money in the Local Agency Investment Fund is nonstate money. That money shall be held in a trust account or accounts. The Controller shall be responsible for maintaining those accounts to record the Treasurer's accountability, and shall maintain a separate account for each trust deposit in the Local Agency Investment Fund.

13.1.c That money shall be subject to audit by the Department of Finance and to cash count as provided for in Sections 13297, 13298, and 13299. It may be withdrawn only upon the order of the depositing entity or its disbursing officers. The system that the Director of Finance has established for the handling, receiving, holding, and disbursing of state agency money shall also be used for the money in the Local Agency Investment Fund.

13.1.d All money in the Local Agency Investment Fund shall be deposited, invested, and reinvested in the same manner and to the same extent as if it were state money in the State Treasury.

13.2 Investment and Distribution of Deposits (§16429.1).

13.2.a There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

13.2.b Notwithstanding any other provisions of law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

13.2.c Notwithstanding any other provisions of law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

13.2.d Notwithstanding any other provision of law or of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agency engaged by the local agency, the Local Agency Investment

Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.

13.2.e The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

13.2.f The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.

13.2.g The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.

13.2.h The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.

13.2.i The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2.

13.2.j Money in the fund shall be invested to achieve the objective of the fund, that is to realize the maximum return consistent with safe and prudent treasury management.

13.2.k All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.

13.2.l Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of one-half of one percent of the earnings of this fund, shall be deducted from the earnings prior to distribution. The amount of this deduction shall be credited as reimbursements to the state agencies having incurred costs in carrying out the provisions of this section.

13.2.m The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.

14.0 PORTFOLIO MANAGEMENT ACTIVITY

14.1 Passive Portfolio Management:

(See Section 6.0., General Strategy)

14.2 Competitive Bidding:

Investments will be purchased in the most cost effective and efficient manner by using a competitive bidding process for the purchase of securities. Competitive bidding is required from a pre-approved list of broker/dealers on all investment transactions except for new issue securities.

14.3 Reviewing and Monitoring of the Portfolio:

Monthly reports will review portfolio investments to ensure they are kept track of in a timely manner. The reports will also monitor the County Treasurer's investment practices and the results of such practices.

14.4 Portfolio Adjustments:

Certain actions may be taken if the portfolio becomes out of compliance. For instance, should a concentration limitation be exceeded due to an incident such as a fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses; however, the County Treasurer may choose to rebalance the portfolio earlier to bring it back into compliance if the portfolio will not suffer any losses for selling the investment prior to maturity.

14.5 Performance Standards:

The investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

15.0 REPORTING

15.1 Methodology: The County Treasurer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the County Treasurer to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Chief Administrative Officer, the County Auditor, the Board of Supervisors, Treasury Oversight Committee and any pool participants [Government Code 27133(e), and 53646(b)]. The report will include the following:

1. The type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the County Treasurer
2. A description of any of the local agency's funds, investments, or programs that are under the management of contracted parties, including lending programs.
3. A current market value as of the date of the report of all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, and the source of this same valuation.
4. A statement that the portfolio is in compliance with the investment policy, or the manner in which the portfolio is not in compliance.
5. A statement denoting the ability of the County Treasurer to meet its pool's expenditure requirements for the next six months, or an explanation as to why sufficient money shall, or may, not be available.
6. Listing of individual securities by type and maturity date held at the end of the reporting period.

   A. PLEDGE REPORT: Any securities that are pledged or loaned for any purpose shall be reported in the Quarterly Investment Report. The transaction detail will be provided, including purpose, beginning and termination dates and all parties to the contract. The security descriptions as to type, name, maturity date, coupon rate, CUSIP and other material information will be included.

B. REVERSE REPURCHASE AGREEMENTS REPORT: All reverse repurchase agreements entered into, whether active or inactive by the end of each quarter, shall be reported in the Treasurer's Quarterly Investment Report.

7. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.

8. Average maturity and duration of portfolio on investments as well as current and cumulative performance of the portfolio, by yield and by total return, as compared to applicable benchmarks.

9. Percentage of the total portfolio which each type of investment represents.

10. Whatever additional information or data may be required by the legislative body of the local agency.

15.2 **Marking to Market:** The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed on a regular basis.

16.0 COMPENSATION

In accordance with Government Code §§27013 and 53684, the County Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, employee salaries and benefits, portfolio management, bank and custodial fees, software maintenance fees and other indirect costs incurred from handling and managing funds. In addition, when applicable, the costs associated with the Treasury Oversight provisions of Government Code §§ 27130-27137 shall be included as administrative costs. Costs will be deducted from interest earnings on the pool prior to apportioning and payment of interest. The County Treasurer shall annually prepare a proposed budget providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with Government Code §27013. The administrative fee will be subject to change. Fees will be deducted from interest earnings.

16.1 **Deduction of Costs:** The County Treasurer deducts actual costs and makes any adjustments from the interest earning and apportions the remaining earnings to all participants based on the positive average daily balance.

17.0 CALCULATING AND APPORTIONING POOL EARNINGS

The Investment Pool Fund is comprised of monies from multiple units of the County, agencies, school districts and special districts. Each entity has unique cash flow demands, which dictate the type of investments the Treasurer's Office may purchase. To ensure parity among the pool members when apportioning interest earnings, the following procedures have been developed:

1. Interest is apportioned on at least a quarterly basis in accordance with Government Code §53684.

2. Interest is apportioned to pool participants based on the participant's average daily fund balance and the total average daily balance of deposits in the investment pool.

3. Interest is calculated on an accrual basis for all investments in the County Treasurer's investment pool and reported to the Auditor-Controller for distribution into the funds of the participants.

4. Specific fee schedules are as follow:

   A. Regular and Routine Investments[2]

   $20 per investment transaction; i.e., $20 at placement and $20 at maturity.

   .00333 of interest income; i.e., $3.33 per $1,000 of interest income.

   The above is charged quarterly by journal entry.

   B. Special Reports and Research: Actual staff time and materials.

   C. Special Bank Transactions: Actual bank fee schedule, staff time and materials.

5. Negative average daily fund balance will be charged interest at the rate of interest that is being apportioned.

18.0 NON-MANDATED DEPOSITS AND WITHDRAWALS IN THE TREASURY

18.1 Deposit by Resolution

Following are the terms and conditions for deposit of funds for investment purposes by entities that are not legally required to deposit their funds in the County Treasury.

18.1.a Resolution by the County Board of Supervisors authorizing the acceptance of outside participants by the County Treasury.

18.1.b Resolution by the legislative or governing body of the local agency authorizing the investment of funds pursuant to Government Code 53684.

18.1.c Treasury investments will be directed transactions. For each transaction, the local agency must indicate the fund source, the amount to be invested and the duration of the investment.

18.2 Withdrawal Request

18.2.a Statutory Participants

The withdrawal of mandated deposits in the County Treasury Investment Pool will coincide with investment maturities and/or authorized sale of securities by authorized personnel of the local agency. Except for funds in the California State Local Agency Fund, a five-business-days notification may be required when authorized sale of securities is involved. However, the following section on evaluation of request for withdrawal of funds for use outside the County treasury pool by both statutory and voluntary participants shall also apply.

Evaluation of Request for Withdrawal of Funds for Use Outside the County Treasury Investment Pool by Both Mandated and Non-Mandated Treasury Pool Participants

Pursuant to Section 27136(a), "Notwithstanding any other provisions of law, any local agency, public agency, public entity or public official that has funds on deposit in the County treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the County treasury pool shall first submit the request for withdrawal to the County Treasurer before withdrawing funds from the County treasury pool."

[2] Applies to directed investments as described in Section 6.2 of the Policy.

The County Treasurer shall evaluate each proposed withdrawal and may require up to 30 days in order to assess the effect of the proposed withdrawal on the stability and predictability of the investments in the Treasury Pool and that the interests of the other depositors will not be adversely affected.

18.2.b Voluntary Participants

For outside participants who utilize Government Code section 53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal of funds from the Treasury shall coincide with investment maturities or authorized sale of securities by the legislative or governing body of the local agency. Except for funds in the California State Local Agency Investment Fund, a five-business-days notification may be required when authorized sale of securities is involved. However, the above section on evaluation of request for withdrawal of funds for use outside the County treasury pool by both mandated and non-mandated treasury pool participants shall also apply.

19.0 TEMPORARY BORROWING OF POOL FUNDS

Section 6 of Article XVI of the California Constitution provides in part that "the treasurer of any city, county, or city and county shall have power and the duty to make such temporary transfers from the funds in custody as may be necessary to provide funds for meeting the obligations incurred for maintenance purposes by city, county, city and county, district, or other political subdivision whose funds are in custody and are paid out solely through the treasurer's office."

The County Auditor-Controller and the County Treasurer shall make a temporary transfer of funds to the requesting agency, not to exceed 85% of the amount of money which will accrue to the agency during the fiscal year, provided that the amount of such transfer has been determined by the County Auditor-Controller to be transferable under the constitutional and statutory provisions cited in Article XVI and has been certified by the County Treasurer-Tax Collector to be available. Such temporary transfer of funds shall not be made prior to the first day of the fiscal year nor after the last Monday in April of the current fiscal year.

20.0 INVESTMENT OF BOND PROCEEDS

The County Treasurer shall invest bond proceeds using the standards of this Investment Policy. The bond proceeds will be invested in securities permitted by the bond documents. If the bond documents are silent, the bond proceeds will be invested in securities permitted by this Policy.

21.0 DISASTER RECOVERY PLAN

The Contra Costa County Treasurer's Disaster Recovery Plan includes critical phone numbers and addresses of key personnel as well as active bankers and brokers/dealers. Laptops, iPads and BlackBerry phones shall be issued to key personnel for communicating between staff, bank and broker/dealers. Copies of the plan shall be distributed to the investment staff: Assistant County Treasurer, the Treasurer's Investment Officer, and the Investment Operations Analyst. The investment staff shall interact with one another by home phone, cell phone, or e-mail to decide an alternate location from which to conduct daily operations.

In the event investment staff is unable to conduct normal business operations, the custodial bank will automatically sweep all uninvested cash into an interest bearing account at the end of the business day. Until normal business operations have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this investment policy.

22.0 POLICY CONSIDERATIONS

22.1 Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

22.2 Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the County Treasurer and any other appropriate authority.

AUTHORIZATION FOR LAIF INVESTMENTS

C.67

THE BOARD OF SUPERVISORS OF CONTRA COSTA COUNTY, CALIFORNIA

and for Special Districts, Agencies and Authorities Governed by the Board

Adopted this Resolution on 04/03/2012 by the following vote:

AYES:	4	**John Gioia** **Mary N. Piepho** **Karen Mitchoff** **Federal D. Glover**
NOES:		
ABSENT:	1	**Gayle B. Uilkema**
ABSTAIN:		
RECUSE:		

Resolution No. 2012/129

Resolution of Contra Costa County an in accordance with California Government Code Section 16429.1 Authorizing Investment of Monies in the Local Agency Investment Fund (Account #99-07-000)

WHEREAS, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

WHEREAS, the Board of Supervisors does hereby find that the deposit and withdrawal of money in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein as in the best interests of the CONTRA COSTA COUNTY.

NOW THEREFORE, BE IT RESOLVED, that the Board of Supervisors does hereby authorize the deposit and withdrawal of CONTRA COSTA COUNTY monies in the Local Agency Investment Fund in the State Treasury in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard.

BE IT FURTHER RESOLVED, that the following CONTRA COSTA COUNTY officers or their successors in office shall be authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund:

Russell V. Watts, Treasurer-Tax Collector	Brice Bins, Chief Deputy Treasurer-Tax Collector	Belinda Zhu, Assistant Treasurer
(SIGNATURE)	(SIGNATURE)	(SIGNATURE)

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

Contact: Brice Bins, 925-957-2848

ATTESTED: April 3, 2012
David J. Twa, County Administrator and Clerk of the Board of Supervisors

By: June McHuen, Deputy

cc:

APPROVED BROKERS

ABN AMRO, Incorporated
Bank of America Merrill Lynch
Bank of the West
Barclays Capital, Incorporated
California Arbitrage Management Program
Citigroup Global Markets
Credit Suisse
Goldman, Sachs & Company
Government Perspectives
JP Morgan Securities LLC
Prudential Securities, Incorporated
Public Financial Management, Incorporated
UBS Financial Services, Inc.
UnionBanc Investment Services
Wells Fargo Securities

Note: The County Treasury will not be limited to the above list. Others will be included as long as all conditions for authorized brokers and/or dealers set forth in this policy are met. Additionally, deletions and additions are based on many factors including the maintenance of required credit quality as rated by Standard and Poor's, Moody's and other recognized rating services and reliable financial sources.

APPROVED ISSUERS

Abbey National NA	PepsiCo, Inc.
American Honda Finance	PNC Bank NA
Australia & New Zealand Banking Group	Prudential
Bank of Montreal	Procter & Gamble Company
Bank of Nova Scotia	Rabobank Nederland New York
BNP Paribas	Royal Bank of Canada
Chevron	Sciete Generale North America
Coca-Cola Co	Standard Chartered Bank
Commonwealth Bank of Australia	State Street Bank & Trust Co
Credit Agricole SA	Svenska Handelsbanken AB
Deer & Company	Toronto-Dominion Bank
Exxon Mobil	Toyota Motor Credit Corp
General Electric Capital Corp	UBS Financial
General Electric Co	Union Bank
JPMorgan Chase & Co	US Bankcorp
John Deere Capital Corporation	Walmart
Johnson & Johnson	Walt Disney Company
McDonald's Corporation	Wells Fargo Bank NA
National Australia Bank	Westpac Banking Corp
Nestle Capital Corp	Westamerica Bank
Nordea Bank AB	

Note: The above approved list is designed to provide general guidance to County Treasury's Investment Staff in making investment decisions. However, it does not prevent Staff from purchasing securities from other issuers. Staff will perform additional due diligence on each investment decision. The list does not reflect the actual portfolio holdings managed by the County Treasury.

APPROVED PRIMARY DEALERS

Bank of Nova Scotia, New York Agency
BMO Capital Markets Corp.
BNP Paribas Securities Corp.
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets, Inc.
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J.P. Morgan Securities, Inc.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities Inc.
RBC Capital Markets, LLC
RBS Securities Inc.
SG Americas Securities, LLC
UBS Securities LLC.

Note: The above list consists of primary dealers that serve as trading counterparties of the Federal Reserve Bank of New York in its implementation of monetary policy. These primary dealers are required to participate in all auctions of U.S. government debt. Treasury Staff will perform additional due diligence on each investment decision, and hence, may or may not use the primary dealers listed above.

GLOSSARY OF TERMS

ACCRUED INTEREST The accumulated interest due on a bond as of the last interest payment made by the issuer.

AGENCY A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

AMORTIZATION The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

BANKERS ACCEPTANCES A time bill of exchange drawn on and accepted by a commercial bank to finance the exchange of goods. When a bank "accepts" such a bill, the time draft becomes, in effect, a predated, certified check payable to the bearer at some future specified date. The commercial bank assumes primary liability once the draft is accepted.

BASIS POINT A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of one percent of yield. For example, if interest rates increase from 8.25% to 8.50%, the difference is referred to as a 25-basis-point increase.

BENCHMARK A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

BID The indicated price at which a buyer is willing to purchase a security or commodity.

BLUE SKY LAWS Common term for state securities law, which vary from state to state. Generally refers to provision related to prohibitions against fraud, dealer and broker regulations and securities registration.

BOND A bond is essentially a loan made by an investor to a division of the government, a government agency or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is called the maturity date or maturity. In addition, the issuer of the bond, that is the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk and rate of income.

BOOK VALUE Refers to value of a held security as carried in the records of an investor. May differ from current market value of the security.

BROKER/DEALER Any person engaged in the business of effecting transaction in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

CALLABLE BOND A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CALL PRICE The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for the loss of income and ownership.

CALL RISK The risk to the bondholder that a bond may be redeemed prior to maturity.

CASH SALE/PURCHASE A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

CERTIFICATES OF DEPOSIT (CD) Certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified rate of return. They are issued in two forms, negotiable and non-negotiable.

CLEAN UP CALL An action of a debt instrument issuer requiring early redemption of the instrument to reduce its own administrative expenses. This normally occurs when the principal outstanding is significantly reduced to a small amount, e.g., less than 10% of the original issue.

COLLATERALIZATION Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER Short-term, unsecured promissory notes issued in either registered or bearer form and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

CONVEXITY A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

COUPON RATE The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT QUALITY The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CURRENT YIELD (CURRENT RETURN) A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSIP NUMBERS CUSIP is an acronym for Committee on Uniform Security Identification Procedures. CUSIP numbers are identification numbers assigned each maturity of a security issue and usually printed on the face of each individual security in the issue. The CUSIP numbers are intended to facilitate identification and clearance of securities.

DELIVERY VERSUS PAYMENT (DVP) A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

DERIVATIVE SECURITY Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT The amount by which the par value of a security exceeds the price paid for the security.

DIVERSIFICATION A process of investing assets among a range of security types by sector, maturity, and quality rating.

DURATION A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

EARNINGS APPORTIONMENT The quarterly interest distribution of the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool

FAIR VALUE The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL FUNDS (FED FUNDS) Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE Interest rate charged by one institution lending federal funds to the other.

FEDERAL OPEN MARKET COMMITTEE (FOMC) This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FIDUCIARY An individual who holds something in trust for another and bears liability for its safekeeping.

FLOATING RATE NOTE A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g., Treasury bills, LIBOR, etc.).

FUTURES Commodities and other investments sold to be delivered at a future date.

GOVERNMENT SECURITIES An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. *See* "Treasury Bills, Notes and Bonds."

INTEREST RATE *See* "Coupon Rate."

INTERNAL CONTROLS An internal control structure designed to ensure that the assets of the Treasurer's Investment Pool are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. Control of collusion—Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping—By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping—Securities purchased from a bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities—Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members—Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers—Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. Development of a wire transfer agreement with the lead bank and third-party custodian—The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

INVERSE FLOATERS An adjustable interest rate note keyed to various indices such as LIBOR, commercial paper, federal funds, treasuries and derivative structures. The defined interest rate formula is the opposite or inverse of these indices. Interest rates and pay dates may reset daily, weekly, monthly, quarterly, semi-annually or annually.

INVERTED YIELD CURVE A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

INVESTMENT COMPANY ACT OF 1940 Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

INVESTMENT POLICY A concise and clear statement of the objectives and parameters formulated by the investor or investment manager for a portfolio of investment securities.

INVESTMENT-GRADE OBLIGATIONS An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

LIQUIDITY Usually refers to the ability to convert assets (such as investments) into cash.

LOCAL AGENCY INVESTMENT FUND (LAIF) The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

MAKE WHOLE CALL A type of call provision on a bond allowing the borrower to pay off remaining debt early. The borrower has to make a lump sum payment derived from a formula based on the net present value of future coupon payments that will not be paid because of the call.

MARK TO MARKET Valuing the inventory of held securities at its current market value.

MARKET RISK The risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE Price at which a security can be traded in the current market.

MASTER REPURCHASE AGREEMENT A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transaction. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY The date upon which the principal of a security becomes due and payable to the holder.

MEDIUM-TERM NOTES (MTNS) Corporate debt obligations continuously offered in a broad range of maturities. MTNs were created to bridge the gap between commercial paper and corporate bonds. The key characteristic of MTNs is that they are issued on a continuous basis.

MONEY MARKET INSTRUMENTS Private and government obligations of one year or less.

MONEY MARKET MUTUAL FUNDS Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, banker's acceptances, repos and federal funds).

MUTUAL FUND An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.

4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

MUTUAL FUND STATISTICAL SERVICES Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services and Morningstar.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD) A self-regulatory organization (SRO) of brokers and dealers in the over-the counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NEGOTIABLE CERTIFICATES OF DEPOSIT May be sold by one holder to another prior to maturity. This is possible because the issuing bank agrees to pay the amount of the deposit plus interest earned to the bearer of the certificate at maturity.

NET ASSET VALUE The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below)

[(Total assets) – (Liabilities]/(Number of shares outstanding)

NO LOAD FUND A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

NON-NEGOTIABLE CERTIFICATES OF DEPOSIT For public funds, these certificates are collateralized and are not money market instruments since they cannot be traded in the secondary market. They are issued on a fixed-maturity basis and often pay higher interest rates than are permissible on other savings or time-deposit accounts.

OFFER The price of a security at which a person is willing to sell.

OPTION A contract that provides the right, but not the obligation, to buy or to sell a specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

PAR Face value of principal value of a bond, typically $1,000 per bond.

PAR VALUE The stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

POSITIVE YIELD CURVE A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor.

PRIME RATE A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

PRINCIPAL The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

PROSPECTUS A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

PRUDENT PERSON RULE An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

RANGE NOTES A security whose rate of return is pegged to an index. The note defines the interest rate minimum or floor and the interest rate maximum or cap. An example of an index may be federal funds. The adjustable rate of interest is determined within the defined range of the funds.

RATE OF RETURN The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond and the current income return.

REINVESTMENT RISK The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT OR RP OR REPO An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer and the bank or dealer agrees to repurchase the securities at the same price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. Reverse repurchase agreements are the mirror image of the RPs when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO) An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

RULE 2A-7 OF THE INVESTMENT COMPANY ACT Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

SAFEKEEPING Holding of assets (e.g., securities) by a financial institution.

SECURITIES LENDING A transaction wherein the Treasurer's Pool transfers its securities to a broker/dealer or other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SERIAL BOND A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SETTLEMENT DATE The date used in price and interest computations, usually the date of delivery.

SINKING FUND Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

SLUGS An acronym for State and Local Government Series. SLUGS are special United States Government securities sold by the Secretary of the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLUGS are arranged to comply with arbitrage restrictions imposed under Section 103 of the Internal Revenue Code. SLUGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds.

STRIPS US Treasury acronym for "separate trading of registered interest and principal of securities." Certain registered Treasury securities can be divided into separate interest and principal components, which may then be traded as separate entities.

SWAP Generally refers to an exchange of securities, with essentially the same par value, but may vary in coupon rate, type of instrument, name of issuer and number of days to maturity. The purpose of the SWAP may be to enhance yield, to shorten the maturity or any benefit deemed by the contracting parties.

TERM BONDS Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

TOTAL RETURN The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period: (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

TREASURY SECURITIES Debt obligations of the United States Government sold by the Treasury Department in the form of bills, notes and bonds:

1. **Bills** Short-term obligations that mature in one year or less and are sold at a discount in lieu of paying periodic interest.
2. **Notes** Interest-bearing obligations that mature between one year and 10 years.
3. **Bonds** Interest-bearing long-term obligations that generally mature in 10 years or more.

UNIFORM NET CAPITAL RULE SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

U.S. AGENCY OBLIGATIONS Federal agency or United States government-sponsored enterprise obligations, participants, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

U.S. TREASURY OBLIGATIONS Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

VOLATILITY A degree of fluctuation in the price and valuation of securities.

"VOLATILITY RISK" RATING A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

WEIGHTED AVERAGE MATURITY (WAM) The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI) A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD The current rate of return on an investment security generally expressed as a percentage of the security's current price.

YIELD-TO-CALL (YTC) The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD CURVE A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD-TO-MATURITY The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

ZERO-COUPON SECURITY A security that makes no periodic interest payments but instead is sold at a discount from its face value.

CONTRA COSTA COUNTY

TREASURER'S QUARTERLY INVESTMENT REPORT

AS OF SEPTEMBER 30, 2013

EXECUTIVE SUMMARY

- The Treasurer's investment portfolio is in compliance with Government Code 53600 et. seq..

- The Treasurer's investment portfolio is in compliance with the Treasurer's current investment policy.

- The Treasurer's investment portfolio has no securities lending, reverse repurchase agreements or derivatives.

- As of 09/30/13, the fair value of the Treasurer's investment portfolio was 99.91% of the cost. More than 80 percent of the portfolio or over $1.38 billion will mature in less than a year. Historical activities combined with future cash flow projections indicate that the County is able to meet its cash flow needs for the next six months.

- Treasurer's Investment Portfolio Characteristics

Par	$1,727,383,941.39
Cost	$1,733,518,477.65
Market Value	$1,731,879,007.65
Weighted Yield to Maturity	0.41%
Weighted Average Days to Maturity	206 days
Weighted Duration	0.56 year

CONTRA COSTA COUNTY INVESTMENT POOL
As of September 30, 2013

TYPE	PAR VALUE	COST	FAIR VALUE	PERCENT OF TOTAL COST
A. Investments Managed by Treasurer's Office				
1. U.S. Treasuries (STRIPS, Bills, Notes)	$34,497,000.00	$36,627,644.48	$35,967,835.12	2.11%
2. U.S. Agencies				
Federal Agriculture Mortgage Corporation	0.00	0.00	0.00	0.00%
Federal Home Loan Banks	51,666,000.00	52,107,100.08	52,071,609.90	3.01%
Federal National Mortgage Association	80,352,000.00	81,822,215.62	80,931,351.89	4.72%
Federal Farm Credit Banks	35,446,000.00	35,535,309.03	35,507,134.67	2.05%
Federal Home Loan Mortgage Corporation	103,242,000.00	104,832,469.07	104,246,907.06	6.05%
Municipal Bonds	5,555,000.00	5,838,853.92 [1]	5,829,696.49 [1]	0.34%
Subtotal	276,261,000.00	280,135,947.72	278,586,700.01	16.16%
3. Money Market Instruments				
Bankers Acceptances	0.00	0.00	0.00	0.00%
Repurchase Agreement	0.00	0.00	0.00	0.00%
Commercial Paper	464,467,000.00	464,055,160.14	464,312,875.59	26.77%
Negotiable Certificates of Deposit	335,687,000.00	335,688,188.49	335,763,792.10	19.36%
Medium Term Certificates of Deposit	0.00	0.00	0.00	0.00%
Corporate Notes	92,835,000.00	92,992,861.06	93,175,630.30	5.36%
Money Market Accounts	565,318.32	565,318.32	565,318.32	0.03%
Time Deposit	3,200.00	3,200.00	3,200.00	0.00%
Subtotal	893,557,518.32	893,304,728.01	893,820,816.31	51.53%
TOTAL (Section A.)	1,204,315,518.32	1,210,068,320.21	1,208,375,351.44	69.80%
B. Investments Managed by Outside Contractors				
1. Local Agency Investment Fund	201,737,743.07	201,737,743.07	201,852,192.93 [2]	11.64%
2. Other				
a. EBRCS Bond	2,455,113.76	2,455,113.76	2,455,113.76	0.14%
b. Miscellaneous (BNY, CCFCU)	104,808.26	104,808.26	104,808.26	0.01%
c. Wells Capital Management	44,023,681.77	44,405,416.14	44,344,465.05	2.56%
d. CalTRUST (Short-Term Fund)	67,767,077.03	67,767,077.03	67,767,077.03	3.91%
Subtotal	114,350,680.82	114,732,415.19	114,671,464.10	6.62%
TOTAL (Section B.)	316,088,423.89	316,470,158.26	316,523,657.03	18.26%
C. Cash	206,979,999.18	206,979,999.18	206,979,999.18	11.94%
[3]GRAND TOTAL (FOR A , B, & C)	$1,727,383,941.39	$1,733,518,477.65	$1,731,879,007.65	100.00%

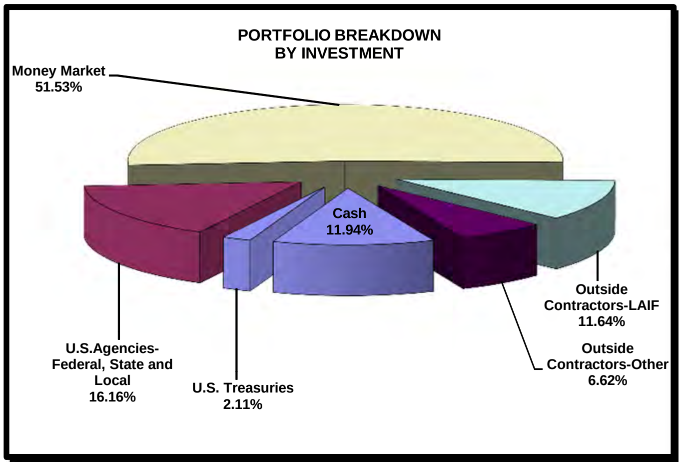
Notes:

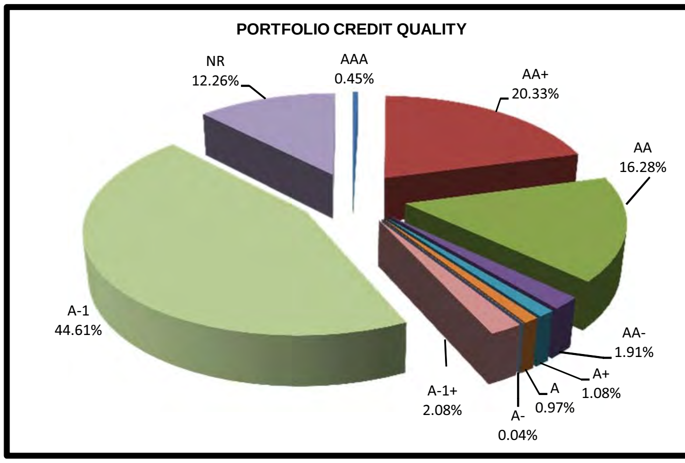
1. Fair Value equals Cost less purchase interest

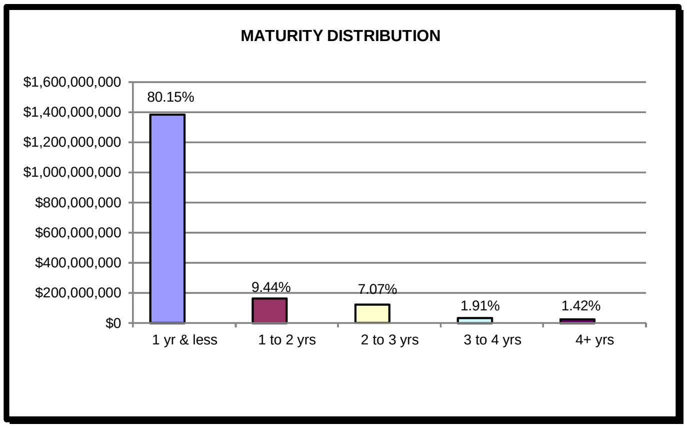
2. Estimated Fair Value

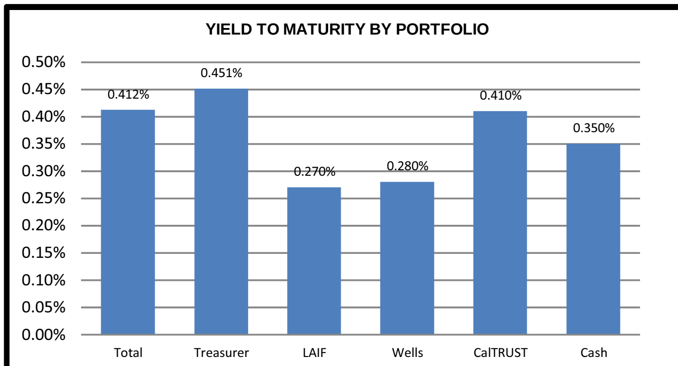
3. Does not include the Futuris Public Entity Trust of the Contra Costa Community College District Retirement Board of Authority

CONTRA COSTA COUNTY
INVESTMENT POOL
AT A GLANCE
AS OF SEPTEMBER 30, 2013

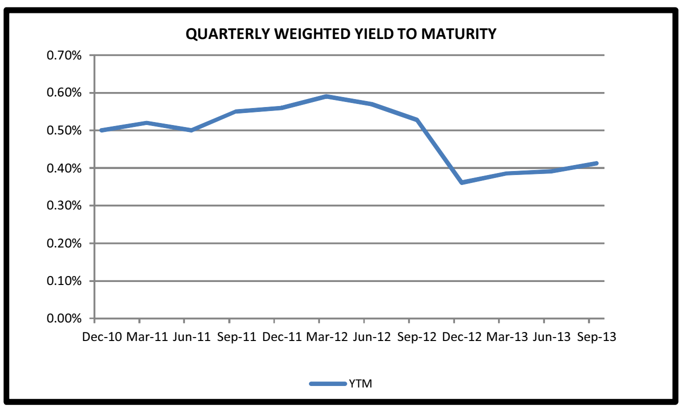


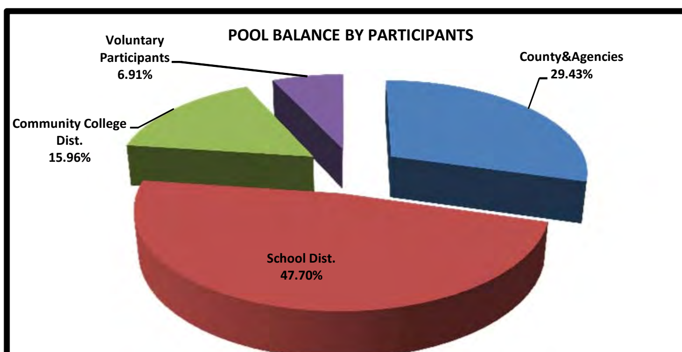






Note: Total is 100% of the portfolio; Treasurer-70%; LAIF-12%; Wells Cap-2%; CalTRUST-4% and Cash-12%





Note: More than 46% of the School Dist. funds from the bond proceeds

NOTES TO INVESTMENT PORTFOLIO SUMMARY AND AT A GLANCE AS OF SEPTEMBER 30, 2013

1. All report information is unaudited but due diligence was utilized in its preparation.
2. There may be slight differences between the portfolio summary page and the attached exhibits and statements for investments managed by outside contractors or trustees. The variance is due to the timing difference in recording transactions associated with outside contracted parties during interim periods and later transmitted to the appropriate county agency and/or the Treasurer's Office. In general, the Treasurer's records reflect booked costs at the beginning of a period.
3. All securities and amounts included in the portfolio are denominated in United States Dollars.
4. The Contra Costa County investment portfolio maintains Standard & Poor's highest credit quality rating of AAAf and lowest volatility of S1+. The portfolio consists of a large portion of short-term investments with credit rating of A-1/P-1 or better. The majority of the long-term investments in the portfolio are rated AA or better.
5. In accordance with Contra Costa County's Investment Policy, the Treasurer's Office has constructed a portfolio that safeguard the principal, meet the liquidity needs and achieve a return. As a result, more than 80% of the portfolio will mature in less than a year with a weighted average maturity of 206 days.

1

CONTRA COSTA COUNTY
TREASURER'S OFFICE
INVESTMENT INVENTORY WITH MARKET VALUE

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INVESTMENTS OUTSTANDING AS OF 09/30/13
MAJOR SORT KEY IS ICC#

INVEST NUMBER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP	BANK BROK	FUND SAFE	CPN RATE YTM TR	PAR/SHARES BOOK	MARKET VALUE MARKET PRICE	CURR ACCR INT PRICE SOURCE	UNREALIZED GAIN UNREALIZED LOSS
SUBTOTAL	(Inv Type) 12 TREASURY NOTES		2.98%(M)		2.7217	34,497,000.00	35,967,835.12	252,978.65	26,617.05
					.4309	36,627,644.48	104.2636610000		-686,367.92
SUBTOTAL	(Inv Type) 22 FEDERAL HOME LOAN BANKS		3.48%(M)		1.5643	41,665,000.00	42,071,549.20	154,213.61	153,430.40
					1.2666	42,111,337.71	100.9757570000		-189,386.01
SUBTOTAL	(Inv Type) 23 FEDERAL NATIONAL MORTGA		6.46%(M)		1.3394	77,449,000.00	78,029,542.12	280,265.98	28,204.18
					.8271	78,923,200.79	100.7495800000		-896,018.85
SUBTOTAL	(Inv Type) 27 FEDERAL FARM CREDIT BAN		2.94%(M)		.9209	35,446,000.00	35,507,134.67	59,123.68	57,077.51
					.8568	35,535,309.03	100.1724730000		-84,381.89
SUBTOTAL	(Inv Type) 29 FHLMC NOTES		8.63%(M)		1.4355	103,242,000.00	104,246,907.06	267,899.92	250,809.81
					.9245	104,832,469.07	100.9733510000		-834,160.62
SUBTOTAL	(Inv Type) 31 MUNICIPAL BONDS		.48%(M)		3.0313	5,555,000.00	5,829,696.49	43,899.43	.00
					1.1730	5,838,853.92	104.9450310000		
SUBTOTAL	(Inv Type) 41 FNMA DISCOUNT NOTES		.24%(M)		.1400	2,903,000.00	2,901,809.77	1,230.55	1,564.39
					.1402	2,899,014.83	99.95900000000		
SUBTOTAL	(Inv Type) 43 FHLB DISCOUNT NOTES		.83%(M)		.0717	10,001,000.00	10,000,060.70	2,388.97	1,909.36
					.0718	9,995,762.37	99.99060800000		
SUBTOTAL	(Inv Type) 70 COMMERCIAL PAPER INT BE		2.07%(M)		.2300	25,000,000.00	24,990,500.00	4,152.78	6,152.78
					.4603	24,984,347.22	99.96200000000		
SUBTOTAL	(Inv Type) 71 COMMERCIAL PAPER DISCOU		36.36%(M)		.2424	439,467,000.00	439,322,375.59	219,123.96	46,231.00
					.2427	439,070,812.92	99.96709100000		-13,792.29
SUBTOTAL	(Inv Type) 72 NEGOTIABLE CERT OF DEPO		27.19%(M)		.2338	328,537,000.00	328,615,735.42	142,766.86	78,074.70
					.2324	328,538,531.14	100.0239650000		-703.75
SUBTOTAL	(Inv Type) 73 CORP NOTE FLTG RT ACT-		.82%(M)		.4709	10,000,000.00	9,966,400.00	11,118.51	13,950.00
					.6624	9,952,450.00	99.66400000000		
SUBTOTAL	(Inv Type) 75 CORPORATE NOTES		6.89%(M)		1.1566	82,835,000.00	83,209,230.30	247,087.89	268,276.01
					1.0619	83,040,411.06	100.4517780000		-89,770.03
SUBTOTAL	(Inv Type) 76 YCD / NCD DAILY FLOATER		.20%(M)		.5096	2,450,000.00	2,450,000.00	866.97	.00
					.5096	2,450,000.00	100.0000000000		
SUBTOTAL	(Inv Type) 77 NEG CERT OF DEP M FLTR		.20%(M)		.3393	2,450,000.00	2,448,399.33	300.15	.00
					.3393	2,450,000.00	99.93466700000		-1,600.67

1

CONTRA COSTA COUNTY
TREASURER'S OFFICE
INVESTMENT INVENTORY WITH MARKET VALUE

(RPTMKT)

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INVESTMENTS OUTSTANDING AS OF 09/30/13
MAJOR SORT KEY IS ICC#

INVEST NUMBER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP	BANK BROK	FUND SAFE	CPN RATE YTM TR	PAR/SHARES BOOK	MARKET VALUE MARKET PRICE	CURR ACCR INT PRICE SOURCE	UNREALIZED GAIN UNREALIZED LOSS
SUBTOTAL	(Inv Type) 80 YCD / NCD QTR FLTR		.19%(M)		.4509	2,250,000.00	2,249,657.35	2,395.41	.00
					.4631	2,249,657.35	99.98477100000		
SUBTOTAL	(Inv Type) 99 MONEY MARKET ACCOUNTS		.05%(M)		0.0000	565,318.32	565,318.32	.00	.00
					.0000	565,318.32	100.0000000000		
SUBTOTAL	(Inv Type) 1000 TD WITH CALC CODE OF		.00%(M)		1.4000	3,200.00	3,200.00	107.15	.00
					1.4000	3,200.00	100.0000000000		
	GRAND TOTAL				.6331	1204315518.32	1208375351.44	1,689,920.47	932,297.19
					.4645	1210068320.21	100.3371070000		-2,796,182.03

NOTE: GRAND TOTAL EXCLUDES RETIREMENT INVESTMENTS IF ANY.

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2014 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2014 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2014 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner")is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from 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 redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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.

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

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

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