NEW ISSUE - FULL BOOK-ENTRY

RATING: Moody's: "Aa2"
See "RATING" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, interest on the Refunding Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, interest on the Refunding Bonds is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the Refunding Bonds is exempt from California personal income taxes. See "TAX MATTERS."

$14,910,000
TRACY UNIFIED SCHOOL DISTRICT
(San Joaquin County, California)
2015 General Obligation Refunding Bonds

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

Authority and Purpose. The Tracy Unified School District (San Joaquin County, California) 2015 General Obligation Refunding Bonds (the "Refunding Bonds") are being issued by the Tracy Unified School District (the "District") pursuant to the laws of the State of California, a resolution of the Board of Education of the District adopted on January 13, 2015 (the "Bond Resolution") and a Paying Agent Agreement dated as of February 1, 2015 (the "Paying Agent Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A. The Refunding Bonds are being issued to refund a portion of the District's outstanding Election of 2006, Series 2008 General Obligation Bonds. See "THE REFUNDING BONDS – Authority for Issuance" and "THE REFINANCING PLAN."

Security for the Bonds. The Refunding Bonds are general obligations of the District. There are currently other series of general obligation bonds in the District that are similarly secured by *ad valorem* property tax levied on parcels in the District. See "SECURITY FOR THE REFUNDING BONDS."

Payments. Interest on the Refunding Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2015. Payments of principal and interest on the Refunding Bonds will be paid by the Paying Agent to The Depository Trust Company, New York, New York ("DTC") for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Refunding Bonds. See "THE REFUNDING BONDS - Description of the Refunding Bonds."

Redemption. The Refunding Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS –Redemption."

Book-Entry Only. The Refunding Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of DTC. Purchasers will not receive physical certificates representing their interests in the Refunding Bonds. See "THE REFUNDING BONDS – Description of the Refunding Bonds - Book-Entry Form" and "APPENDIX F - Book-Entry Only System."

MATURITY SCHEDULE
(see inside front cover)

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

The Refunding Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters also will be passed upon for the District by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. McFarlin & Anderson LLP will act as counsel to the Underwriter. It is anticipated that the Refunding Bonds in definitive form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about March 11, 2015.

STIFEL

The date of this Official Statement is: February 11, 2015

MATURITY SCHEDULE

TRACY UNIFIED SCHOOL DISTRICT
(San Joaquin County, California)
2015 General Obligation Refunding Bonds

Base CUSIP[(†)]: 892404

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP(†)
2015	$140,000	2.000%	0.200%	100.699	AV6
2016	135,000	2.000	0.300	102.354	AW4
2017	565,000	4.000	0.530	108.225	AX2
2018	650,000	4.000	0.750	110.854	AY0
2019	735,000	4.000	1.000	112.849	AZ7
2020	825,000	5.000	1.210	119.713	BA1
2021	550,000	3.000	1.440	109.488	BL7
2021	385,000	5.000	1.440	121.653	BB9
2022	1,035,000	5.000	1.710	122.743	BC7
2023	1,160,000	5.000	1.920	123.757	BD5
2024	1,285,000	5.000	2.090	124.689	BE3
2025	1,425,000	5.000	2.240	123.250 C	BF0
2026	1,565,000	5.000	2.400	121.737 C	BG8
2027	1,720,000	5.000	2.560	120.246 C	BH6
2028	1,875,000	3.000	3.130	98.584	BJ2
2029	860,000	3.000	3.250	97.142	BK9

[†] *Copyright 2015, CUSIP Global Services, and a registered trademark of the American Bankers Association. CUSIP data is by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the District nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.*

C = Priced to first par call on August 1, 2024.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

Involvement of Underwriter. The following statement has been for included in this Official Statement on behalf of the Underwriter: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT PURSUANT TO ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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

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

In connection with the offering of the Refunding Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of such Refunding Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time. The Underwriter may offer and sell Refunding Bonds to certain securities dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed by the Underwriter.

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

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TRACY UNIFIED SCHOOL DISTRICT
(SAN JOAQUIN COUNTY)
STATE OF CALIFORNIA

BOARD OF EDUCATION

Ted Guzman, *President*
Kelly Lewis, *Vice President*
Walter Gouveia, *Clerk*
Jill Costa, *Member*
Juana Dement, *Member*
Greg Silva, *Member*
James Vaughn, *Member*

DISTRICT ADMINISTRATIVE STAFF

Dr. Brian R. Stephens, *Superintendent*
Dr. Casey J. Goodall, *Associate Superintendent of Business Services*
Bonny Carter, *Director of Facilities and Planning*

FINANCIAL ADVISOR

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

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

PAYING AGENT and ESCROW BANK

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

ESCROW VERIFICATION

Causey Demgen & Moore, P.C.
Denver, Colorado

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$14,910,000
TRACY UNIFIED SCHOOL DISTRICT
(San Joaquin County, California)
2015 General Obligation Refunding Bonds

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the 2015 General Obligation Refunding Bonds captioned above (the **"Refunding Bonds"**) by the Tracy Unified School District (the "**District**").

INTRODUCTION

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

The District. The District, which covers approximately 425 square miles located in San Joaquin County (the **"County"** or **"San Joaquin County"**), provides educational services to the residents of the City of Tracy (the **"City"**) and surrounding unincorporated areas.

The District was formerly known as the Tracy Joint Unified School District during the period when the service area of the District included properties in both San Joaquin County and Alameda County. However, as a result of reorganization proceedings in 2010, the only elementary school district in Alameda County for which the District provided high school services was redirected to a different school district for such services, making San Joaquin County the only area serviced by the District. Subsequently, the District formally removed the word "Joint" from its name. Notwithstanding that the Alameda County portion of the District was removed from the District's service area, the reorganization proceedings provided that, for existing general obligation bonded indebtedness, the land in Alameda County that had formerly been part of the District would continue to subject to the levy and collection of taxes to pay debt service on such bonds, including bonds issued to refund such bonds. The term **"Original Area"** is used in this Official Statement to describe the territory of the District at the time it included both San Joaquin and Alameda County portions, prior to the reorganization proceedings, which Original Area is subject to taxation for payment of the Refunding Bonds.

The District currently operates seven kindergarten through fifth grade elementary schools, four kindergarten through eighth grade elementary schools, two middle schools, three comprehensive high schools, two alternative education schools, one adult school and one community day school. Total enrollment for the 2014-15 school year is estimated to be 17,405 students (including charter school enrollment). For more information regarding the District and its finances, see Appendix A and Appendix B attached hereto. See also Appendix C hereto for demographic and other statistical information regarding the City and San Joaquin County.

Purposes. The Refunding Bonds are being issued by the District to refund a portion of the District's outstanding General Obligation Bonds (Election of 2006, Series 2008) issued in the original principal amount of $17,000,000 on August 13, 2008, $16,535,000 of which is currently outstanding (the **"Series 2008 Bonds"**), and to pay costs of issuance. See "THE REFINANCING PLAN" herein.

Authority for Issuance of the Bonds. The Refunding Bonds will be issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, a resolution adopted by the Board of Education of the District on January 13, 2015 (the **"Refunding Bond Resolution"**) and a Paying Agent Agreement (the "**Paying Agent Agreement**"), dated as of February 1, 2015, by and between the District and The Bank of New York Mellon Trust Company, N.A., as paying agent (the **"Paying Agent"**). See "THE REFUNDING BONDS - Authority for Issuance" herein.

Payment and Registration of the Bonds. The Refunding Bonds are being issued as current interest bonds. The Refunding Bonds will be dated their date of original issuance and delivery (the "**Dated Date**") and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 or any integral multiple of $5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Refunding Bonds. See "THE REFUNDING BONDS" and "APPENDIX F –Book-Entry Only System."

Interest on the Refunding Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2015. See "THE REFUNDING BONDS - Description of the Refunding Bonds."

Redemption. The Refunding Bonds are subject to redemption prior to their maturity as described in "THE REFUNDING BONDS - Redemption."

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

The District has other series of general obligation bonds that are payable from *ad valorem* taxes levied on taxable property in the District. For a schedule of the general obligation bonds issued by the District, see "DEBT SERVICE SCHEDULES." See also "APPENDIX B - GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT - DISTRICT FINANCIAL INFORMATION - Long Term Borrowing."

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Refunding Bonds are available by request to the Office of the District Superintendent at Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California 95376; telephone (209) 830-3200. The District may impose a charge for copying, mailing and handling.

THE REFINANCING PLAN

General Plan; Refunded Bonds. On June 6, 2006, the qualified voters of the Original Area of the District authorized the issuance of $51,000,000 in general obligation bonds (the "**2006 Authorization**"). To finance the projects authorized by the 2006 Authorization, the District, in its former name of "Tracy Joint Unified School District," issued three series of bonds secured by the levy and collection of *ad valorem* taxes in the Original Area, including the Series 2008 Bonds. The Refunding Bonds are being issued by the District to refund, on an advance basis, certain maturities of the Series 2008 Bonds (the **"Refunded Bonds"**), as identified in the following table.

TRACY UNIFIED SCHOOL DISTRICT
Identification of Refunded Series 2008 Bonds

Maturities to be Refunded* (August 1)	CUSIP†	Principal Amount Redeemed	Redemption Date	Redemption Price (% of Par Amount Redeemed)
2017	892392 CF6	$425,000	08/01/2016	100.0%
2018	892392 CG4	505,000	08/01/2016	100.0
2019	892392 CH2	585,000	08/01/2016	100.0
2020	892392 CJ8	670,000	08/01/2016	100.0
2021	892392 CK5	765,000	08/01/2016	100.0
2023[T]	892392 CL3	1,840,000	08/01/2016	100.0
2025[T]	892392 CM1	2,300,000	08/01/2016	100.0
2027[T]	892392 CN9	2,835,000	08/01/2016	100.0
2029[T]	892392 CP4	3,395,000	08/01/2016	100.0
2033[T]	892392 CQ2	2,600,000	08/01/2016	100.0
		$15,920,000		

**The August 1, 2015 and August 1, 2016 maturities will not be refunded with the proceeds of the Refunding Bonds.*
†CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter are responsible for the accuracy of such data.
[T]Term Bonds.

Escrow Fund and Verification. The District will deliver the net proceeds of the Refunding Bonds to The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as escrow bank (the "**Escrow Bank"**), for deposit in an escrow fund (the "**Escrow Fund**") established under an Escrow Deposit and Trust Agreement (the "**Escrow Agreement**"), by and between the District and the Escrow Bank. The Escrow Bank will invest such funds in cash and certain federal securities, and will apply such funds, together with interest earnings thereon, to pay the principal of and interest on the Refunded Bonds, including the redemption price of the Refunded Bonds, as set forth above, together with accrued interest to the redemption dates shown above.

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Causey Demgen & Moore, P.C., certified public accountants, Denver, Colorado (the **"Verification Agent"**). See "VERIFICATION OF MATHEMATICAL ACCURACY" herein.

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

Tax for Payment of Refunding Bonds. Notwithstanding that the District no longer provides education services to the former Alameda County portion of the District, the reorganization proceedings provided that following the reorganization and boundary change, *ad valorem* taxes would continue to be levied and collected in the Original Area in an amount to pay debt service on all general obligation bonds, and refunding general obligation bonds (including the Refunding Bonds described herein), which were issued with respect to the Original Area.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount of Refunding Bonds	$14,910,000.00
Net Original Issue Premium (Discount)	2,310,623.05
Total Sources	$17,220,623.05
Uses of Funds	
Deposit to Escrow Fund	$17,019,473.74
Costs of Issuance*	201,149.31
Total Uses	$17,220,623.05

**All estimated costs of issuance including, but not limited to, printing costs, and fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, Escrow Bank, Underwriter's discount, verification agent and the rating agency.*

THE REFUNDING BONDS

Authority for Issuance

The Refunding Bonds will be issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the **"Bond Law"**), the Refunding Bond Resolution and the Paying Agent Agreement.

Other General Obligation Bond Indebtedness

In addition to the Series 2008 Bonds described under the caption "THE REFINANCING PLAN", the District currently has outstanding its 2014 General Obligation Refunding Bonds. With respect to School Facilities Improvement District No. 3 ("**SFID No. 3**"), which represents a portion of the District, the District has issued three series of bonds pursuant to the Election of 2008 Authorization, being the Series 2009 Bonds, Series 2011A Bonds and Series 2011B Bonds. Each of these general obligation bonds are payable from *ad valorem* taxes in the same manner as the Refunding Bonds, although taxes with respect to SFID No. 3 Bonds are levied only within the boundaries of SFID No. 3. See "DEBT SERVICE SCHEDULES - Combined General Obligation Bonds Debt Service" and "APPENDIX B – GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT – Long Term Borrowing.

Description of the Refunding Bonds

Book-Entry Form. The Refunding Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"). Purchasers of the Refunding Bonds (the "**Beneficial Owners**") will not receive physical certificates representing their interest in the Refunding Bonds. Payments of principal of and interest on the Refunding Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Refunding Bonds.

As long as DTC's book-entry method is used for the Refunding Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Refunding Bonds called for redemption or of any other action premised on such notice. See "APPENDIX F – Book-Entry Only System."

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

Principal and Interest Payments. The Refunding Bonds will be dated the Dated Date and will bear interest payable semiannually each February 1 and August 1 (each, an "**Interest Payment Date**"), commencing August 1, 2015, at the interest rates shown on the inside front cover page of this Official Statement. The Refunding Bonds will mature on August 1 in each of the years and in the principal amounts shown on the inside front cover page of this Official Statement. Interest on the Refunding Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond authenticated on or before July 15, 2015, shall bear interest from the date of the Refunding Bonds. Each Refunding Bond authenticated during the period between the 15th day of the month preceding any Interest Payment Date, whether or not such day is a business day (each, a "**Record Date**") and that Interest Payment Date shall bear interest from that Interest Payment Date. Any other Refunding Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If an Interest Payment Date does not fall on a business day, the interest, principal or redemption payment due on such Interest Payment Date will be paid on the next business day. If at the time of authentication of a Refunding Bond interest is in default thereon, such Refunding Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The Refunding Bonds will be issued in the denomination of $5,000 principal amount each or any integral multiple thereof. See the maturity schedule on the inside cover page of this Official Statement and "DEBT SERVICE SCHEDULES" herein.

Redemption

Optional Redemption. Refunding Bonds maturing on or before August 1, 2024 are not subject to redemption prior to their respective maturity dates. Refunding Bonds maturing on or after August 1, 2025, shall be subject to redemption at the option of the District on any date prior to their respective maturity dates as a whole or in part, in a manner designated by the District and, absent any such designation, pro rata among maturities and by lot within a maturity, from moneys provided by the District, in each case on and after August 1, 2024, at a redemption price equal to the principal amount of the Refunding Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Selection of Bonds for Redemption. Whenever less than all of the Refunding Bonds of any one maturity are designated for redemption, the Paying Agent will select the outstanding Bonds of such maturity to be redeemed by lot in any manner which the Paying Agent in its sole discretion deems appropriate. For purposes of such selection, each Bond will be deemed to consist of individual Bonds of $5,000 denominations each, which may be separately redeemed.

Notice of Redemption. The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Refunding Bonds designated for redemption, at their addresses appearing on the Registration Books. Such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Refunding Bonds.

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

Partial Redemption. Upon surrender of Refunding Bonds redeemed in part only, the District will execute and the Paying Agent will authenticate and deliver to the owner, at the expense of the District, a new Refunding Bond or Refunding Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Refunding Bond or Refunding Bonds.

Effect of Redemption. From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Refunding Bonds so called for redemption have been duly provided, such Refunding Bonds so called will cease to be entitled to any benefit under the Paying Agent Agreement, other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

Right to Rescind Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Refunding Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Refunding Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Paying Agent Agreement. The District and the Paying Agent have no liability to the owners of the Refunding Bonds or any other party related to or arising from such rescission of redemption. The Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Paying Agent Agreement.

Registration, Transfer and Exchange of Bonds

If the book-entry system as described above and in Appendix F is no longer used with respect to the Refunding Bonds, the following provisions will govern the registration, transfer, and exchange of the Refunding Bonds.

Registration Books. The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Refunding Bonds (the "**Registration Books**"), which will at all times be open to inspection by the District upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Refunding Bonds.

Transfer. Any Refunding Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

Whenever any Refunding Bond or Bonds are surrendered for transfer, the District will execute and the Paying Agent will authenticate and deliver a new Bond or Bonds, for like aggregate principal amount. No transfers will be required to be made (a) 15 days prior to a date established for selection of Bonds for redemption and (b) with respect to a Bond that has been selected for redemption.

Exchange. Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Refunding Bonds of authorized denominations and of the same maturity. The District may charge a reasonable sum for each new Refunding Bond issued upon any exchange. No exchanges will be required to be made (a) 15 days prior to a date established for selection of Refunding Bonds for redemption and (b) with respect to a Bond that has been selected for redemption.

Defeasance and Discharge of Paying Agent Agreement

Any or all of the Refunding Bonds may be paid by the District in any one or more of the following ways:

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

(b) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Paying Agent Agreement) to pay or redeem such Refunding Bonds; or

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

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

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

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

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

As used in the foregoing provisions, the term **"Federal Securities"** means United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

DEBT SERVICE SCHEDULES

Refunding Bonds Debt Service. The following table shows the semi-annual debt service schedule with respect to the Refunding Bonds (assuming no optional redemptions).

TRACY UNIFIED SCHOOL DISTRICT
Debt Service Schedule
2015 General Obligation Refunding Bonds

Date	Principal	Interest	Semi-Annual Total	Annual Total
8/1/15	$140,000.00	$253,575.00	$393,575.00	$393,575.00
2/1/16	--	324,625.00	324,625.00	--
8/1/16	135,000.00	324,625.00	459,625.00	784,250.00
2/1/17	--	323,275.00	323,275.00	--
8/1/17	565,000.00	323,275.00	888,275.00	1,211,550.00
2/1/18	--	311,975.00	311,975.00	--
8/1/18	650,000.00	311,975.00	961,975.00	1,273,950.00
2/1/19	--	298,975.00	298,975.00	--
8/1/19	735,000.00	298,975.00	1,033,975.00	1,332,950.00
2/1/20	--	284,275.00	284,275.00	--
8/1/20	825,000.00	284,275.00	1,109,275.00	1,393,550.00
2/1/21	--	263,650.00	263,650.00	--
8/1/21	935,000.00	263,650.00	1,198,650.00	1,462,300.00
2/1/22	--	245,775.00	245,775.00	--
8/1/22	1,035,000.00	245,775.00	1,280,775.00	1,526,550.00
2/1/23	--	219,900.00	219,900.00	--
8/1/23	1,160,000.00	219,900.00	1,379,900.00	1,599,800.00
2/1/24	--	190,900.00	190,900.00	--
8/1/24	1,285,000.00	190,900.00	1,475,900.00	1,666,800.00
2/1/25	--	158,775.00	158,775.00	--
8/1/25	1,425,000.00	158,775.00	1,583,775.00	1,742,550.00
2/1/26	--	123,150.00	123,150.00	--
8/1/26	1,565,000.00	123,150.00	1,688,150.00	1,811,300.00
2/1/27	--	84,025.00	84,025.00	--
8/1/27	1,720,000.00	84,025.00	1,804,025.00	1,888,050.00
2/1/28	--	41,025.00	41,025.00	--
8/1/28	1,875,000.00	41,025.00	1,916,025.00	1,957,050.00
2/1/29	--	12,900.00	12,900.00	--
8/1/29	860,000.00	12,900.00	872,900.00	885,800.00
Total:	$14,910,000.00	$6,020,025.00	$20,930,025.00	$20,930,025.00

Combined General Obligation Bonds Debt Service. The following table shows the combined debt service schedule with respect to other general obligation bond indebtedness in the District, including indebtedness of SFID No. 3, together with the Refunding Bonds (assuming no optional redemptions). See Appendix B – "District General and Financial Information – Long-Term Debt" for additional information on outstanding indebtedness.

TRACY UNIFIED SCHOOL DISTRICT
Combined Debt Service Schedule[(1)]

	District-wide Debt Service				SFID No. 3 Debt Service[(1)]			
Period Ending (Aug. 1)	Election of 2007, Series 2008	2014 Refunding Bonds	2015 Refunding Bonds	Aggregate Debt Service	Election of 2008, Series 2009	Election of 2008, Series 2011A	Election of 2008, Series 2011B	Aggregate Debt Service
2015	$287,875.00	$1,929,637.50	$393,575.00	$2,611,087.50	$655,925.00	$1,015,040.00	--	$1,670,965.00
2016	369,250.00	1,948,387.50	784,250.00	3,101,887.50	688,675.00	1,049,700.00	--	1,738,375.00
2017	--	1,974,137.50	1,211,550.00	3,185,687.50	719,825.00	1,087,800.00	--	1,807,625.00
2018	--	1,991,387.50	1,273,950.00	3,265,337.50	764,750.00	1,133,190.00	--	1,897,940.00
2019	--	2,015,387.50	1,332,950.00	3,348,337.50	806,950.00	1,186,600.00	--	1,993,550.00
2020	--	2,040,637.50	1,393,550.00	3,434,187.50	849,700.00	1,313,730.00	--	2,163,430.00
2021	--	2,061,887.50	1,462,300.00	3,524,187.50	891,700.00	1,357,300.00	--	2,249,000.00
2022	--	2,089,137.50	1,526,550.00	3,615,687.50	941,900.00	1,397,680.00	--	2,339,580.00
2023	--	2,111,887.50	1,599,800.00	3,711,687.50	988,250.00	1,444,900.00	--	2,433,150.00
2024	--	2,145,137.50	1,666,800.00	3,811,937.50	1,040,750.00	1,489,690.00	--	2,530,440.00
2025	--	2,163,537.50	1,742,550.00	3,906,087.50	633,850.00	1,998,050.00	--	2,631,900.00
2026	--	2,193,737.50	1,811,300.00	4,005,037.50	1,152,575.00	3,681,000.00	--	4,833,575.00
2027	--	2,222,287.50	1,888,050.00	4,110,337.50	1,207,150.00	--	$1,220,000.00	2,427,150.00
2028	--	2,253,437.50	1,957,050.00	4,210,487.50	1,271,500.00	--	1,215,517.50	2,487,017.50
2029	--	2,284,687.50	885,800.00	3,170,487.50	1,344,500.00	--	1,205,517.50	2,550,017.50
2030	--	2,318,200.00	--	2,318,200.00	1,416,500.00	--	1,200,517.50	2,617,017.50
2031	--	2,350,400.00	--	2,350,400.00	1,037,250.00	--	1,633,462.50	2,670,712.50
2032	--	2,028,000.00	--	2,028,000.00	1,104,000.00	--	1,636,610.00	2,740,610.00
2033	--	--	--	--	1,685,250.00	--	1,136,610.00	2,821,860.00
2034	--	--	--	--	--	--	2,856,610.00	2,856,610.00
2035	--	--	--	--	--	--	2,926,610.00	2,926,610.00
2036	--	--	--	--	--	--	3,000,365.00	3,000,365.00
2037	--	--	--	--	--	--	3,076,300.00	3,076,300.00
2038	--	--	--	--	--	--	3,151,540.00	3,151,540.00
2039	--	--	--	--	--	--	3,229,990.00	3,229,990.00
2040	--	--	--	--	--	--	3,310,190.00	3,310,190.00
2041	--	--	--	--	--	--	3,390,680.00	3,390,680.00
	$657,125.00	$38,121,912.50	$20,930,025.00	$59,709,062.50	$19,201,000.00	$18,154,680.00	$34,190,522.00	$71,546,202.00

(1) *General Obligation Bonds issued on behalf of SFID No. 3 are payable from* ad valorem *taxes levied and collected only within the boundaries of SFID No. 3.*

SECURITY FOR THE REFUNDING BONDS

Ad Valorem Taxes

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

Other Bonds Payable from Ad Valorem Property Taxes. The District has previously issued other general obligation bonds, which are also payable from *ad valorem* taxes levied on parcels in the District.

In addition to the general obligation bonds issued by the District, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* taxes levied on parcels in the District. See "PROPERTY TAXATION – Direct and Overlapping Debt" below.

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

District property taxes are assessed and collected by the Counties in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property. See "-Teeter Plan; Property Tax Collections" below.

Annual Tax Rates. The amount of the annual *ad valorem* tax levied by the Counties to repay the Refunding Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Refunding Bonds. Fluctuations in the annual debt service on the Refunding Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate.

Economic and other factors beyond the District's control, such as economic recession, deflation of property values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

Debt Service Fund

The San Joaquin County Treasurer-Tax Collector (the "**County Treasurer**") will establish a Debt Service Fund (the "**Debt Service Fund**") for the Refunding Bonds, which will be established as a separate fund to be maintained distinct from all other funds of the County. All taxes levied by the Counties for the payment of the principal of and interest and premium (if any) on the Refunding Bonds will be deposited in the Debt Service Fund by the County promptly upon the receipt of such tax revenues. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Refunding Bonds, when and as the same become due. The District will transfer amounts in the Debt Service Fund to the Paying Agent to the extent necessary to pay the principal of and interest and premium (if any) on the Refunding Bonds as the same becomes due and payable.

If, after payment in full of all general obligation bonds of the District, any amounts remain on deposit in the Debt Service Fund, such amounts shall be transferred by the County Treasurer to the general fund of the District, pursuant to Section 15234 of the Education Code, upon the written request of the District filed with the County Treasurer, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

Not a County Obligation

The Refunding Bonds are payable solely from the proceeds of an *ad valorem* tax levied in the Original Area and collected by the Counties, for the payment of principal and interest on the Refunding Bonds. Although the Counties are obligated to collect the *ad valorem* tax for the payment of the Refunding Bonds, the Refunding Bonds are not a debt of the Counties.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing (1) state assessed public utilities’ property and (2) property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

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

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

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

Taxation of State-Assessed Utility Property

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

Historic Assessed Valuations

The assessed valuation of property in the District is established by the respective Assessors of the Counties, except for public utility property which is assessed by the State Board of Equalization, as described above. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution. For a discussion of how properties currently are assessed, see Appendix B under the heading "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

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

The following table sets forth a ten-year history of the assessed value in the District, showing the total Original Area, which includes territory in both Alameda County and San Joaquin County. As shown in the tables below, only 1.8% of the total assessed valuation of the Original Area of the District is in Alameda County, with the remaining 98.2% of assessed value is located in San Joaquin County.

TRACY UNIFIED SCHOOL DISTRICT
Assessed Valuations
Fiscal Years 2005-06 through 2014-15

Fiscal Year	Local Secured	Utility[1]	Unsecured	Total	% Change
		Alameda County Portion			
2005-06	$39,742,487	$1,396,333	$16,327,454	$57,466,274	8.57%
2006-07	42,828,285	1,293,112	17,097,245	61,218,642	6.53
2007-08	46,725,930	2,995,856	22,482,417	72,204,203	17.94
2008-09	50,444,745	2,445,856	21,814,931	74,705,532	3.46
2009-10	51,185,867	18,615,856	21,920,470	91,722,193	22.78
2010-11	50,386,727	14,161,856	19,378,776	83,927,359	-8.50
2011-12	47,286,826	4,491,856	19,024,695	70,803,377	-15.64
2012-13	48,217,023	132,991,856	17,227,966	198,436,845	180.26
2013-14	46,035,686	188,991,856	18,216,336	253,243,878	27.62
2014-15	47,946,392	168,675,368	21,436,915	238,058,675	-6.00
		San Joaquin County Portion			
2005-06	$10,174,302,319	$148,500,843	$394,464,483	$10,717,267,645	18.20%
2006-07	12,364,319,590	134,214,163	430,676,342	12,929,210,095	20.64
2007-08	13,466,174,715	111,975,506	460,406,262	14,038,556,483	8.58
2008-09	12,982,191,468	106,671,161	536,968,699	13,625,831,328	-2.94
2009-10	11,022,894,090	107,610,743	523,841,290	11,654,346,123	-14.47
2010-11	10,612,995,237	94,011,457	494,908,712	11,201,915,406	-3.88
2011-12	10,142,437,194	86,411,790	461,047,408	10,689,896,392	-4.57
2012-13	10,161,069,490	204,210,861	499,694,219	10,864,974,570	1.64
2013-14	10,964,554,029	283,533,072	480,121,334	11,728,208,435	7.95
2014-15	12,384,071,041	225,833,072	561,647,820	13,171,551,933	12.31
		Total Original Area[2]			
2005-06	$10,214,044,806	$149,897,176	$410,791,937	$10,774,733,919	18.15%
2006-07	12,407,147,875	135,507,275	447,773,587	12,990,428,737	20.56
2007-08	13,512,900,645	114,971,362	482,888,679	14,110,760,686	8.62
2008-09	13,032,636,213	109,117,017	558,783,630	13,700,536,860	-2.91
2009-10	11,074,079,957	126,226,599	545,761,760	11,746,068,316	-14.27
2010-11	10,663,381,964	108,173,313	514,287,488	11,285,842,765	-3.92
2011-12	10,189,724,020	90,903,646	480,072,103	10,760,699,769	-4.65
2012-13	10,209,286,513	337,202,717	516,922,185	11,063,411,415	2.81
2013-14	11,010,589,715	472,524,928	498,337,670	11,981,452,313	8.30
2014-15	12,432,017,433	394,508,440	583,084,735	13,409,610,608	11.92

(1) Utility value increases in 2012-13 and 2013-14 are due to completion of two power plants within District boundaries: GWF Energy LLC in San Joaquin County and Mariposa Energy LLC in Alameda County

(2) Tracy Unified School District before Lammersville Joint Unified School District formed as an independent district (includes Lammersville Joint Unified School District.) The Refunding Bonds are secured by *ad valorem* taxes levied and collected in the Original Area.

Source: California Municipal Statistics, Inc.

Parcels by Land Use

The following table shows a breakdown of local secured property assessed value and parcels within the Original Area of the District by land use for fiscal year 2014-15.

TRACY UNIFIED SCHOOL DISTRICT
Local Secured Property Assessed Valuation and Parcels by Land Use
Fiscal Year 2014-15

Non-Residential:	2014-15 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Agricultural/Rural	$ 635,417,394	5.11%	2,407	6.70%
Commercial/Office	861,114,476	6.93	616	1.72
Vacant Commercial	90,327,665	0.73	178	0.50
Industrial	1,447,780,723	11.65	402	1.12
Vacant Industrial	97,846,718	0.79	169	0.47
Power Plants/Utility Roll	394,508,440	3.17	7	0.02
Recreational	31,522,431	0.25	50	0.14
Government/Social/Institutional	18,808,792	0.15	718	2.00
Miscellaneous	7,025,931	0.06	369	1.03
Subtotal Non-Residential	$3,584,352,570	28.83%	4,916	13.69%
Residential:				
Single Family Residence	$7,881,118,670	63.39%	26,548	73.93%
Condominium/Townhouse	81,593,502	0.66	721	2.01
Rural Residential	296,718,927	2.39	965	2.69
Mobile Home	12,717,278	0.10	502	1.40
Mobile Home Park	19,044,278	0.15	14	0.04
Hotel/Motel	43,593,429	0.35	14	0.04
2-4 Residential Units	124,437,283	1.00	529	1.47
5+ Residential Units/Apartments	132,620,555	1.07	108	0.30
Vacant Residential	255,820,941	2.06	1,594	4.44
Subtotal Residential	$8,847,664,863	71.17%	30,995	86.31%
Total	$12,432,017,433	100.00%	35,911	100.00%

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

Per Parcel Assessed Valuation of Single-Family Homes

The following table sets forth the per parcel assessed valuation of single-family homes in the Original Area of the District for fiscal year 2014-15.

TRACY UNIFIED SCHOOL DISTRICT
Per Parcel Assessed Valuation of Single-Family Homes
Fiscal Year 2014-15

	No. of Parcels	2014-15 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	26,548	$7,881,118,670	$296,863	$294,135

2014-15 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	57	0.215%	0.215%	$ 1,046,324	0.013%	0.013%
$25,000 - $49,999	351	1.322	1.537	13,919,547	0.177	0.190
$50,000 - $74,999	690	2.599	4.136	42,803,348	0.543	0.733
$75,000 - $99,999	570	2.147	6.283	49,278,576	0.625	1.358
$100,000 - $124,999	592	2.230	8.513	66,943,368	0.849	2.208
$125,000 - $149,999	875	3.296	11.809	120,326,713	1.527	3.734
$150,000 - $174,999	1,094	4.121	15.930	178,403,839	2.264	5.998
$175,000 - $199,999	1,386	5.221	21.150	260,556,757	3.306	9.304
$200,000 - $224,999	1,680	6.328	27.479	357,321,061	4.534	13.838
$225,000 - $249,999	2,060	7.760	35.238	489,054,083	6.205	20.044
$250,000 - $274,999	2,286	8.611	43.849	599,747,246	7.610	27.653
$275,000 - $299,999	2,048	7.714	51.563	588,145,669	7.463	35.116
$300,000 - $324,999	2,082	7.842	59.406	650,114,178	8.249	43.365
$325,000 - $349,999	2,120	7.986	67.391	715,438,863	9.078	52.443
$350,000 - $374,999	1,842	6.938	74.330	666,515,969	8.457	60.900
$375,000 - $399,999	1,522	5.733	80.063	588,744,761	7.470	68.371
$400,000 - $424,999	1,473	5.548	85.611	605,645,675	7.685	76.055
$425,000 - $449,999	1,210	4.558	90.169	528,937,885	6.711	82.767
$450,000 - $474,999	829	3.123	93.291	382,919,594	4.859	87.625
$475,000 - $499,999	561	2.113	95.405	272,787,586	3.461	91.087
$500,000 and greater	1,220	4.595	100.000	702,467,628	8.913	100.000
Total	26,548	100.000%		$7,881,118,670	100.000%	

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

Appeals and Adjustments of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the District.

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

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

Proposition 8 reductions may also be unilaterally applied by the County Assessor. While County Assessors typically attempt to consider declines in value and to assess all property at the lesser of market value or factored base year each year for every parcel, when there is widespread decline in property value, the County Assessor may elect to reduce assessed values without assessing individual properties, a practice known as "blanket" Proposition 8 reductions.

Any reduction in the assessment ultimately granted pursuant to Proposition 8 applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" in Appendix B.

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

The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Refunding Bonds to increase accordingly, so that the fixed debt service on the Refunding Bonds (and other outstanding general obligation bonds, if any) may be paid.

Teeter Plan; Property Tax Collections

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

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

Certain Risks Associated with Teeter Plan. The current practice of the County under the Teeter Plan is to pay the District 100% of the *ad valorem* taxes payable annually to the District in connection with general obligation bond indebtedness and to retain any penalties or delinquencies collected to offset such gross payment. *There can be no assurances that the County will continue this practice in the future, or that the County will not discontinue the Teeter Plan or remove the District from the Teeter Plan in the future.*

On September 13, 2011, the County Auditor-Controller recommended to the Board of Supervisors that all direct assessments be removed from the Teeter Plan for fiscal year 2011-12 and thereafter. The County Auditor-Controller's recommendation does not apply to the collection of *ad valorem* taxes levied to pay general obligation bonds. The Board of Supervisors, at its September 13, 2011 meeting, postponed making a decision on the County Auditor-Controller's recommendation and directed the County Auditor-Controller to work with appropriate County officials and staff to recommend the appropriate method of removing direct assessments from the Teeter Plan. After discussions and surveys of the affected agencies and meetings with County officials and staff, the County Auditor-Controller recommended to the Board of Supervisors at its June 26, 2012 meeting to remove code enforcement/civil penalties/administrative citation direct assessments, the City of Lathrop's Community Facilities District (CFD) 2006-1, and the non-public safety portion of the City of Lathrop's Community Facilities District 2006-2 from the Teeter Plan. The District is not aware of any further changes to the Teeter Plan at this time.

The following tables show a six-year history of secured tax charges and delinquencies in the District with respect to the one percent General Fund apportionment and the District's general obligation bond debt levy.

TRACY UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies [1]
Fiscal Years 2004-09 through 2013-14

Fiscal Year	Secured Tax Charge[2]	Amt. Del. June 30	% Del. June 30
2004-05	$17,659,083.94	(3)	(3)
2005-06	20,788,582.79	(3)	(3)
2006-07	24,523,160.92	(3)	(3)
2007-08	26,994,834.99	(3)	(3)
2007-08	26,994,834.99	(3)	(3)
2008-09	24,790,318.68	$1,378,785.74	5.56%
2009-10	20,480,066.33	726,427.65	3.55
2010-11	19,900,885.08	526,109.43	2.64
2011-12	16,914,677.98	381,565.99	2.26
2012-13	16,846,689.30	324,488.85	1.93
2013-14	18,313,514.70	279,376.54	1.53

Fiscal Year	Secured Tax Charge[4]	Amt. Del. June 30	% Del. June 30
2007-08	$2,798,954.98	(3)	(3)
2008-09	2,517,788.03	$173,329.32	6.88%
2009-10	2,512,257.23	98,646.14	3.93
2010-11	2,570,014.42	68,345.43	2.66
2011-12	2,623,281.65	51,113.66	1.95
2012-13	2,627,879.60	42,915.82	1.63
2013-14	2,710,974.19	28,173.92	1.04

Fiscal Year	Secured Tax Charge[5]	Amt. Del. June 30	% Del. June 30
2009-10	$1,191,118.53	$44,818.15	3.76%
2010-11	817,263.48	21,379.55	2.62
2011-12	1,459,784.82	30,451.44	2.09
2012-13	1,420,006.15	22,870.99	1.61
2013-14	1,443,186.41	13,971.93	0.97

(1) San Joaquin County utilizes the Teeter Plan for assessment levy and distribution.
(2) 1% General Fund apportionment.
(3) Delinquency information not available.
(4) District's Election of 2006 general obligation bond debt service levy.
(5) SFID No. 3 general obligation bond debt service levy.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 4-73 (a typical tax rate area in the District) for fiscal years 2011-12 through 2014-15. The 2014-15 assessed valuation of TRA 4-73 is $4.56 billion or approximately 34.0% of the total assessed valuation of the District.

TRACY UNIFIED SCHOOL DISTRICT
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 4-73)
Fiscal Years 2011-12 through 2014-15

	2011-12	2012-13	2013-14	2014-15
General Tax Rate	$1.0000	$1.0000	$1.0000	$1.0000
Tracy Unified School District Bonds	.0266	.0262	.0247	.0262
Tracy Unified School District SFID No. 3 Bonds	.0244	.0240	.0228	.0240
San Joaquin Delta Community College District Bonds	.0200	.0202	.0194	.0202
Total Tax Rate	$1.0710	$1.0704	$1.0669	$1.0704

Source: California Municipal Statistics Inc.

Top 20 Property Owners

General. The 20 taxpayers in the Original Area of the District with the greatest combined assessed valuation of taxable property on the fiscal year 2014-15 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) which is owned by a single taxpayer in the District, the greater amount of tax collections are exposed to weaknesses in the taxpayer's financial situation and ability or willingness to pay property taxes. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below.

TRACY UNIFIED SCHOOL DISTRICT
Top 20 Secured Property Taxpayers
Fiscal Year 2014-15

	Property Owner	Primary Land Use	2014-15 Assessed Valuation	% of Total (1)
1.	Shea Homes LP / Shea Mountainhouse LLC	Residential Development	$ 233,827,976	1.88%
2.	GWF Energy LLC	Power Plant	208,723,838	1.68
3.	Mariposa Energy LLC	Power Plant	164,900,000	1.33
4.	Costco Wholesale Corp.	Food Processing	164,411,560	1.32
5.	Prologis Logistics Services Inc.	Warehouse	153,276,214	1.23
6.	Safeway Inc.	Warehouse	113,557,214	0.91
7.	Owens Brockway Glass Container	Industrial	105,586,586	0.85
8.	Leprino Foods Company Corp.	Food Processing	95,801,391	0.77
9.	Tracy Mall Partners LP	Shopping Center/Mall	86,139,607	0.69
10.	Califia LLC	Residential Development	55,849,342	0.45
11.	Tracy Hills Project Owner LLC	Residential Development	55,229,808	0.44
12.	Pac Corporate Center Tracy	Warehouse	53,902,064	0.43
13.	Central Valley Limited Liability	Warehouse	53,531,077	0.43
14.	First Industrial Pennsylvania LP	Industrial	49,850,222	0.40
15.	Granite Construction Co. Corp.	Industrial	47,129,429	0.38
16.	Duke Realty LP	Warehouse	43,434,122	0.35
17.	Inland Container Corp.	Industrial	34,724,551	0.28
18.	TCE Tracy LLC	Warehouse	32,860,745	0.26
19.	Excel Tracy Pavilion LLC	Shopping Center	32,115,145	0.26
20.	Car Corral Hollow LLC	Shopping Center	31,309,394	0.25
			$1,816,160,285	14.61%

(1) 2014-15 local secured assessed valuation: $12,432,017,433.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt Obligations

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and dated as of January 1, 2015. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

TRACY UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated As of January 1, 2015

2014-15 Assessed Valuation: $13,409,610,608

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 1/1/15	
Bay Area Rapid Transit District	0.042%	$ 264,934	
San Joaquin Delta Community College District	20.573	29,921,047	
Tracy Joint Unified School District	**100.000**	**43,250,000**	(1)
Tracy Joint Unified School District School Facilities Improvement District No. 3	100.000	31,907,637	
Jefferson School District	100.000	33,010,733	
Banta School District	100.000	630,000	
Lammersville Joint Unified School District Community Facilities District No. 2002	100.000	66,007,914	
Lammersville Joint Unified School District Community Facilities District No. 2007-1	100.000	24,535,000	
River Islands Public Financing Authority Community Facilities District No. 2003	100.000	60,385,000	
City of Tracy Community Facilities Districts	100.000	109,150,000	
City of Tracy 1915 Act Bonds	100.000	7,955,000	
California Statewide Communities Development Authority 1915 Act Bonds	100.000	7,100,442	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$414,117,707	
OVERLAPPING GENERAL FUND DEBT:			
Alameda County General Fund Obligations	0.108%	$ 946,889	
Alameda County Pension Obligation Bonds	0.108	72,537	
San Joaquin County Certificates of Participation	21.195	33,618,767	
New Jerusalem School District Certificates of Participation	100.000	3,910,000	
Lammersville Joint Unified School District Lease Revenue Notes	100.000	30,345,000	
City of Lathrop General Fund Obligations	4.032	280,224	
City of Stockton General Fund Obligations	0.004	4,975	
City of Stockton Pension Obligation Bonds	0.004	4,799	
City of Tracy General Fund Obligations	100.000	22,830,000	
Byron-Bethany Irrigation District General Fund Obligations	82.859	3,997,947	
TOTAL OVERLAPPING GENERAL FUND DEBT		$96,011,138	
OVERLAPPING TAX INCREMENT DEBT:		$44,975,000	
COMBINED TOTAL DEBT		$555,103,845	(2)

(1) Excludes the Refunding Bonds described herein. Includes the Refunded Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2014-15 Assessed Valuation:
Direct Debt ($43,250,000)..0.32%
Total Direct and Overlapping Tax and Assessment Debt.......3.09%
Combined Total Debt 4.14%

Ratios to Redevelopment Incremental Valuation ($908,535,322):
Total Overlapping Tax Increment Debt 4.95%

Source: California Municipal Statistics, Inc.

CONTINUING DISCLOSURE

The District will execute a Continuing Disclosure Certificate in connection with the issuance of the Refunding Bonds in the form attached hereto as Appendix E. The District has covenanted therein, for the benefit of holders and beneficial owners of the Refunding Bonds to provide certain financial information and operating data relating to the District (an **"Annual Report"**) to the Municipal Securities Rulemaking Board not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing March 31, 2016 with the report for the 2014-15 fiscal year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Purchasers of the Refunding Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the **"Rule"**).

The District has existing disclosure undertakings that have been made pursuant to the Rule in connection with the issuance of other outstanding general obligation bonds. See Appendix B under the heading "FINANCIAL INFORMATION – Long-Term Debt." Instances of non-compliance with undertakings in the previous five years are that top taxpayers in School Facilities Improvement District No. 3 were not included in filings made with respect to its bonds for fiscal years ending 2009 through 2013. In addition, event notices relating to underlying rating changes and insured rating changes occurring in the previous five years were not made in a timely manner. Supplemental filings have been made to address these items. Identification of these instances of non-compliance is not a representation that such non-compliance has been deemed material by the District for purposes of the Rule.

The District elected to participate in the Securities and Exchange Commission's (the Municipalities Continuing Disclosure Cooperation Initiative (the **"Initiative"**) prior to the December 1, 2014 filing deadline. The purpose of the Initiative is to encourage issuers and underwriters of municipal securities to self-report possible violations involving materially inaccurate statements relating to prior compliance with their continuing disclosure undertakings.

The District currently contracts with outside entities to serve as dissemination agent with respect to each such of its general obligation bond undertakings, including the undertaking with respect to the Refunding Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

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

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

CERTAIN LEGAL MATTERS

Absence of Material Litigation

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

Legal Opinion

The proceedings in connection with the issuance of the Refunding Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel for the District (**"Bond Counsel"**). The opinion of Bond Counsel with respect to the Refunding Bonds will be delivered in substantially the form attached hereto as Appendix D. Certain legal matters will also be passed upon for the District by Jones Hall, as Disclosure Counsel (**"Disclosure Counsel"**). The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Refunding Bonds.

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Refunding Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the **"Tax Code"**) that must be satisfied subsequent to the issuance of the Refunding Bonds. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Refunding Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Refunding Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Refunding Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes **"original issue discount"** for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Refunding Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes **"original issue premium"** for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

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

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

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

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

Other Tax Considerations

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

Future legislation, if enacted into law, or clarification of the Tax Code may cause interest on the Refunding Bonds to be subject to, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Refunding Bonds from realizing the full current benefit of the tax status of such interest.

For example, various proposals have been made in Congress and by the President that, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Refunding Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of certain specified thresholds.

The introduction or enactment of any such future legislation or clarification of the Tax Code may also affect the market price for, or marketability of, the Refunding Bonds. Prospective purchasers of the Refunding Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

RATING

Moody's Investors Services (**"Moody's"**) has assigned a rating of "Aa2" to the Refunding Bonds. The District has provided certain additional information and materials to Moody's (some of which does not appear in this Official Statement). Such rating reflects only the view of Moody's and an explanation of the significance of such rating and outlook may be obtained only from Moody's. There is no assurance that any credit ratings given to the Refunding Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by Moody's if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Refunding Bonds.

UNDERWRITING

Stifel, Nicolaus & Company, Inc. (the "**Underwriter**") has agreed to purchase the Refunding Bonds at a price of $17,168,438.05 (which is equal to the initial principal amount of the Refunding Bonds, plus net original issue premium of $2,310,623.05 and less Underwriter's discount of $52,185.00) pursuant to the terms of a Bond Purchase Agreement with respect to the Refunding Bonds. The purchase contract relating to the Refunding Bonds provides that the Underwriter will purchase all of the Refunding Bonds (if any are purchased), and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

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

ADDITIONAL INFORMATION

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

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District. The District may impose charges for copying, mailing and handling.

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 Refunding Bonds.

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

TRACY UNIFIED SCHOOL DISTRICT

By: /s/ *Casey J. Goodall*
Associate Superintendent of Business Services

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDING JUNE 30, 2014

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TRACY UNIFIED
SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
JUNE 30, 2014

TRACY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2014

FINANCIAL SECTION

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
Tracy Unified School District
Tracy, 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 the Tracy Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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 Tracy Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and the General Fund -Budgetary Comparison Schedule and Schedule of Other Post Employment Benefits (OPEB) Funding Progress, 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 Tracy Unified School District's basic financial statements. The accompanying supplementary information such as the Combining Statements - Nonmajor Governmental Funds and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the other supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the Tracy Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tracy Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 15, 2014

This section Tracy Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

The Primary unit of the government is Tracy Unified School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *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.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $293.6 million for the fiscal year ended June 30, 2014. Of this amount, $24.7 million was unrestricted. Restricted net position is reported separately to shows legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2014	**2013**
Current and other assets	$ 72.1	$ 72.9
Capital assets	317.7	325.0
Total Assets	**389.8**	**397.9**
Current liabilities	6.8	8.5
Long-term debt	86.5	84.0
Total Liabilities	**93.3**	**92.5**
Deferred inflows of resources	**2.9**	-
Net position		
Net investment in capital assets	250.9	259.4
Restricted	18.0	14.0
Unrestricted	24.7	32.0
Total Net Position	**$ 293.6**	**$ 305.4**

The $24.7 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 7.3 percent ($24.7 million compared to $32.0 million).

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities	
	2014	**2013**
Revenues		
Program revenues:		
Charges for services	$ 3.5	$ 3.0
Operating grants and contributions	20.2	20.7
Capital grants and contributions	5.9	-
General revenues:		
Federal and State aid	83.5	74.4
Property taxes	28.8	28.0
Other general revenues	6.9	6.9
Total Revenues	**148.8**	**133.0**
Expenses		
Instruction	92.7	84.4
Instruction-related	22.0	15.6
Student support services	15.2	14.4
Administration	5.7	6.0
Maintenance and operations	14.5	14.2
Other	10.5	6.5
Total Expenses	**160.6**	**141.1**
Change in Net Position	**$ (11.8)**	**$ (8.1)**

Governmental Activities

As reported in the *Statement of Activities* on page 14, the cost of all of our governmental activities this year was $160.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $28.8 million because the cost was paid by those who benefited from the programs ($3.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($26.1 million). We paid for the remaining "public benefit" portion of our governmental activities with $83.5 million in Federal and State funds, and with other revenues, like interest and general entitlements.

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

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction	$ 92.7	$ 84.4	$ 77.9	$ 74.0
Instruction related activities	22.0	15.6	17.6	13.1
Pupil services	15.2	14.4	8.8	6.6
General administration	5.7	6.0	4.8	5.3
Plant services and construction	14.5	14.2	14.2	14.0
Ancillary and community services	1.2	1.2	1.2	1.1
Other	9.3	5.3	6.5	3.2
Totals	**$ 160.6**	**$ 141.1**	**$ 131.0**	**$ 117.3**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $66.7 million, which is a decrease of $1.2 million from last year (Table 4).

Table 4

(Amounts in millions)	Fund Balance	
	2014	2013
General	$ 32.7	$ 39.3
Cafeteria	3.5	3.2
Building	16.5	15.1
County School Facilities	0.9	0.9
Capital Facilities	6.1	3.7
Special Reserve-Capital Outlay	0.6	0.5
TSFFA Bond Interest and Redemption	2.2	1.2
Bond Interest and Redemption	4.2	4.0
Totals	**$ 66.7**	**$ 67.9**

The primary reasons for these increases/decreases are:

- The General Fund is the District's principal operating fund. The fund balance in the General Fund decreased by $6.6 million, to $32.7 million. During the 2013-14 fiscal year, expenditures were increased due to salary increases, expenditures related to Common Core implementation, and various facility projects.
- Building Fund balance increased $1.4 million, to $16.5 million due to net transfers to and from the Capital Facilities Fund.
- The County School Facilities Fund held steady at $0.9 million.
- The Special Reserve - Capital Outlay Fund increased slightly to $0.6 million.
- The Bond Interest and Redemption Fund increased $0.2 million to $4.2 million. The increase is the result of the current year property tax receipts exceeding required current year expenditures.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 24, 2014. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 51).

- Significant revenue revisions made to the 2013-2014 Budget were due to increased equalization aid that was announced by the governor after the budget adoption.
- Budgeted expenditures increased by $4.2 million due to the collective bargaining settlement reached during 2013-2014.
- Budgeted expenditures increased due to prior year carry-overs and facility projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had $317.8 million in a broad range of capital assets (net of depreciation), including land, construction in progress, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $7.2 million or 2 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Capital Assets	
	2014	**2013**
Land and construction in progress	$ 31.5	$ 63.0
Buildings and improvements	382.7	347.4
Equipment	16.0	15.0
Subtotal	430.2	425.4
Accumulated Depreciation	(112.4)	(100.4)
Net Capital Assets	$ 317.8	$ 325.0

This year's additions of $4.9 million included several vehicles, cafeteria equipment and classroom equipment such as computers. No debt was issued for these additions.

As discussed in the Note 13 of the Financial Statements, the District has construction commitments in the amount of $1.7 million expected to be completed during the 2014 calendar year.

We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $78.6 million in bonds outstanding versus $80.5 million last year, a decrease of less than 1 percent. The long-term obligations consisted of:

Table 6

(Amounts in millions)	Long Term Obligations	
	2014	2013
General obligation bonds		
(financed with property taxes)	$ 78.6	$ 80.5
Bond premium, net	1.7	-
Compensated absences	-	0.1
Capital leases	0.1	0.1
Supplemental early retirement plan	0.4	1.0
Other postemployment benefits	5.7	4.4
Totals	**$ 86.5**	**$ 86.1**

The Tracy School Facilities Financing Authority (TSFFA) is a component unit of the Tracy Unified School District and was organized to facilitate funding of general obligation bonds. See page 22 for more information about the TSFFA. Individually prepared financial statements for the TSFFA may be obtained through the business office of the District.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits), capital leases and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

- Completed most of the construction of the Tracy High School Shop, Weight Room, EB Theater, and completed the Tracy High School Stadium.
- Successful passage of Bond Measure B as a funding mechanism for the improvement of the older elementary schools, and to a lesser degree, all other elementary schools.
- Development of the District's first Local Control Accountability Plan (LCAP)
- Effectively maintained a positive reserve in the General Fund without the need for budget reductions.
- Advanced work on implementing "Continuous Improvement Model" through continued implementation of the Data Wise Data Warehouse system allowing teachers and administrators quick and easy access to student assessment data. Also continued Data Teams at the district and site level allowing district and sites to effectively analyze data on a regular basis in order to monitor student achievement and program effectiveness.
- Continued to offer CAHSEE remediation courses and PLATO software to assist students in need of remediation.
- Continued a sustained focus and study of diversity in the district and research into best practices to more adequately and appropriately serve the diverse population of the community.
- Continued the effective Cyber High online credit recovery system.
- Continued offering AVID program for grades 7-12.
- Continued to make student and staff safety our number one priority by growing the District School Safety Task Force.

- Continued to train staff and collect resources to support anti-bullying and tolerance efforts.
- Continued to enhance and expand work toward a seamless and paperless environment through increased use of the staff portal system and email.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2014-2015 year, the governing board and management used the following criteria:

The key assumptions in our revenue projections are:

1. Local Control Funding Formula.
2. Developer fee collections are based on approximate new housing units to be constructed.

Expenditures are based on the following projections:

	Staffing Ratio	Enrollment
Grades kindergarten through third	21.1:1	3,960.70
Grades four through eight	24.2:1	5,290.97
Grades nine through twelve	24.5:1	6,128.18

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Associate Superintendent, Business Services, at Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California, 95376, or e-mail at cgoodall@tusd.net.

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2014

		Governmental Activities
ASSETS		
Deposits and investments	$	53,136,245
Receivables		17,189,303
Prepaid expenses		1,484,157
Stores inventories		298,353
Capital assets not depreciated		31,449,270
Capital assets, net of accumulated depreciation		286,323,204
Total Assets		389,880,532
LIABILITIES		
Accounts payable		5,249,950
Interest payable		1,362,665
Unearned revenue		178,072
Current portion of long-term obligations		2,438,876
Noncurrent portion of long-term obligations		84,153,150
Total Liabilities		93,382,713
DEFERED INFLOWS OF RESOURCES		
Deferred charge on refunding		2,934,963
Total Deferred Inflows of Resources		2,934,963
NET POSITION		
Net investment in capital assets		250,920,067
Restricted for:		
Debt service		4,870,769
Capital projects		7,101,308
Educational programs		2,370,753
Other activities		3,576,311
Unrestricted		24,723,648
Total Net Position	$	293,562,856

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

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:					
Instruction	$ 92,727,981	$ 263,016	$ 8,755,113	$ 5,859,081	$ (77,850,771)
Instruction-related activities:					
Supervision of instruction	3,428,627	30,845	903,675	-	(2,494,107)
Instructional library, media, and technology	9,579,139	-	3,211,705	-	(6,367,434)
School site administration	8,982,014	29,455	236,251	-	(8,716,308)
Pupil services:					
Home-to-school transportation	4,990,967	-	85,591	-	(4,905,376)
Food services	5,004,815	1,203,928	4,009,815	-	208,928
All other pupil services	5,199,663	13,527	1,131,872	-	(4,054,264)
General administration:					
All other general administration	5,680,241	73,429	836,047	-	(4,770,765)
Plant services	14,435,998	53,971	92,500	-	(14,289,527)
Ancillary services	1,066,466	-	-	-	(1,066,466)
Community services	142,731	-	-	-	(142,731)
Interest on long-term debt	7,457,666	-	-	-	(7,457,666)
Other outgo	1,902,729	1,874,209	936,095	-	907,575
Total Governmental-Type Activities	$ 160,599,037	$ 3,542,380	$ 20,198,664	$ 5,859,081	(130,998,912)

General revenues and subventions:	
Property taxes, levied for general purposes	23,613,109
Property taxes, levied for debt service	4,759,280
Taxes levied for other specific purposes	430,045
Federal and State aid not restricted to specific purposes	83,505,191
Interest and investment earnings	93,552
Interagency revenues	89,638
Miscellaneous	6,682,180
Subtotal, General Revenues	119,172,995
Change in Net Position	(11,825,917)
Net Position - Beginning	305,388,773
Net Position - Ending	$ 293,562,856

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

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TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 18,474,925	$ 16,895,371	$ 4,128,490
Receivables	16,610,971	11,166	-
Due from other funds	1,177,269	430,045	-
Prepaid expenses	1,466,942	-	-
Stores inventories	156,707	-	-
Total Assets	$ 37,886,814	$ 17,336,582	$ 4,128,490
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 4,610,273	$ -	$ -
Due to other funds	434,711	764,202	-
Unearned revenue	178,072	-	-
Total Liabilities	5,223,056	764,202	-
Fund Balances:			
Nonspendable	1,638,649	-	-
Restricted	2,370,753	16,572,380	4,128,490
Committed	-	-	-
Assigned	24,647,090	-	-
Unassigned	4,007,266	-	-
Total Fund Balance	32,663,758	16,572,380	4,128,490
Total Liabilities and Fund Balances	$ 37,886,814	$ 17,336,582	$ 4,128,490

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

Non Major Governmental Funds	Total Governmental Funds
$ 13,637,459	$ 53,136,245
567,166	17,189,303
25,766	1,633,080
17,215	1,484,157
141,646	298,353
$ 14,389,252	$ 73,741,138
$ 639,677	$ 5,249,950
434,167	1,633,080
-	178,072
1,073,844	7,061,102
158,860	1,797,509
12,623,703	35,695,326
532,845	532,845
-	24,647,090
-	4,007,266
13,315,408	66,680,036
$ 14,389,252	$ 73,741,138

TRACY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT NET POSITION
JUNE 30, 2014

Total Fund Balance - Governmental Funds		**$ 66,680,036**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 430,226,489	
Accumulated depreciation is	(112,454,015)	
Net Capital Assets		317,772,474
Interest on long-term obligations is only recognized at the time it is due, however, the unmatured interest is recorded as a liability on the statement of net assets.		(1,362,665)
Gain on debt refunding is not reported in governmental funds but relates to future periods and is reported as a deferred inflow of resources on the statement of net position.		(2,934,963)
Long-term obligations at year end consist of:		
Bonds payable	78,673,794	
Bond premium, net of amortization	1,700,758	
Capital leases payable	115,272	
Compensated absences (vacations)	25,220	
Net OPEB obligation	5,729,235	
Supplementary early retirement plan	347,747	
Total Long-Term Obligations		(86,592,026)
Total Net Position - Governmental Activities		**$ 293,562,856**

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

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TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDEN JUNE 30, 2014

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	$ 103,621,529	$ -	$ -
Federal sources	6,107,336	-	-
Other state sources	11,829,933	-	41,870
Other local sources	8,109,123	471,394	4,723,076
Total Revenues	129,667,921	471,394	4,764,946
EXPENDITURES			
Current			
Instruction	81,415,274	-	-
Instruction-related activities:			
Supervision of instruction	3,393,122	-	-
Instructional library, media and technology	9,223,674	-	-
School site administration	8,822,082	-	-
Pupil services:			
Home-to-school transportation	4,359,340	-	-
Food services	13,077	-	-
All other pupil services	5,147,771	-	-
General administration:			
All other general administration	5,609,730	-	-
Plant services	14,450,342	29,211	-
Facility acquisition and construction	820,701	547,523	-
Ancillary services	1,055,823	-	-
Community services	141,307	-	-
Other outgo	1,902,729	-	-
Debt service			
Principal	63,396	-	1,382,000
Interest and other	315	-	3,217,385
Total Expenditures	136,418,683	576,734	4,599,385
Excess (Deficiency) of Revenues Over Expenditures	(6,750,762)	(105,340)	165,561
Other Financing Sources (Uses):			
Transfers in	95,046	5,427,196	-
Other sources	42,542	-	29,545,198
Transfers out	-	(3,818,101)	-
Other uses	-	-	(29,545,198)
Net Financing Sources (Uses)	137,588	1,609,095	-
NET CHANGE IN FUND BALANCES	(6,613,174)	1,503,755	165,561
Fund Balance - Beginning	39,276,932	15,068,625	3,962,929
Fund Balance - Ending	$ 32,663,758	$ 16,572,380	$ 4,128,490

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

Non Major Governmental Funds	Total Governmental Funds
$ -	$ 103,621,529
4,892,869	11,000,205
6,303,347	18,175,150
2,672,643	15,976,236
13,868,859	148,773,120
107,518	81,522,792
1,288	3,394,410
-	9,223,674
36,410	8,858,492
-	4,359,340
4,856,994	4,870,071
-	5,147,771
243,317	5,853,047
244,268	14,723,821
2,855,383	4,223,607
-	1,055,823
-	141,307
-	1,902,729
-	1,445,396
52,448	3,270,148
8,397,626	149,992,428
5,471,233	(1,219,308)
3,820,631	9,342,873
-	29,587,740
(5,524,772)	(9,342,873)
-	(29,545,198)
(1,704,141)	42,542
3,767,092	(1,176,766)
9,548,316	67,856,802
$ 13,315,408	$ 66,680,036

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balance - Governmental Funds		**$ (1,176,766)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlay in the period.		
Depreciation expense	$ (12,108,147)	
Capital outlays	4,884,069	
Net Expense Adjustment		(7,224,078)
Payment of capital assets were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(42,542)
In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used were more than the amounts earned.		117,320
Proceeds (includes premium) received from the sale of bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net position and does not affect the statement of activities.		(3,650,721)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		1,382,000
Payment of principal on long-term capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		63,396
In the Statement of Activities, unfunded Annual Required Contribution (ARC) is recognized as an expense, but is not recognized in the governmental funds.		(1,371,032)
In the Statement of Activities, the supplementary early retirement plan is recognized as a liability, but is not recognized in the governmental funds until payment is due.		613,303
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(536,797)
Change in Net Position of Governmental Activities		**$ (11,825,917)**

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

TRACY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2014

		Agency Fund
ASSETS		
Deposits and investments	$	1,104,319
Total Assets	$	1,104,319
LIABILITIES		
Due to student groups	$	1,104,319
Total Liabilities	$	1,104,319

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Tracy Unified School District was unified on July 1, 1997 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates eight K-5 schools, four K-8 schools, two high schools, two continuation high schools, a community day school, and adult educational classes.

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 Tracy Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component unit, although a legally separate entity is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Tracy School Facilities Financing Authority's financial activity is presented in the financial statements as the TSFFA Bond Interest and Redemption Fund. Bonds issued by the Authority and purchased by the District are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements of the Authority may be obtained through the business office of the District.

Charter School The District has approved four Charter Schools pursuant to *Education Code* Section 47605. They are Discovery Charter, Primary Charter, Millennium Charter, and Kaplan Academy of California. The Charter Schools are operated by Tracy Learning Center which is not considered a component unit of the District. The District receives revenue on behalf of the Charter Schools which it passes on to the Charters. This activity is not accounted for in District funds.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for other than Capital Outlay do not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve for other than Capital Outlay being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, liabilities, fund balance, revenues and expenditures of $9,569,545, $2,725, $10,280,541, $177,905 and $501,079, respectively.

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

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

Non-Major Governmental Funds

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

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

TSFFA Fund The TSFFA Fund is used to account for the activity related to the TSFFA component unit bond repayments.

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

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

County School Facilities Fund The County Schools Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition ID) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Green School Facilities Act of 1998 (*Education Code* Section 17010 et seq.).

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

Community Facilities District Fund (Building CFD) The Community Facilities District Fund is used to account for the activity related to funds received from the Tracy Area Public Facilities Financing Agency.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days.

However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Investments

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

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

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. 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 expenditures over the benefiting period.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position, except for the net residual amounts due between governmental activities, which are presented as internal balances.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances – Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted minimum fund balance for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Interfund Activity

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

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

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

For budget purposes on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

Changes in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The implementation of this Statement does not have significant impact to the District.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68*, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No.68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental funds	$ 53,136,245
Fiduciary fund	1,104,319
Total Deposits and Investments	$ 54,240,564

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	$ 3,395,750
Cash in revolving	15,000
Investments	50,829,814
Total Deposits and Investments	$ 54,240,564

Policies and Practices

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

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

The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing substantially all of its funds in the County Treasury pool. The fair value of the deposits with the County Treasurer at June 30, 2014, was $50,850,147 and the weighted average maturity of the pool was 281 days.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, approximately $1,072,100 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's custodial credit risk is limited as all funds were invested in the county investment pool.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	$ 1,574,955	$ -	$ 489,591	$ 2,064,546
State Government				
Principal apportionment	12,300,398	-	28,012	12,328,410
Categorical aid	1,706,454	-	29,166	1,735,620
Lottery	516,727	-	-	516,727
Local Government				
Interest	17,954	11,166	6,528	35,648
Other Local Sources	494,483	-	13,869	508,352
Total	$ 16,610,971	$ 11,166	$ 567,166	$ 17,189,303

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 37,011,603	$ 32,834	$ 9,920,422	$ 27,124,015
Construction in Progress	25,935,219	3,457,455	25,067,419	4,325,255
Total Capital Assets Not Being Depreciated	62,946,822	3,490,289	34,987,841	31,449,270
Capital Assets Being Depreciated:				
Land Improvements	24,231,924	12,815	-	24,244,739
Buildings and Improvements	323,102,075	35,435,248	-	358,537,323
Furniture and Equipment	7,488,124	416,358	-	7,904,482
Vehicles	7,573,475	517,200	-	8,090,675
Total Capital Assets Being Depreciated	362,395,598	36,381,621	-	398,777,219
Total Capital Assets	425,342,420	39,871,910	34,987,841	430,226,489
Less Accumulated Depreciation:				
Land Improvements	9,889,322	1,883,826	-	11,773,148
Buildings and Improvements	81,115,007	8,974,963	-	90,089,970
Furniture and Equipment	3,573,464	695,526	-	4,268,990
Vehicles	5,768,075	553,832	-	6,321,907
Total Accumulated Depreciation	100,345,868	12,108,147	-	112,454,015
Governmental Activities Capital Assets, Net	$ 324,996,552	$ 27,763,763	$ 34,987,841	$ 317,772,474

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

Governmental Activities	
Instruction	$ 10,414,643
Supervision of instruction	
Instructional library, media, and technology	262,486
School site administration	34,224
Home-to-school transportation	587,683
Food services	85,651
All other general administration	499,244
Plant services	224,216
Total Depreciation Expenses Governmental Activities	$ 12,108,147

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds are as follows:

	Due From			
Due To	General Fund	Building Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 430,045	$ 4,666	$ 434,711
Building Fund	764,202	-	-	764,202
Non-Major Governmental Funds	413,067	-	21,100	434,167
Total	$ 1,177,269	$ 430,045	$ 25,766	$ 1,633,080

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfer From			
Transfer To	General Fund	Building Fund	Non-Major Governmental Funds	Total
Building Fund	18,101	-	3,800,000	3,818,101
Non-Major Governmental Funds	76,945	5,427,196	20,631	5,524,772
Total	$ 95,046	$ 5,427,196	$ 3,820,631	$ 9,342,873

The Building Fund transferred to the General Fund to cover administrative expenditure reimbursement.	$ 18,101
The Building Fund transferred to the County Schools Facility Fund for construction expenditure reimbursement.	3,800,000
The County School Facilities Fund transferred to the General Fund for construction expenditure reimbursement.	76,740
The County School Facilities Fund transferred to the Building Fund for construction expenditure reimbursement.	5,427,196
The County School Facilities Fund transferred to the Capital Facilities Fund for construction expenditure reimbursement.	20,631
The Community Facilities Mello Roos Fund transferred to the General Fund for administrative expenditure reimbursement.	205
	$ 9,342,873

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 2,474,570	$ 597,950	$ 3,072,520
State principal apportionment	530,717	-	530,717
Salaries and benefits	1,604,986	41,727	1,646,713
Total	$ 4,610,273	$ 639,677	$ 5,249,950

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of State categorical aid of $178,072.

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	$ 80,512,146	$ 27,988,648	$ 29,827,000	$ 78,673,794	$ 1,940,000
Bond premium, net	-	1,700,758	-	1,700,758	100,045
Compensated absences	142,540	-	117,320	25,220	-
Capital leases	136,126	42,542	63,396	115,272	51,084
Other postemployment benefits	4,358,203	2,783,707	1,412,675	5,729,235	-
Supplementary early retirement plan	961,050	-	613,303	347,747	347,747
	$ 86,110,065	$ 32,515,655	$ 32,033,694	$ 86,592,026	$ 2,438,876

The general obligation bonds will be paid from property tax assessments through the bond interest and redemption fund. The capital lease payments are generally paid through the general fund. The accrued vacation, supplementary early retirement plan and other postemployment benefits will be paid by the fund for which the employee worked.

The District has issued the following general obligation bonds:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Issued	Redeemed	Defeased	Bonds Outstanding June 30, 2014
July 2006	8/1/2031	4.00% - 8.00%	$ 14,000,000	$ 10,570,000	$ -	$ 365,000	$ 10,205,000	$ -
July 2007	8/1/2032	4.00% - 8.00%	20,000,000	19,015,000	-	360,000	18,240,000	415,000
July 2008	8/1/2033	2.75% - 10.00%	17,000,000	16,875,000	-	140,000	-	16,735,000
April 2009	8/1/2033	3.00% - 6.00%	12,000,000	11,405,000	-	20,000	-	11,385,000
April 2011	8/1/2026	3.00%	16,000,000	15,600,000	-	497,000	-	15,103,000
April 2011	8/1/2041	6.60% - 8.54%	5,999,637	7,047,146	528,648	-	-	7,575,794
April 2014	8/1/2032	3.00% - 5.00%	27,460,000	-	27,460,000	-	-	27,460,000
				$ 80,512,146	$ 27,988,648	$ 1,382,000	$ 28,445,000	$ 78,673,794

Debt Service Requirements to Maturity

The general obligation bonds have debt service requirements as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	$ 1,940,000	$ 3,521,951	$ 5,461,951
2016	1,743,000	2,912,574	4,655,574
2017	1,975,000	2,825,779	4,800,779
2018	2,212,000	2,737,968	4,949,968
2019	2,473,000	2,642,488	5,115,488
2020-2024	17,197,000	11,260,003	28,457,003
2025-2029	25,661,721	8,797,308	34,459,029
2030-2034	18,511,768	8,358,143	26,869,911
2035-2039	2,687,791	12,323,634	15,011,425
2040-2042	2,696,357	7,234,503	9,930,860
Total	77,097,637	$ 62,614,351	$ 139,711,988
Accretions to date	1,576,157		
Total	$ 78,673,794		

On April 2, 2014, the District issued $27,460,000 in General Obligation Refunding Bonds with interest rates ranging from 3.00 - 5.00 percent to refund all or portion of the District's outstanding Election of 2006, Series of 2006 and Series 2007 General Obligation Bonds. The net proceeds of $29 million were used purchased U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the 2006 and 2007 Series bonds. As a result, the 2006 and 2007 Series bonds are considered defeased and the liability for those bonds has been removed from the general obligation debt. The District refunded the 2006 and 2007 Series of bonds to reduce its total debt service payments for the next 18 years by almost $3.9 million and to obtain an economic gain of $2.9 million.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to $25,220.

Capital Leases

The District has entered into agreements to lease various equipment. Such agreements are in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	$ 51,084
2016	49,776
2017	7,980
2018	6,432
Total	115,272
Less: Amount Representing Interest	(44,318)
Present Value of Minimum Lease Payments	$ 70,954

Lease land, buildings, and equipment under capital leases in capital assets at June 30, 2014, include the following:

Equipment	$ 45,037
Less: Accumulated Depreciation	25,333
Total	$ 19,704

Supplementary Early Retirement Plans

The District implemented a supplementary early retirement plan (the Plan) during the year ended June 30, 2011. Eligible employees must have five or more years of service with the District, be eligible to retire under the State Teachers Retirement System (CalSTRS), retire effective on or before July 1, 2009 and have applied for benefits under the Plan. The District funds the supplemental benefit for each Plan participant through employer contributions equal to seventy-five percent of a participant's final pay. The benefits provided under the Plan are to be funded in five annual contributions of $265,555 beginning July 2009. As of June 30, 2014 the Plan has been paid off.

The District implemented a PARS supplementary early retirement plan (the Plan) during the year ended June 30, 2011. The benefits provided under the Plan are to be funded in five annual contributions of $347,748 beginning July 2010.

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was $2,783,707, and contributions made by the District during the year were $1,412,675. As of June 30, 2014, the net OPEB obligation was $5,729,235. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 15,000	$ -	$ -	$ -	$ 15,000
Stores inventories	156,707	-	-	141,645	298,352
Prepaid expenditures	1,466,942	-	-	17,215	1,484,157
Total Nonspendable	1,638,649	-	-	158,860	1,797,509
Restricted					
Legally restricted programs	2,370,753	-	-	-	2,370,753
Capital projects	-	16,572,380	-	7,101,308	23,673,688
Debt services	-	-	4,128,490	2,104,944	6,233,434
Child development programs	-	-	-	7,297	7,297
Food programs	-	-	-	3,410,154	3,410,154
Total Restricted	2,370,753	16,572,380	4,128,490	12,623,703	35,695,326
Committed					
Capital projects	-	-	-	532,845	532,845
Total Committed	-	-	-	532,845	532,845
Assigned					
Future year deficit spending	20,616,561	-	-	-	20,616,561
Other	4,030,529	-	-	-	4,030,529
Total Assigned	24,647,090	-	-	-	24,647,090
Unassigned					
Reserve for economic uncertainties	4,007,266	-	-	-	4,007,266
Total Unassigned	4,007,266	-	-	-	4,007,266
Total	$ 32,663,758	$ 16,572,380	$ 4,128,490	$ 13,315,408	$ 66,680,036

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Tracy Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 89 retirees and beneficiaries currently receiving benefits and 1,170 active plan members and 3 trustees. Unfunded portion of annual required contributions (net OPEB obligation) is presented in the statement of net position as a portion of long-term obligations.

	Certified	Classified	Management
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years*	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	$8,482 per year**	$8,482 per year**	$8,162 per year**

* Equivalent full-time service.

**For those retiring prior to July 1, 2008, District pays full cost.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District's bargaining units and the unrepresented groups. For fiscal year 2013-14, the District contributed $1,412,675 to the plan, all of which was used for current premiums (approximately 51 percent of current year's annual required contributions.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 2,783,707
Contributions made	(1,412,675)
Increase in net OPEB obligation	1,371,032
Net OPEB obligation, beginning of year	4,358,203
Net OPEB obligation, end of year	$ 5,729,235

Trend Information

The trend information for actual contributions, annual OPEB cost, the percentage contributed and the net OPEB obligation was as follows:

Year Ended June 30	Actual Contribution	Annual OPEB cost	Percentage Contributed	Net OPEB Obligation
2011	$ 2,034,543	$ 2,148,097	95%	$ 2,196,537
2012	1,793,363	2,740,735	65%	3,143,909
2013	1,628,952	2,843,246	57%	4,358,203
2014	1,412,675	2,783,707	51%	5,729,235

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

In the September 1, 2013 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses). The healthcare cost trend rate was 4 percent until reaching the ultimate trend. The UAAL is being amortized at a level percentage with payroll assuming a 2.75 percent annual increase in payroll. The remaining amortization period at September 1, 2013, was 26 years. The actuarial value of assets was not determined in this actuarial valuation. Currently, the District is considered to be an unfunded plan since there are no assets and retiree benefits are paid annually on a cash basis.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, the District contracted with Northern California Regional Liability Excess Fund (NorCal Relief) for building and personal property and SAFER for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District participates in the San Joaquin County Schools Workers' Compensation (SJCSWC), an insurance purchasing pool. The intent of the SJCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SJCSWC. 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 SJCSWC. 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 of each participated school districts. 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 SJCSWC.

Coverage provided by SJCSWC, SAFER, and NorCal Relief for property and liability and workers’ compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
San Joaquin County Schools Workers' Compensation	Workers' Compensation	$ 1,000,000
NorCal Relief	Liability	1,000,000
	Auto	1,000,000
	Property	250,000,000
SAFER	Excess Liability	4,000,000

Employee Medical Benefits

The District has contracted with the Central Valley Schools Health and Welfare Trusts to provide employee medical and surgical benefits. The Trust was established as a combined effort of District Superintendents and labor representatives of both the California Teachers Association (CTA) and the California School Employees Association (CSEA). The purpose of the trust is to pool the resources of smaller school districts to achieve health care benefits similar to those available to larger districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were $5,077,407, $4,809,520, and $4,659,372, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.42 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were $2,175,987, $2,074,483, and $1,917,485, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 3.3 percent of an employee's gross earnings. There are no employee required contributions.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $3,099,527 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CallPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have been included in the budget amounts reported in the *General Fund Budgetary Comparison Schedule*.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

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, 2014.

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Technology Center Reconfiguration		
District Service Center	$ 1,353,083	12/31/2014
AG Science and Weight Room Modernization		
Tracy High School	116,359	10/3/2014
EB Theater Modernization		
Tracy High School	298,884	10/3/2014
	$ 1,768,326	

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Joaquin County Schools Workers' Compensation public entity risk pool and San Joaquin County Schools Data Processing joint powers authority. The District pays an annual premium to the applicable entity for its workers' compensation coverage and information technology support. The relationships between the District, the pool, and the JPA are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2014, the District made payment of $1,705,872 to San Joaquin County Schools Workers' Compensation and $419,556 to San Joaquin County Schools Data Processing joint powers authority.

NOTE 15 – COMMUNITY FACILITIES DISTRICT (JPA)

The Tracy Area Public Facilities Financing Agency (Agency) was created pursuant to a Joint Powers Agreement between the City of Tracy, Tracy School District, Tracy Joint Union High School District, (Tracy School District and Tracy Joint Union High School District became the Tracy Unified School District effective July 1, 1997) and Jefferson School District for the purpose of forming a community facilities district under the provisions of the Mello-Roos Community Facility Act of 1982. The Agency has established Community Facilities District Number 1987-1 for the purpose of financing, constructing, and acquiring school facilities for each of the school districts and public facilities for the City. The Agency currently has no employees or property and equipment, and its powers are limited to implementation of the Mello-Roos financing plans contemplated in the Joint Powers Agreement.

The Agency and its Community Facilities District are controlled by a governing board consisting of seven members; two members of the Tracy City Council, three members of the School Board of the Tracy Unified School District, and two members of the School Board of the Jefferson School District. All such members of the Agency's governing board are independently elected to their respective member entities. Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budget, sign contracts, levy taxes, and otherwise influence operations and account for fiscal matters, is exercised by the Agency's governing Board. Accordingly, the Agency is considered to be a separate reporting entity for financial reporting purposes and the June 30, 2013, audited accompanying financial information reflects only the assets, liabilities, fund balances, revenues and expenditures of the Agency.

Audited financial information for the Agency is summarized below:

	June 30, 2013* (Audited)
Total Assets	$ 4,775,116
Total Liabilities	13,160,446
Net Assets	$ (8,385,330)
Total Revenues and Other Sources	$ 1,810,287
Total Expenditures	890,193
Net Increase in Net Position	$ 920,094

* Most recent information available.

At June 30, 2013, the Agency had outstanding special tax bonds payable of $12,960,000 with maturities through 2022.

REQUIRED SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 85,792,873	$ 103,621,529	$ 103,621,529	$ -
Federal sources	6,945,528	6,007,105	6,107,336	100,231
Other state sources	16,731,614	8,730,407	11,829,933	3,099,526
Other local sources	6,650,094	8,024,231	8,109,123	84,892
Total Revenues[1]	116,120,109	126,383,272	129,667,921	3,284,649
EXPENDITURES				
Current				
Certificated salaries	61,538,571	63,259,895	63,352,600	(92,705)
Classified salaries	19,193,437	19,679,431	19,705,448	(26,017)
Employee benefits	23,765,696	22,334,520	25,450,989	(3,116,469)
Books and supplies	10,313,726	11,866,475	11,937,006	(70,531)
Services and operating expenditures	11,131,320	12,775,942	12,777,520	(1,578)
Capital outlay	943,553	1,136,149	1,471,997	(335,848)
Other outgo	880,606	1,943,122	1,659,412	283,710
Debt service				
Debt service - principal	-	-	63,396	(63,396)
Debt service - interest	-	-	315	(315)
Total Expenditures[1]	127,766,909	132,995,534	136,418,683	(3,423,149)
Excess (Deficiency) of Revenues Over Expenditures	(11,646,800)	(6,612,262)	(6,750,762)	(138,500)
Other Financing Sources (Uses):				
Transfers in	30,000	95,046	95,046	-
Other sources	-	-	42,542	42,542
Transfers out	-	(800,000)	-	800,000
Net Financing Sources (Uses)	30,000	(704,954)	137,588	842,542
NET CHANGE IN FUND BALANCES	(11,616,800)	(7,317,216)	(6,613,174)	704,042
Fund Balance - Beginning	39,276,932	39,276,932	39,276,932	-
Fund Balance - Ending	$ 27,660,132	$ 31,959,716	$ 32,663,758	$ 704,042

[1] On behalf payments of $3,099,527 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

[2] Due to the consolidation of Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, and are included in the original and final General Fund budgets. In addition, intra fund transfers between these funds are eliminated in the Actual (GAAP Basis) column but are not eliminated in the Budget columns.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 12, 2007	$ -	$ 25,140,909	$ 25,140,909	$ -	$ 82,332,983	31%
April 1, 2009	-	21,610,970	21,610,970	-	82,332,983	26%
September 1, 2011	-	20,324,156	20,324,156	-	77,160,796	26%
September 1, 2013	-	19,121,077	19,121,077	-	84,857,209	23%

SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through the California Department of Education:			
Adult Education Grants			
Adult Education - Adult Basic Ed & ESL	84.002A	14508	$ 68,424
Adult Education - English Literacy & Civics Education	84.002A	14109	10,000
Adult Education - Adult Secondary Education	84.002	13978	86,807
Subtotal			165,231
Special Education Grants			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	2,062,283
Basic Local Assistance Entitlement, Part B, Section 611, Private School ISP's	84.027	10115	28,223
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	121,071
Preschool Grants, Part B, Section 619	84.173	13430	43,860
Subtotal			2,255,437
Vocational Educational Grants			
Title II - Part A, Improving Teacher Quality Local Grants	84.367	14341	396,691
Technology Secondary II C, Section 131	84.048	14894	108,316
Title III - Limited English Proficient Student Program	84.365	14346	108,234
Elementary and Secondary Education Act			
Title I - Part A, Basic Grants Low-Income and Neglected	84.010	14329	2,900,414
Title I - Part C, Migrant Education - Regular	84.011	14326	29,118
Indian Education	84.060	10011	17,195
Advanced Placement and International Baccalaureate Test Fee Program	84.330B	14831	18,977
Total U.S. Department of Education			5,999,613
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the California Department of Education:			
National School Lunch Program	10.555	13524	2,923,910
Meals Supplement	10.555	13396	95,618
Especially Needy Breakfast	10.553	13526	869,797
Commodities [1]	10.550	13755	182,773
Child and Adult Care Food Program	10.558	unknown	68,152
Total U.S. Department of Agriculture			4,140,250

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medi-Cal Billing Option	93.778	10013	98,023
Total U.S. Department of Health and Human Services			98,023
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Cal Serve: Learn and Serve American	94.004	14939	9,700
Total Expenditures of Federal Awards			$ 10,247,586

[1] Not included in the financial statements.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2014

ORGANIZATION

The Tracy Unified School District was established July 1, 1997 and consists of an area comprising approximately 425 square miles. The District operates eight K-5 schools, four K-8 schools, two middle, two high schools, two continuation high schools, a community day school, and adult educational classes.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ted Guzman	President	2014
Kelly Lewis	Vice President	2015
Walter Gouveia	Clerk	2016
Greg Silva	Member	2014
Gregory Crandall	Member	2014
Jill Costa	Member	2016
James Vaughn	Member	2016

ADMINISTRATION

Dr. James C. Franco	Superintendent
Dr. Sheila Harrison	Assistant Superintendent for Educational Services and Human Resources
Dr. Casey Goodall	Associate Superintendent, Business Services
Reed Call	Director of Financial Services

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,955	3,962
Fourth through sixth	3,173	3,171
Seventh and eighth	2,109	2,106
Ninth through twelfth	6,103	6,065
Total Regular ADA	15,340	15,304
Extended Year Special Education		
Transitional kindergarten through third	4	4
Fourth through sixth	3	3
Seventh and eighth	-	-
Ninth through twelfth	3	3
Total Extended Year Special Education	10	10
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2	2
Fourth through sixth	2	2
Seventh and eighth	2	2
Ninth through twelfth	6	6
Total Special Education, Nonpublic, Nonsectarian Schools	12	12
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	-	-
Fourth through sixth	-	-
Seventh and eighth	-	-
Ninth through twelfth	1	1
Total Special Education, Nonpublic, Nonsectarian Schools	1	1
Community Day School		
Transitional kindergarten through third	-	-
Fourth through sixth	-	-
Seventh and eighth	1	1
Ninth through twelfth	15	16
Total Community Day School	16	17
Total ADA	15,379	15,344

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2014

	1986-87	Reduced	2013-14	Number of Days		
Grade Level	Minutes Requirement	1986-87 Minutes Req.	Actual Minutes	Traditional Calendar	Multitrack Calendar	Status
Kindergarten	36,000	35,000	36,532	180	NA	In compliance
Grade 1	50,400	49,000	52,300	180	NA	In compliance
Grade 2	50,400	49,000	52,300	180	NA	In compliance
Grade 3	50,400	49,000	52,318	180	NA	In compliance
Grade 4	54,000	52,500	56,590	180	NA	In compliance
Grade 5	54,000	52,500	56,590	180	NA	In compliance
Grade 6	54,000	52,500	58,407	180	NA	In compliance
Grade 7	54,000	52,500	58,392	180	NA	In compliance
Grade 8	54,000	52,500	58,392	180	NA	In compliance
Grade 9	64,800	63,000	64,800	180	NA	In compliance
Grade 10	64,800	63,000	64,800	180	NA	In compliance
Grade 11	64,800	63,000	64,800	180	NA	In compliance
Grade 12	64,800	63,000	64,800	180	NA	In compliance

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Summarized below are the Form Debt and Form Asset reconciliations between the Unaudited Actual Financial Report, and the audited financial statements.

FORM DEBT	Form Debt
Total Liabilities, June 30, 2014, Unaudited Actuals	$ 83,730,433
Increase in:	
General Obligation Bonds	528,648
Bond Premium, net	1,700,758
Capital Leases	2,958
Other Post Employment Benefits Obligation	1,371,032
Decrease in:	
Compensated Absences	(128,500)
Supplementary Early Retirement Plan	(613,303)
Total Liabilities, June 30, 2014, Audited Financial Statement	$ 86,592,026

FORM ASSET	Form Asset
Total Capital Assets, June 30, 2014, Unaudited Actuals	$ 324,580,557
Increase in:	
Land Improvements	12,815
Buildings and Improvements	35,435,248
Furniture and Equipment	289,836
Accumulated Depreciation - Land Improvements	(1,883,826)
Accumulated Depreciation - Buildings and Improvements	(2,495,227)
Accumulated Depreciation - Furniture and Equipment	(47,318)
Decrease in:	
Land	(11,087,171)
Construction in Progress	(27,032,440)
Total Capital Assets, June 30, 2014, Audited Financial Statement	$ 317,772,474

See accompanying note to supplementary information.

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

	(Budget) 2015[1]	2014[4]	2013	2012
GENERAL FUND [4]				
Revenues	$ 127,484,797	$ 129,667,921	$ 119,559,278	$ 120,942,230
Other sources and transfers in	15,000	137,588	29,214	250,118
Total Revenues and Other Sources	127,499,797	129,805,509	119,588,492	121,192,348
Expenditures	138,760,193	136,418,683	121,290,128	118,315,254
Other uses and transfers out	800,000	-	-	90,000
Total Expenditures and Other Uses	139,560,193	136,418,683	121,290,128	118,405,254
INCREASE (DECREASE) IN FUND BALANCE	$ (12,060,396)	$ (6,613,174)	$ (1,701,636)	$ 2,787,094
ENDING FUND BALANCE	$ 20,603,362	$ 32,663,758	$ 39,276,932	$ 40,978,568
AVAILABLE RESERVES [2]	$ 4,186,806	$ 4,007,266	$ 3,565,671	$ 3,478,163
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3]	3.00%	3.01%	3.01%	3.01%
LONG-TERM DEBT	$ 84,153,150	$ 86,592,026	$ 86,110,065	$ 85,165,287
K-12 AVERAGE DAILY ATTENDANCE AT P-2	15,195	15,379	15,421	15,414

The General Fund balance has decreased by $8,314,810 over the past two years. The fiscal year 2014-15 budget projects a decrease of $12,060,396 (approximately thirty seven percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

Total long-term obligations have increased by $1,426,739 over the past two years, primarily due to increasing Other Post Employment Benefit Plan costs.

Average daily attendance has decreased by 35 over the past two years. A decrease of 184 ADA is anticipated during fiscal year 2014-15.

[1] Budget 2015 is included for analytical purposes only and has not been subjected to audit.

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

[3] On-behalf payments of $3,099,527, $3,017,180, and $2,715,567, respectively, have been included from the calculation of available reserves for fiscal years ending June 30, 2014, 2013, and 2012, respectively.

[4] General Fund amounts include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Other Than Capital Outlay Projects.

See accompanying note to supplementary information.

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014

Name of Charter School	Included in Audit Report
Discovery Charter	No
Primary Charter	No
Millennium Charter	No
Kaplan Academy of California	No

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	$ 566	$ 3,273,909	$ 6,156,074
Receivables	29,174	521,973	15,482
Due from other funds	-	3,985	21,781
Prepaid expenses	-	17,215	-
Stores inventories	-	141,646	-
Total Assets	$ 29,740	$ 3,958,728	$ 6,193,337
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 7,399	$ 67,961	$ 8,708
Due to other funds	15,044	321,753	-
Total Liabilities	22,443	389,714	8,708
Fund Balances:			
Nonspendable	-	158,860	-
Restricted	7,297	3,410,154	6,184,629
Committed	-	-	-
Total Fund Balance	7,297	3,569,014	6,184,629
Total Liabilities and Fund Balances	$ 29,740	$ 3,958,728	$ 6,193,337

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Capital Outlay Fund	Building CFD Fund	TSFFA Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ 1,568,799	$ 533,167	$ -	$ 2,104,944	$ 13,637,459
859	(322)	-	-	567,166
-	-	-	-	25,766
-	-	-	-	17,215
-	-	-	-	141,646
$ 1,569,658	$ 532,845	$ -	$ 2,104,944	$ 14,389,252
$ 555,609	$ -	$ -	$ -	$ 639,677
97,370	-	-	-	434,167
652,979	-	-	-	1,073,844
-	-	-	-	158,860
916,679	-	-	2,104,944	12,623,703
-	532,845	-	-	532,845
916,679	532,845	-	2,104,944	13,315,408
$ 1,569,658	$ 532,845	$ -	$ 2,104,944	$ 14,389,252

TRACY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund
REVENUES			
Federal sources	$ -	$ 3,957,477	$ -
Other state sources	142,686	304,764	-
Other local sources	8,855	1,313,159	1,346,434
Total Revenues	151,541	5,575,400	1,346,434
EXPENDITURES			
Current			
Instruction	107,518	-	-
Instruction-related activities:			
Supervision of instruction	1,288	-	-
School site administration	36,410	-	-
Pupil services:			
Food services	-	4,856,994	-
General administration:			
All other general administration	6,926	236,391	-
Plant services	-	100,521	88,436
Facility acquisition and construction	-	-	(1,166,749)
Debt service			
Interest and other	-	-	-
Total Expenditures	152,142	5,193,906	(1,078,313)
Excess (Deficiency) of Revenues Over Expenditures	(601)	381,494	2,424,747
Other Financing Sources (Uses):			
Transfers in	-	-	20,631
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	20,631
NET CHANGE IN FUND BALANCES	(601)	381,494	2,445,378
Fund Balance - Beginning	7,898	3,187,520	3,739,251
Fund Balance - Ending	$ 7,297	$ 3,569,014	$ 6,184,629

See accompanying note to supplementary information.

	County School Facilities Fund	Special Reserve Capital Outlay Fund	Building CFD Fund	TSFFA Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
	$ -	$ -	$ -	$ 935,392	$ 4,892,869
	5,855,897	-	-	-	6,303,347
	3,183	1,012	-	-	2,672,643
	5,859,080	1,012	-	935,392	13,868,859
	-	-	-	-	107,518
	-	-	-	-	1,288
	-	-	-	-	36,410
	-	-	-	-	4,856,994
	-	-	-	-	243,317
	55,311	-	-	-	244,268
	4,022,132	-	-	-	2,855,383
	-	-	-	52,448	52,448
	4,077,443	-	-	52,448	8,397,626
	1,781,637	1,012	-	882,944	5,471,233
	3,800,000	-	-	-	3,820,631
	(5,524,567)	-	(205)	-	(5,524,772)
	(1,724,567)	-	(205)	-	(1,704,141)
	57,070	1,012	(205)	882,944	3,767,092
	859,609	531,833	205	1,222,000	9,548,316
	$ 916,679	$ 532,845	$ -	$ 2,104,944	$ 13,315,408

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

	CFDA Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		$ 11,000,205
Interest subsidy for Quality School Construction Bonds	N/A	(935,392)
Commodities is not included in recorded revenue but is included in expenditures.	10.550	182,773
Total Schedule of Expenditures of Federal Awards		$ 10,247,586

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

VALUE THE DIFFERENCE

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*

Governing Board
Tracy Unified School District
Tracy, California

We have audited, in accordance with the 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 Tracy Unified School District (the District) as of and for the year ended June 30, June 30, 2014, and the related notes to the financial statements, which collectively comprise Tracy Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tracy 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 Tracy Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tracy 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2014-1 and 2014-2 that we consider to be a significant deficiency.

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Tracy Unified School District in a separate letter dated December 15, 2014

Tracy Unified School District's Response to Findings

Tracy Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Tracy 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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 15, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Governing Board
Tracy Unified School District
Tracy, California

Report on Compliance for Each Major Federal Program

We have audited Tracy 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 Tracy Unified School District's (the District) major Federal programs for the year ended June 30, 2014. Tracy 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 Tracy 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 Tracy 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Tracy Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Tracy 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, 2014.

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Report on Internal Control Over Compliance

Management of Tracy 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 Tracy 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 Tracy 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 internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. 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.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 15, 2014

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Tracy Unified School District
Tracy, California

Report on State Compliance

We have audited Tracy Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Tracy Unified School District's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Tracy Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Tracy Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Tracy Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the State Programs Listed Below

In our opinion, Tracy Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

Other Matters

We noted certain matters we reported to the management of Tracy Unified School District in a separate letter dated December 15, 2014.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing of expenditures for the California Clean Energy Jobs Act because there were no expenditures incurred for the year.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 15, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficienc~~y~~ identified?	Yes
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficienc~~y~~ identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	No

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84027A, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 307,428
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

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

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2014-001 Associated Student Body
Significant Deficiency

Criteria or Specific Requirements
Associated Student Body (ASB) funds are subject to greater loss due to the nature of the transactions being primarily cash and due to the decentralization of the accounting process.

Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorizations and recorded properly. Strong internal controls also include an adequate segregation of duties.

Condition
During the audit of the ASB account at Gladys Poet-Christian School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular, we noted the following:

- 8 out of 15 disbursements reviewed, contained only one approval signature.
- 7 stale dated checks from February 2012 through May 2013 remain outstanding.

Questioned costs
None

Context
All ASB cash disbursements processed at Gladys Poet-Christian School.

Effect
Without properly designed internal controls in all phases of ASB activities, opportunities exist for the intentional misuse of student funds that may go undetected

Cause
Monitoring controls were not operating effectively. Decentralized operations are dependent on the actions of many individuals. Some individuals may not be aware of, or may not follow, established procedures.

Recommendation
The District should continue its efforts to work with site personnel and take action to correct the issues noted above. Stale dated checks older than six months should be investigated.

Corrective Action Plan
The District continues to make every effort for strong internal controls at our site level. We have increased our in-house training to site personnel. Additionally, staff members from the Financial Services Department have visited the schools sites with consistent issues in this area. The District will increase the number of visits in an effort to encourage site personnel and principals to implement and follow proper procedures. The District will continue to utilize its outside consulting to work closely with site personnel on these procedures and policies

2014-002 Site Cash Collection
Significant Deficiency

Criteria or Specific Requirements
Site cash is subject to greater loss due to the nature of the transactions and to the decentralization of the accounting process.

Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition.

Condition
During the audit of the cash accounts at Gladys Poet-Christian School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular, we noted the following:

- 4 out of 14 cash collections reviewed were not deposited timely. The average number of days between the time of receipt and deposit for the 4 receipts was 47 days.

Questioned Costs
None

Context
All cash processed at Gladys Poet-Christian School.

Effect
Without properly designed internal controls in the cash collection process, opportunities exist for the misappropriation of cash that may go undetected.

Cause
Cash custody controls were not operating effectively. Site personnel did not follow District policies over cash handling

Recommendation
Cash receipts should be deposited within five to ten business days of receipt. The District should work with site personnel and take action to correct the issues noted above. The District should also consider periodically reviewing the progress and improvement of these issues.

Corrective Action Plan

The District continues to make every effort for strong internal controls at our site level. We have increased our in-house training to site personnel. Additionally, staff members from the Financial Services Department have visited the schools sites with consistent issues in this area. The District will increase the number of visits in an effort to encourage site personnel and principals to implement and follow proper procedures. The District will continue to utilize its outside consulting to work closely with site personnel on these procedures and policies.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

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

Financial Statement Findings

2013-1 **Code**
30000

Title
Internal Control - Associated Student Body
Significant Deficiency

Finding
During the audit of the ASB account at Kimball High School, we noted a condition indicating that operating controls are not functioning at their optimum levels. In particular, we noted that 2 out of 20 check requests reviewed did not contain the required approval signatures.

Recommendation
The District should continue its efforts to work with site personnel and take action to correct the issue noted above. The District should also consider periodically reviewing the progress and improvement of these issues.

Current Status
Not Implemented. See current year financial statement finding 2014-1.

2013-2 **Code**
30000

Title
Internal Control - Site Cash Collection
Significant Deficiency

Finding
During the audit of cash collections at Williams Middle School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular we noted the following:

- 23 out of 48 cash collections reviewed were not deposited timely. The average number of days between the time of receipt and deposit for the 23 receipts was 22 days.
- Cash collected in the library was not safeguarded.

Recommendation
Cash receipts should be deposited within five to ten business days or receipt and should be safeguarded in a locked safe, box or drawer prior to deposit. The District should work with site personnel and take action to correct the issues noted above. The District should also consider periodically reviewing the progress and improvement of these issues.

Current Status
Not Implemented. See current year financial statement finding 2014-2.

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APPENDIX B

GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Refunding Bonds is payable from the General Fund of the District. The Refunding Bonds are payable from the proceeds of an ad valorem tax required to be levied by the Counties in an amount sufficient for the payment thereof. See "SECURITY FOR THE REFUNDING BONDS" in the front half of the Official Statement.

GENERAL INFORMATION

The District

The District, which covers approximately 425 square miles located in San Joaquin County (the **"County"** or **"San Joaquin County"**), provides educational services to the residents of the City of Tracy (the **"City"**) and surrounding unincorporated areas.

The District was formerly known as the Tracy Joint Unified School District when the service area of the District included properties in more than one county. However, as a result of reorganization proceedings, the only elementary school district in Alameda County for which the District provided high school services was redirected to a different school district for such services, making San Joaquin County the area serviced by of the District. Subsequently, the District formally removed the word "Joint" from its name. Notwithstanding that the Alameda County portion of the District was removed from the District's service area, the reorganization proceedings provided that, for existing general obligation bonded indebtedness, the land in Alameda County that had formerly been part of the District would continue to subject to the levy and collection of taxes to pay debt service on such bonds, including bonds issued to refund such bonds. The term **"Original Area"** is used in this Official Statement to describe the territory of the District at the time it included both San Joaquin and Alameda County portions, prior to the reorganization proceedings, which Original Area is subject to taxation for payment of the Refunding Bonds.

The District currently operates seven kindergarten through fifth grade elementary schools, four kindergarten through eighth grade elementary schools, two middle schools, three comprehensive high schools, two alternative education schools, one adult school and one community day school. Total enrollment for the 2014-15 school year is estimated to be 17,405 (including charter school enrollment, described in the following paragraph). See also Appendix C hereto for demographic and other statistical information regarding the City and San Joaquin County.

The District has approved charters for three charter schools pursuant to Education Code Section 47605. The charter schools are operated by Tracy Learning Center, which is not considered a component unit of the District. The District receives revenue on behalf of the charter schools which it passes on to the charters. This activity is not accounted for in District funds.

Governing Board

The governing board of the District is called the Board of Trustees (the **"Board"**). The Board includes seven voting members elected by the voters of the District. Elections for positions to the Board are held every two years, alternating between three and four available positions. The current voting Board members are as follows:

Name	Board Position	Term Expires
Ted Guzman	President	December 2018
Kelly Lewis	Vice-President	December 2018
Walter Gouveia	Clerk	December 2016
Jill Costa	Member	December 2016
Juana Dement	Member	December 2018
Greg Silva	Member	December 2018
James Vaughn	Member	December 2016

Superintendent and Administrative Personnel

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for the day-to-day management of the District's operations and supervises the work of other key District employees.

Dr. Brian Stephens serves as Superintendent for the District. He received a Bachelor of Arts degree from the University of California at Davis, his Teaching Credential from Sonoma State University, his Administrative Credential from Humboldt State University, his Masters of Arts in Education from Humboldt State University, and his Doctorate of Education in Organizational Leadership from the University of La Verne.

Dr. Stephens' educational career has included positions from 1991 to present as Teacher, Assistant Principal and Principal, Assistant Superintendent and Superintendent, first serving as Superintendent in Delhi Unified School District starting in 2011, and now with the District commencing in 2014.

Dr. Casey Goodall serves as Associate Superintendent of Business Services. Dr. Goodall received a Bachelor of Science in English from Utah State University, a Masters Degree in Business Administration from Utah State University, and a Doctorate in School Business Management from the University of La Verne. Dr. Goodall served in the United States Navy from 1985 to 1993, and has served as the District's Associate Superintendent, Business Services since 1994.

Enrollment

The following tables show enrollment history for the District for the last ten fiscal years, with projected figures through fiscal year 2015-16.

ANNUAL ENROLLMENT INCLUDING CHARTER SCHOOLS
Fiscal Years 2004-05 through 2015-16
Tracy Unified School District

School Year	Enrollment	Percent Change
2004-05	17,011	--
2005-06	17,186	1.0%
2006-07	17,375	1.1
2007-08	17,333	-0.2
2008-09	17,342	0.1
2009-10	17,494	0.9
2010-11	17,530	0.2
2011-12	17,422	-0.6
2012-13	17,405	-0.1
2013-14	17,442	0.2
2014-15	17,057(1)	-0.2
2015-16	16,744(1)	0.2
2016-17	16,723(1)	0.0

(1) Budgeted enrollment.
Source: California Department of Education for 2004-05 through 2013-14, Tracy Unified School District 2014-15 Budget Report for 2014-15 through 2016-17

Small declines in enrollment in recent years are attributable to the nearby Lammersville Joint Unified School District completing construction on, and opening their first high school facility. The District characterizes enrollment as stable.

Employee Relations

As of December 1, 2014, the District employed 723.7 full-time equivalent certificated (non-management) employees, and 505.2 full-time equivalent classified (non-management) employees. District employees are represented by two bargaining agents: Tracy Educators' Association (**"TEA"**), which is the exclusive bargaining agent for all certificated non-management employees of the District, and the California School Employees' Association (**"CSEA"**) which is the bargaining agent for all classified or uncertificated personnel within the District.

The following table summarizes the bargaining agreements and the date through which current contracts extend.

CONTRACTS WITH BARGAINING UNITS
Tracy Unified School District

Bargaining Unit	Employees Covered	Expiration Date
Tracy Educators' Association	Certificated	June 30, 2017
California School Employees' Association	Classified	June 30, 2014*

**The District and CSEA operate pursuant to the terms of the expired agreement pending renegotiation.*
Source: Tracy Unified School District.

DISTRICT FINANCIAL INFORMATION

The following selected financial information provides a brief overview of the District's finances. This financial information has been extracted from the District's audited financial statements and, in some cases, from unaudited information provided by the District. The most recent audited financial statements of the District with an unqualified auditor's opinion is included as Appendix A hereto. See "APPENDIX A – Audited Financial Statements of the District for Fiscal Year Ending June 30, 2014."

Education Funding Generally

School districts in California receive operating income primarily from two sources: the State funded portion which is derived from the State's general fund, and a locally funded portion, being the district's share of the one percent general *ad valorem* tax levy authorized by the California Constitution. As a result, decreases or deferrals in education funding by the State could significantly affect a school district's revenues and operations.

From 1973-74 to 2012-13, California school districts operated under general purpose revenue limits established by the State Legislature. In general, revenue limits were calculated for each school district by multiplying (1) the average daily attendance ("**ADA**") for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations were adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. Funding of the District's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amounted to the difference between the District's revenue limit and its local property tax revenues.

The fiscal year 2013-14 State budget package replaced the previous K-12 finance system with a new formula known as the Local Control Funding Formula (the **"LCFF"**). Under the LCFF, revenue limits and most state categorical programs were eliminated. School districts instead receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve outcomes of students. The LCFF creates funding targets based on student characteristics. For school districts and charter schools, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that reflect student demographic factors. The LCFF includes the following components:

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is $2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases. In addition, grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in grades K-3 and the provision of career technical education in grades 9-12.

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

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

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

The LCFF was initiated in fiscal year 2013-14 and will be phased in gradually. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to each district's proportionate share of the appropriations included in the State budget (based on the percentage of each district's students who are low-income, English learners, and foster youth ("**Targeted Students**")), to close the gap between the prior-year funding level and the target allocation at full implementation of LCFF. In each year, districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

Based on revenue projections, districts will reach what is referred to as "full funding" in eight years, being fiscal year 2020-21. This projection assumes that the State's economy will improve each year; if the economy falters it could take longer to reach full funding.

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

Grade Span Funding at Full LCFF Implementation (Target Amount)

Grade Span	Base Grant[1]	K-3 Class Size Reduction and 9-12 Adjustments	Average Assuming 0% Targeted Students	Average Assuming 25% Targeted Students	Average Assuming 50% Targeted Students	Average Assuming 100% Targeted Students
K-3	$6,845	$712	$7,557	$7,935	$8,313	$10,769
4-6	6,947	N/A	6,947	7,294	7,642	9,899
7-8	7,154	N/A	7,154	7,512	7,869	10,194
9-12	8,289	$216	8,505	8,930	9,355	12,119

(1) Does not include adjustments for cost of living.
Source: California Department of Education.

The new legislation included a "hold harmless" provision which provided that a district or charter school would maintain total revenue limit and categorical funding at least equal to its 2012-13 level, unadjusted for cost of living.

The LCFF includes an accountability component. Districts are required to increase or improve services for English language learners, low income, and foster youth students in proportion to supplemental and concentration grant funding received. All school districts, county offices of education, and charter schools are required to develop and adopt local control and accountability plans, which identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement, and school climate.

County superintendents review and provide support to the districts under their jurisdiction, and the Superintendent of Public Instruction performs a corresponding role for county offices of education. In addition, the 2013-14 Budget created the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. Under the LCFF and related legislation, the State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

District Accounting Practices

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

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

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

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

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2014 Audited Financial Statements were prepared by Vavrinek, Trine, Day & Co., LLP, Pleasanton, California and are attached hereto as Appendix A. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the Office of the Chief Business Official of the District, Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California 95376; phone (209) 830-3200. The District has not requested, and the auditor has not provided, any review or update of such Financial Statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed or emailed to prospective investors and their representatives upon written request to the District. This District may impose a charge for copying, mailing and handling.

General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the District for the fiscal years 2009-10 through 2013-14. The fiscal year 2013-14 audit was approved by the Board on January 13, 2015.

GENERAL FUND - REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
Fiscal Years 2009-10 through 2013-14
Tracy Unified School District

	2009-10 Audited	2010-11 Audited	2011-12 Audited	2012-13 Audited	2013-14 Audited
Revenues					
Revenue limit/LCFF[1] sources	$81,549,698	$86,075,362	$85,865,671	$85,986,808	$103,621,529
Federal Revenue	9,397,454	8,450,554	8,896,331	6,377,416	6,107,336
Other State Revenue	18,621,973	18,375,189	18,813,788	19,119,105	11,829,933
Other Local Revenue	8,283,757	8,724,639	7,366,440	8,075,949	8,109,123
Total Revenue	117,852,882	121,625,744	120,942,230	119,559,278	129,667,921
Expenditures					
Instruction	78,578,030	74,825,651	75,820,937	76,455,091	81,415,274
Instruction-related activities:					
Supervision of instruction	2,802,403	2,284,594	2,259,299	3,169,317	3,393,122
Library, media and technology	3,026,071	3,282,244	2,907,186	3,197,505	9,223,674
School site administration	8,609,439	8,966,276	8,933,093	8,726,652	8,822,082
Pupil services:					
Home-to-school transportation	3,299,879	3,682,994	3,723,274	4,207,351	4,359,340
Food services	5,150	13,077	13,077	13,077	13,077
All other pupil services	4,658,797	4,577,256	4,604,085	4,940,405	5,147,771
General administration	4,771,687	4,442,480	5,293,483	4,911,564	5,609,730
Plant services	10,748,571	11,111,847	12,176,408	13,343,326	14,450,342
Facility acquisition and construction	527,293	164,621	543,771	123,229	820,701
Ancillary services	1,077,623	838,060	994,818	1,025,668	1,055,823
Community services	122,462	125,657	117,573	135,093	141,307
Other Outgo	1,013,429	677,403	876,036	982,373	1,902,729
Debt service: Principal	143,308	47,812	51,316	58,865	63,396
Debt Service: Interest	5,421	1,172	898	612	315
Total Expenditures	119,389,563	115,041,144	118,315,254	121,290,128	136,418,683
Excess of Revenues Over (Under) Expenditures	(1,536,681)	6,584,600	2,626,976	(1,730,850)	(6,750,762)
Other Financing Sources (Uses)					
Transfer In	5,309,553	67,732	32,525	22,504	95,046
Other sources	27,219		217,593	6,710	42,542
Transfers out	(849,851)	(434,039)	(90,000)	--	--
Total Other Sources & Uses	4,486,921	(366,307)	160,118	29,214	137,588
Net Change in Fund Balance	2,950,240	6,218,293	2,787,094	(1,701,636)	(6,613,174)
Fund Balance, Beginning of Year[1]	19,709,824	31,973,181	38,191,474	40,978,568	39,276,932
Fund Balance, End of Year	$22,660,064	$38,191,474	$40,978,568	$39,276,932	$32,663,758

(1) LCFF commenced in fiscal year 2013-14.
(2) The District's 2009-10 ending fund balance was restated as of June 30, 2011 to conform with GASB Statement No. 54's redefinition of governmental funds.
Source: Tracy Unified School District.

District Budget and Interim Financial Reporting

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

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

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

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

A State law adopted in 1991 (**"A.B. 1200"**) imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

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

District's Budget Approval/Disapproval and Certification History. The District has not received any qualified or negative certifications of its financial reports in the past five years, nor have any of its budgets been disapproved. The District's most recent interim report, the First Interim for fiscal year 2014-15, received a positive certification.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California 95376; telephone (209) 830-3200. The District may impose charges for copying, mailing and handling.

District's 2014-15 Budget. The following table shows the General Fund budgeted and First Interim figures for fiscal year 2014-15.

2014-15 BUDGET AND FIRST INTERIM PROJECTIONS
Tracy Unified School District

	Original Budget 2014-15	First Interim 2014-15
Revenues		
Revenue Limit Sources	$112,109,060	$110,062,947
Federal revenues	6,626,940	6,181,321
Other state revenues	3,649,437	5,310,615
Other local revenues	6,148,185	6,462,550
Total Revenues	128,533,622	128,017,433
Expenses		
Certificated Salaries	60,552,790	62,068,690
Classified Salaries	20,381,990	19,655,608
Employee Benefits	23,354,102	23,311,898
Books and Supplies	17,249,919	11,521,803
Services and Other Operating Expenses	14,830,712	13,017,904
Capital Outlay	3,012,383	4,812,378
Other Outgo	2,099,586	2,250,745
Other Outgo- Transfers of Indirect Costs	(235,534)	(235,534)
Total Expenses	141,245,948	136,403,492
Excess of Revenues Over/(Under) Expenses	(12,712,326)	(8,386,059)
Other Financing Sources (Uses)		
Operating Transfers In	15,000	25,000
Operating Transfers Out	(1,800,000)	(256,218)
Total Other Financing Sources (Uses)	(1,785,000)	(231,218)
Net Change in Fund Balance	(14,497,326)	(8,617,277)
Fund Balance, July 1(1)	18,727,290	22,385,942
Fund Balance, June 30	$4,229,964	$13,768,665

(1) Fund balance as set forth in the District's internal reports; excludes certain funds that, in compliance with GASB 54, are included in the audited Fund Balance.
Source: Tracy Unified School District.

Assumptions Used with Respect to 2014-15 Budget. The District's fiscal year 2014-15 Budget was adopted on June 24, 2014. The District updates its budget three times following original adoption. Its most recent update, the First Interim Report for fiscal year 2014-15, was certified as positive.

District Reserves. The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 3% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. The District has a Board-adopted policy of maintaining a reserve for economic uncertainties of at least 3% of general fund expenditures and other financing uses. Additional reserves have also been maintained in several other District funds in anticipation of further negative economic impacts.

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget (**"SB 858"**), the Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the information for review at the annual public hearing on its proposed budget. In addition, SB 858 included a provision which limits the amount of reserves which may be maintained at the District level. This proposed reserve fund "cap" was conditioned on the success of Proposition 2 on the November 4, 2014 statewide ballot, which was approved by voters. Under certain circumstances, this provision could limit the District's ability to maintain reserves above a certain level. The District cannot predict whether the conditions precedent to such cap will occur, or how this legislation will impact its reserves and future spending. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS - 2014-15 State Budget."

Attendance - Revenue Limit and LCFF Funding

As described herein, prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula which considered a revenue limit per unit of average daily attendance. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following two tables set forth historical revenue limit funding for the District through fiscal year 2012-13, and LCFF funding for the District for fiscal year 2013-14 and 2014-15 (Budgeted).

AVERAGE DAILY ATTENDANCE AND FUNDED REVENUE LIMIT
Fiscal Years 2009-10 through 2012-13
Tracy Unified School District

Fiscal Year	P-2 ADA	Funded Revenue Limit Per ADA(1)
2009-10	15,494	$5,236
2010-11	15,426	5,495
2011-12	15,446	5,431
2012-13	15,412	5,482

(1) Funded figures reflect actual funding after application of deficit factor.
Source: Tracy Unified School District.

AVERAGE DAILY ATTENDANCE AND LCFF
Fiscal Years 2013-14 through 2015-16
Tracy Unified School District
ADA, Enrollment and Target Student Percentages (LCFF Implemented)
Fiscal Years 2013-14 through 2015-16 (Budgeted)

Fiscal Year	ADA	LCFF "Phase-In" Entitlement Per ADA(1)	% of Target Student Enrollment Under LCFF(3)
2013-14	15,372.97	$6,685	55.03%
2014-15(2)	15,062.39	7,354	55.03%

(1) Represents the average entitlement across grade spans inclusive of concentration and supplemental funding.
(2) 2014-15 First Interim Report.
(3) Under LCFF, enrollment of over 55% of targeted students qualifies school districts for the concentration grant. See "- Education Funding Generally" above.
Source: Tracy Unified School District.

Revenue Sources

The District categorizes its general fund revenues into four sources, being LCFF, Federal Revenues, Other State Revenues and Local Revenues. Each of these revenue sources is described below.

LCFF Sources**.** District funding is provided by a mix of (1) local property taxes and (2) State apportionments of funding under the LCFF. Generally, the State apportionments will amount to the difference between the District's LCFF funding entitlement and its local property tax revenues.

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

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

Federal Revenues**.** The federal government provides funding for several District programs, including special education programs, programs under No Child Left Behind, the Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools.

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

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

For additional discussion of State aid to school districts, see "-State Funding of Education."

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

Pension Plans

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

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teacher's Retirement Law. As a result of the Public Employee Pension Reform Act of 2013 ("**PEPRA**") (see "***Pension Reform Act of 2013 (Assembly Bill 340)***" below), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

Due to the implementation of PEPRA, new members must pay at least 50% of the normal cost of the plan, which can fluctuate from year to year. For 2013-14 the required rate is 8% of their salary. Existing plan members are also required to contribute 8.0% of their salary. The District is required to contribute a legislatively determined rate. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The District's contributions to STRS for the past three and current projected fiscal years are set forth in the following table. These contributions represent 100% of the required contribution for each year.

STRS CONTRIBUTIONS
Fiscal Years 2011-12 through 2014-15 (Projected)
Tracy Unified School District

Fiscal Year	Amount
2011-12	$4,659,372
2012-13	4,809,520
2013-14	5,077,407
2014-15*	5,458,681

**Projected in Budget.*
Source: Tracy Unified School District.

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

AB 1469 STRS EMPLOYER CONTRIBUTION RATES

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

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

PERS. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a "cost-sharing" pool within PERS. Changes have also been made to the PERs plan pursuant to PEPRA. New plan members must pay at least 50% of the normal cost of the plan, which can fluctuate from year to year. For fiscal year 2013-14 the normal cost is 11.85%, which rounds to a 6.0% contribution rate. Existing plan members are required to contribute 7.0% of their salary. The District is required to contribute an actuarially determined rate (11.771% for fiscal year 2014-15). One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each. The District's contributions to PERS for the past three and current projected fiscal years are set forth in the following table.

PERS CONTRIBUTIONS
Fiscal Years 2011-12 through 2014-15 (Projected)
Tracy Unified School District

Fiscal Year	Amount
2011-12	$1,917,485
2012-13	2,074,483
2013-14	2,175,987
2014-15*	2,292,154

**Projected in Budget.*
Source: Tracy Unified School District.

PERS Board Adopts New Employer Contribution Rates. On April 16, 2014, the Board of Administration of PERS approved new contribution rates beginning on July 1, 2014. School district employer contribution rates will reflect new demographic assumptions and other changes in actuarial assumptions which were adopted by the Board in February 2014. The new assumptions, which are aimed eliminating the unfunded liability of PERS in approximately 30 years, will be implemented for school districts beginning in fiscal year 2016-17, with the costs spread over twenty years and the increases phased in over the first five years. These new employer contribution rates continue to recognize asset losses from prior years. Projected employer contribution rates for school districts are as follows:

PROJECTED PERS CONTRIBUTION RATES FOR SCHOOL DISTRICTS

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.7%	12.6%	15.0%	16.6%	18.2%	19.9%	20.4%

Source: California Public Employees' Retirement System

State Pensions Trusts. Both the PERS and STRS systems are operated on a statewide basis. District contribution rates to PERS can vary annually depending on changes in actuarial assumptions and other factors, such as liability. Contributions to STRS can only be changed legislatively. Both PERS and STRS have substantial State unfunded actuarial liabilities, being $49.5 billion for PERS as of June 30, 2013 (the date of the last actuarial valuation for PERS) and $73.7 billion for STRS as of June 30, 2013 (the date of the last actuarial valuation for STRS). As described above, AB 1469 was enacted in connection with the State's 2014-15 Budget in an attempt to reduce and eliminate the unfunded liability of the STRS pension plan, and the PERS Board has recently taken actions to increase contribution rates in order to address unfunded liabilities.

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

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, enacting the California Public Employees' Pension Reform Act of 2013

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

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

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

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

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

District Insurance Coverage

Worker's Compensation, Property and Liability Insurance. 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 2012-13, the District continued its contract with Northern California Regional Liability Excess Fund ("**NorCal Relief**") for building and personal property and SAFER for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. For worker's compensation coverage, the District participates in the San Joaquin County Schools Worker's Compensation ("**SJCSWC**"), an insurance purchasing pool. Coverage is summarized as follows:

INSURANCE COVERAGE
Tracy Unified School District

Insurance Program	Type of Coverage	Limits
SJCSWC	Worker's Compensation	$1 million
NorCal Relief	Liability	$1 million
	Auto	$1 million
	Property	$250 million
SAFER	Excess Liability	$4 million

Source: Tracy Unified School District.

Employee Medical Benefits. The District has contracted with the Central Valley Schools Health and Welfare Trusts to provide employee medical and surgical benefits. The Trust was established as a combined effort of school district superintendents and labor representatives from the California Teacher's Association and the California School Employees Association. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow.

Other Post-Employment Benefits

The District provides post-employment health care benefits to eligible retired employees. The post-employment benefit plan (the "**Plan**") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses until the age of 65. In the September 1, 2011 actuarial valuation (the "**Actuarial Report**"), the actuarial assumptions included a 5% investment rate of return. The healthcare cost trend rate was 4% until reaching the ultimate trend. The remaining amortization period at September 1, 2011 was 30 years. The Actuarial Report identified an unfunded actuarial liability of $21,835,086 as of September 1, 2011. Currently the District is considered to be an unfunded plan since there are no assets and retiree benefits are paid annually on a cash basis. Membership of the Plan consists of 91 retirees and beneficiaries currently receiving benefits and 1,259 active Plan members and 3 trustees. Benefits provided are outlined below.

OPEB BENEFITS SUMMARY
Tracy Unified School District

	Certificated	Classified	Management
Benefit Types Provided	Medical, dental, vision	Medical, dental, vision	Medical, dental, vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years*	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution	100%	100%	100%
District Cap**	$8,482 per year	$8,482 per year	$8,162 per year

**Equivalent full-time service.*
***For those retiring prior to 7/1/2008, no cap applies.*

The Governmental Accounting Standards Board (**"GASB"**) has published Statement No. 45 which requires the District to account for post-employment benefits other than pension benefits (**"OPEB"**). The District's annual OPEB cost is calculated based on the annual required contribution of the employer (**"ARC"**), an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed 30 years.

NET OPEB OBLIGATION
Year Ending June 30, 2014
Tracy Unified School District

ARC/Annual OPEB cost (expense)	$2,783,707
Contributions made	(1,412,675)
Increase in net OBEP Obligation	1,371,032
Net OPEB Obligation – beginning of year	4,358,203
Net OPEB Obligation – end of year	$5,729,235

Source: District Audited Financial Statements for Fiscal Year Ending June 30, 2014.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2011 through 2014 were as follows:

ANNUAL OPEB COST, % CONTRIBUTED AND NET OPEB OBLIGATION
Years Ending June 30, 2011 through 2014
Tracy Unified School District

Fiscal Year Ended	Actual Contribution	Annual OPEB Cost	Percent Contributed	Net OPEB Obligation
June 30, 2011	$2,034,543	$2,148,097	95%	$2,196,537
June 30, 2012	1,793,363	2,740,735	65	3,143,909
June 30, 2013	1,628,952	2,843,246	57	4,358,203
June 30, 2014	1,412,675	2,783,707	51	5,729,235

Source: District Audited Financial Statements for Fiscal Year Ending June 30, 2014.

See “APPENDIX A –AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2013-14 - Note 10.”

Long-Term Borrowing

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

General Obligation Bonds. The following table summarizes the District’s outstanding general obligation bonds, each described in more detail below.

GENERAL OBLIGATION BOND INDEBTEDNESS
Tracy Unified School District

Issue Date	Name of General Obligation Bond Issue	Original Principal Amount	Final Maturity	Outstanding February 1, 2015
08/13/2008	Election of 2006, Series 2008*	$17,000,000	2033	$16,535,000
05/05/2009	SFID No. 3, Election of 2008, Series 2009	12,000,000	2033	11,340,000
05/10/2011	SFID No. 3, Election of 2008, Series 2011A	16,000,000	2026	14,568,000
05/10/2011	SFID No. 3, Election of 2008, Series 2011B	5,999,637	2041	5,999,637
05/05/2014	2014 Refunding GO Bonds	27,460,000	2032	26,715,000
Total		$78,459,637		$75,157,637

**A portion expected to be refunded with Refunding Bond proceeds. See “THE REFINANCING PLAN.”*

See “DEBT SERVICE SCHEDULES” in the body of this Official Statement for the future debt service (assuming no optional redemptions) due on the District’s outstanding general obligation bonds.

Election of 2006 Bonds. The District received authorization to issue $51 million of bonds at an election held on June 6, 2006 (the “**2006 Authorization**”). The District issued three series of bonds in 2006, 2007 and 2008. The Series 2006 and Series 2007 Bonds have been refunded (see following paragraph). The Series 2008 Bonds issued under the 2006 Authorization are currently outstanding in the principal amount of $16,535,000. It is expected that the outstanding Series 2008 Bonds will be refunded in part with the proceeds of the Refunding Bonds.

2014 Refunding GO Bonds. The Election of 2006, 2006 Bonds and Election of 2006, 2007 Bonds were refunded on May 6, 2014 with the proceeds of the District’s 2014 Refunding GO Bonds, currently outstanding in the principal amount of $26,715,000, the 2014 Refunding Bonds have a final maturity of August 1, 2032.

SFID No. 3 Bonds. The District formed School Facilities Improvement District No. 3 (“**SFID No. 3**”) and received authorization to issue $43,100,000 of bonds at an election held on November 4, 2008. SFID No. 3 is an area located in the District, encompassing approximately 59% of the District (per assessed value), wholly located within the County. SFID No. 3 was created as a separate tax area for purposes of approving and repaying general obligation bonds of SFID No. 3, which were issued to address critical facility needs of schools in SFID No. 3. The District issued bonds in 2009, which are currently outstanding in the principal amount of $11,340,000, Series A Bonds in 2011, currently outstanding in the principal amount of

$14,568,000 and Series B Bonds in 2011, currently outstanding in the principal amount of $5,999,637. The District currently expects to issue approximately $9,100,000 in additional bonds for SFID No. 3 in fiscal year 2015-16.

Election of 2014 Bonds. On June 3, 2014, the qualified electors in SFID No. 3 authorized the issuance of additional general obligation bonds for SFID No. 3 in a principal amount of not to exceed $82 million to continue the renovation and modernization of schools in SFID No. 3. As of this date, no bonds have been issued pursuant to this authorization.

Long-Term Lease Obligation. The District has entered into agreements to lease various facilities and equipment. The District's liability on outstanding lease agreements was $115,272 as of June 30, 2014.

Other Debt. The District has non-obligatory debt relating to bond issues by a Community Facilities Districts (**"CFD"**) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and the Mark-Roos Local Bond Pooling Act of 1985, as amended, which are payable from special taxes levied on property within the CFD according to a methodology approved by voters within the CFD. The CFD was formed among the City, the District and Jefferson School District for the purpose of financing collective public facilities for the City and school facilities for each of the participating school districts.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq*., the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq*. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. For further information concerning County investments, access the County's website: www.sjgov.org/Treasurer. Investment information can be found under the link to Treasury. The information contained in such website has not been reviewed by the District or the Purchaser and is not incorporated in this Official Statement by reference. The County's currently adopted investment policy is attached here to as Appendix G. See "APPENDIX G - SAN JOAQUIN COUNTY INVESTMENT POLICY AND REPORT."

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

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

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND

STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

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

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

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

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

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

Recent State Budgets

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

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

2. The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative

Analyst’s Internet home page at www.lao.ca.gov under the heading “Subject Area – Budget (State)”.

Prior Years’ Budgeting Techniques. Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2014-15 State Budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 30 at the November 2, 2010 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State Budget again be stressed and if projections included in such budget do not materialize.

2013-14 State Budget: Significant Change in Education Funding. As described previously herein, the 2013-14 State Budget and its related implementing legislation enacted significant reforms to the State’s system of K-12 education finance with the enactment of the LCFF. Significant reforms such as the LCFF and other changes in law may have significant impacts on the District’s finances.

2014-15 Adopted State Budget

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

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

Constitutional Amendment on November, 2014 Ballot: Rainy Day Fund. The 2014-15 State Budget included a proposed constitutional amendment which was placed before State voters on November 4, 2014. The measure was approved by voters, resulting in a change to the State's previously existing requirements for the Budget Stabilization Account, the State's existing rainy day account. This amendment:

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

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

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

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

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

In addition, approval of this amendment had the effect of enacting a related trailer bill (Senate Bill 858), which imposes a cap on the amount school districts may maintain in reserves. Specifically, the legislation, among other things, enacts Education Code Section 42127.01, operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the Public School System Stabilization Account (referenced in the last bullet point above), a school district may not adopt a budget that contains a reserve for economic uncertainties in excess of twice the applicable minimum recommended reserve for economic uncertainties established by the State Board (for school districts with ADA over 400,000, the limit is three times the amount). Exemptions can be granted by the County Superintendent under certain circumstances. AB 146 is currently pending in the California legislature, which would repeal Education Code Section 42127.01.

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

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

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

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

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

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

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

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

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

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

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

California Spending Plan. In October 2014 the Legislative Analyst's Office released its *California Spending Plan* (a publication summarizing the State's current spending plan, including legislative and gubernatorial action through October 2014). The California Spending Plan reports, among other things:

- The State's General Fund and Education Protection Fund are at a $107 billion level in 2014-15 (an increase of nearly 5% over the prior year's levels).
- The State's 2014-15 fiscal year is projected to end with $2.1 billion in total reserves.
- The 2014-15 Proposition 98 minimum guarantee is up $2.6 billion over the revised 2013-14 levels.
- In 2014-15, $5.2 billion in outstanding K-14 deferrals and $450 million in outstanding education mandates are expected to be paid down.
- $4.7 billion in additional funding for LCFF implementation is expected in 2014-15 (12% higher than the 2013-14 level, and sufficient to close 29% of the remaining funding gap).

2015-16 Proposed State Budget

On January 9, 2015, Governor Brown presented his proposed budget for the 2015-16 Fiscal Year (the "**2015-16 Proposed State Budget**"). The 2015-16 Proposed State Budget proposes a multiyear plan that is balanced, maintains a $3.4 billion reserve, and pays down budgetary debt from past years. Under the 2015-16 Proposed State Budget, funding levels for the K-12 [LCFF] will increase by $4 billion to $13,462 per pupil, and funding levels for workforce education and training will increased by $876 million. Funding is also increased for the University of California and California State University higher education systems. The 2015-16 Proposed State Budget includes a $115 million allocation from the State's general fund to address the drought, and addresses deferred maintenance issues with $500 million from the State's general fund.

The 2015-16 Proposed State Budget notes that the historical statewide general obligation bond program for construction and renovation of public school classrooms (the "**current School Facilities Program**") has no bond authority remaining in the State's core school facilities new construction and modernization programs and that there are a number of shortcomings with the current School Facilities Program. Rather than support a bond measure for the current School Facilities Program, the 2015-16 Proposed State Budget proposes a number of recommendations for the design of a new program in place of the current School Facilities Program, including (i) increasing tools for local control by expanding assessed value caps for specific local bond measures conducted under Proposition 39, restructuring developer fees for school facilities, and expanding allowable uses of routine restricted maintenance funding, (ii) targeting state funding of school facilities in a way that (a) limits eligibility to school districts with low per-student assessed values, (b) prioritizes funding for health and safety and severe overcrowding projects, and (c) establishes a sliding scale to determine the State share of project costs based on local capacity to finance projects, and (iii) augmenting charter school facility grant program to fund charter schools either serving or located in attendance areas where at least 55 percent of the students qualify for free or reduced-price meals.

The complete 2015-16 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 there, and such information is not incorporated in this Official Statement by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

The execution of 2015-16 Proposed State Budget may be affected by numerous factors, including but not limited to: (i) shifts of costs from the federal government to the State, (ii) national, State and international economic conditions, (ii) litigation risk associated with proposed spending reductions, (iii) rising health care costs and (iv) other factors, all or any of which could cause the revenue and spending projections made in the 2015-16 Proposed State Budget to be unattainable. The District cannot predict the impact that the 2015-16 Proposed State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the District cannot predict the accuracy of any projections made in the 2015-16 Proposed State Budget.

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

The State has not entered into any contractual commitment with the District, the County, or the owners of the 2014 Bonds to provide State budget information to the District or the owners of the 2014 Bonds. Although they believe the State sources of information listed above are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein. However, the 2014 Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

Legal Challenges to State Funding of Education

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the 2014 Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIIIA, XIIIB, XIIIC, and XIIID of the State Constitution, Propositions 62, 98, 111, 187 and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the 2014 Bonds. The tax levied by the County for payment of the 2014 Bonds was approved by the District's voters in compliance with Article XIIIA and all applicable laws.

Constitutionally Required Funding of Education

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

Article XIIIA of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIIIA to the State Constitution ("**Article XIIIA**"). Article XIIIA limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) (as a result of an amendment to Article

XIIIA approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition (which provided the authority for the issuance of the Refunded Bonds). Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

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

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

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

Article XIIIB of the California Constitution

Article XIIIB (**"Article XIIIB"**) of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIIIB, as amended.

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

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

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

Article XIIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution.

Unitary Property

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

Articles XIIIC and XIIID

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

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

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

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

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

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "**Accountability Act**"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

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

Proposition 111

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

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

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

Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

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

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

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

Proposition 39

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

Constitution previously limited property taxes to 1 percent of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

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

Proposition 30

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

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

Proposition 1A and Proposition 22

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

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

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

Future Initiatives

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

APPENDIX C

GENERAL INFORMATION ABOUT THE CITY OF TRACY AND SAN JOAQUIN COUNTY

*The following information concerning the City of Tracy (the **"City"**) and San Joaquin County (the **"County"**) and is included only for the purpose of supplying general information regarding the area of the District. The Refunding Bonds are not a debt of the City, the County, the State of California (the **"State"**) or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.*

General

The City is located on the western edge of the Central Valley in San Joaquin County and situated within a triangle formed by three interstate freeways: I-5, I-205 and I-580. The City is 60 miles east of San Francisco and 70 miles south of Sacramento, covering approximately 14.3 square miles. City services include public safety (police and fire protection), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, general administration services, and redevelopment.

Municipal Government

The City was incorporated as a general law city in 1910 and operates under the council-manager form of government. Policy making and legislative authority are vested in the City Council, which consists of a Mayor and a four member Council. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager and the City Attorney. The City Manager is responsible carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the government's departments. Council members are elected to four year staggered terms, with two Council members elected every two years. The mayor is elected every two years.

Population

Population figures for the City, the County and the State for the last five years are shown in the following table.

CITY OF TRACY AND SAN JOAQUIN COUNTY
Population Estimates
Calendar Years 2010 through 2014 as of January 1

Calendar Year	City of Tracy	County San Joaquin	State of California
2010	82,800	684,057	37,223,900
2011	83,242	689,160	37,427,946
2012	83,562	692,997	37,668,804
2013	84,466	701,745	37,984,138
2014	85,146	710,731	38,340,074

Source: State Department of Finance estimates (as of January 1, 2014)

Employment and Industry

The District is included in the Stockton Metropolitan Statistical Area ("**MSA**"), which includes all of San Joaquin County. The unemployment rate in the San Joaquin County was 11.7 percent in April 2014, down from a revised 13.1 percent in March 2014, and below the year-ago estimate of 13.0 percent. This compares with an unadjusted unemployment rate of 7.3 percent for California and 5.9 percent for the nation during the same period.

Set forth below is data from calendar years 2009 to 2013 reflecting the County's civilian labor force, employment and unemployment. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the District. Annual Figures are not yet available for calendar year 2014.

STOCKTON METROPOLITAN STATISTICAL AREA
(San Joaquin County)
Annual Average Labor Force and Employment by Industry
Calendar Years 2009 through 2013 (March 2013 Benchmark)

	2009	**2010**	**2011**	**2012**	**2013**
Civilian Labor Force (1)	298,200	300,800	297,600	302,400	298,800
Employment	252,700	248,900	247,400	257,200	260,400
Unemployment	45,400	51,900	50,100	45,100	38,400
Unemployment Rate	15.2%	17.3%	16.8%	14.9%	12.8%
Wage and Salary Employment: (2)					
Agriculture	15,200	15,700	15,500	15,700	15,600
Mining and Logging	100	100	100	100	100
Construction	8,400	7,600	7,400	7,600	8,700
Manufacturing	18,900	17,600	17,900	17,800	17,800
Wholesale Trade	9,900	10,000	10,200	10,700	10,900
Retail Trade	23,700	23,700	24,100	24,900	25,700
Transportation, Warehousing and Utilities	13,900	13,800	14,500	14,900	15,400
Information	2,200	2,100	2,100	2,100	1,900
Financial Activities	8,900	7,700	7,400	7,500	7,600
Professional and Business Services	15,900	15,400	15,100	16,500	17,300
Educational and Health Services	32,200	32,300	32,500	32,800	33,400
Leisure and Hospitality	16,700	16,100	16,300	17,000	18,100
Other Services	7,000	6,500	6,300	6,500	6,600
Federal Government	4,100	4,300	4,000	3,900	3,500
State Government	4,100	3,900	3,800	3,600	4,200
Local Government	31,700	30,000	28,700	28,600	29,300
Total All Industries	212,800	206,900	206,000	210,300	216,200

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

The following table list the major employers within the County, as of June 2014.

SAN JOAQUIN COUNTY
Major Employers
June 2014

Employer Name	Location	Industry
All Trade Handyman Mgmt Llc	Tracy	Handyman Services
B & B Ranch	Linden	Ranches
Blue Shield of California	Lodi	Insurance
Deuel Vocational Institution	Tracy	City Govt-Correctional Institutions
Division of Juvenile Justice	Stockton	State Govt-Correctional Institutions
Foster Care Svc	Stockton	County Government-Social/Human Resources
J C Penney Distribution Ctr	Lathrop	Distribution Centers (Whls)
Leprino Foods Co	Tracy	Cheese Processors (Mfrs)
Lodi Memorial Hosp Home Health	Lodi	Home Health Service
Lodi Memorial Hospital	Lodi	Hospitals
Morada Produce Co	Stockton	Fruits & Vegetables-Growers & Shippers
North California Youth Ctr	Not Available	Police Departments
O-G Packing & Cold Storage Co	Stockton	Fruits & Vegetables-Growers & Shippers
Pacific Coast Producers	Lodi	Canning (Mfrs)
Prima Frutta Packing Inc	Linden	Fruit & Produce Packers
Safeway Distribution Warehouse	Tracy	Distribution Centers (Whls)
San Joaquin County Human Svc	Stockton	County Government-Social/Human Resources
San Joaquin General Hospital	French Camp	Hospitals
San Joaquin Sheriff's Office	French Camp	Sheriff
St Joseph's Medical Ctr	Stockton	Medical Centers
Stockton Police Dept	Stockton	Police Departments
University of the Pacific	Stockton	Schools-Universities & Colleges Academic
Walmart Supercenter	Stockton	Department Stores
Waste Management	Lodi	Garbage Collection
Whirlpool Corp	Stockton	Appliances-Household-Major-Man

Source: State of California Employment Development Department, extracted from America's Labor Market Information System (ALMIS) Employer Database, 2014 2nd Edition.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years. A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Annual figures are yet not available for 2013.

Total taxable sales through the first and second quarter of calendar year 2013 in the City were reported to be $647.6 million, a 15.78% increase over the total taxable sales of $559.3 million reported through the first and second quarter of calendar year 2012.

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

	Retail Stores		**Total All Outlets**	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	848	$883,180	1,494	$1,026,995
2009(1)	909	752,864	1,338	878,925
2010(1)	961	829,188	1,382	928,740
2011(1)	950	943,829	1,365	1,056,404
2012(1)	930	1,030,595	1,320	1,199,306

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

Total taxable sales through the first and second quarter of calendar year 2013 in the County were reported to be $4.61 billion, a 7.39% increase over the total taxable sales of $4.29 billion reported through the first and second quarter of calendar year 2012.

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

	Retail Stores		**Total All Outlets**	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	6,824	$5,834,396	13,419	$8,696,074
2009(1)	8,203	4,974,437	12,297	7,260,073
2010(1)	8,534	5,213,982	12,633	7,602,090
2011(1)	8,337	5,740,948	12,450	8,426,952
2012(1)	8,524	6,124,320	12,613	9,010,929

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

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the median household effective buying income for the County of San Joaquin, the State and the United States for the period 2009 through 2013. Effective Buying Income is yet not available for calendar year 2014.

CITY OF TRACY AND SAN JOAQUIN COUNTY
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
2009 through 2013

	2009	2010	2011	2012	2013
City of Tracy	$67,945	$62,219	$62,085	$56,079	$58,300
San Joaquin County	44,434	42,086	42,000	41,939	43,204
California	49,736	47,177	47,062	47,307	48,340
United States	43,252	41,368	41,253	41,358	43,715

Source: The Nielsen Company (US), Inc.

Building Activity

The tables below summarize building activity in the City and the County from calendar years 2009 through 2013. Annual figures are not yet available for calendar year 2014.

CITY OF TRACY
Building Permit Activity
For Calendar Years 2009 through 2013
(Dollars in Thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$5,550.4	$4,549.0	$2,951.8	$5,317.5	$20,057.9
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	1,219.2	1,914.9	2,042.1	1,734.5	1,402.9
Total Residential	6,769.6	6,464.0	4,993.9	7,052.0	21,460.8
New Commercial	1,339.5	13,184.4	213.6	98,007.0	2,378.8
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	1,587.9	1,234.8	52.7	4,200.0	4,395.6
Com. Alterations/Additions	17,036.6	16,082.3	30,056.6	6,029.0	18,458.5
Total Nonresidential	$19,964.0	$30,501.5	$30,322.9	108,236.0	25,232.9
New Dwelling Units					
Single Family	28	18	11	20	67
Multiple Family	0	0	0	0	0
TOTAL	28	18	11	20	67

Source: Construction Industry Research Board, Building Permit Summary

COUNTY OF SAN JOAQUIN
Building Permit Activity
For Calendar Years 2009 through 2013
(Dollars in Thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$160,431.1	$166,223.0	$159,012.2	$250,227.1	$264,761.1
New Multi-family	0.0	15,426.9	14,853.1	0.0	7,601.9
Res. Alterations/Additions	25,995.5	28,058.7	48,093.6	22,356.9	28,764.8
Total Residential	186,426.6	209,708.7	221,958.9	272,584.0	301,127.8
New Commercial	18,405.6	31,521.9	45,422.2	176,179.0	158,299.3
New Industrial	3,102.2	1,333.0	9,669.3	13,126.8	1,141.9
New Other	35,574.4	40,130.0	4,709.7	4,200.0	21,462.7
Com. Alterations/Additions	96,536.3	100,108.9	108,216.9	65,989.4	79,145.2
Total Nonresidential	$153,618.4	$173,093.8	$168,018.1	$259,495.2	260,049.1
New Dwelling Units					
Single Family	773	801	728	1,052	1,062
Multiple Family	0	157	152	0	74
TOTAL	773	958	880	1,052	1,136

Source: Construction Industry Research Board, Building Permit Summary

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Jones Hall APLC]

March 11, 2015

Board of Education
Tracy Unified School District
1875 W. Lowell Avenue
Tracy, CA 95376-4095

OPINION: $14,910,000 Tracy Unified School District (San Joaquin County, California) 2015 General Obligation Refunding Bonds

Members of the Board of Education:

We have acted as bond counsel to the Tracy Unified School District (the "District") in connection with the issuance by the District of $14,910,000 principal amount of Tracy Unified School District (San Joaquin County, California) 2015 General Obligation Refunding Bonds, dated the date hereof (the "Bonds"), pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Act"), a resolution of the Board of Education of the District (the "Board") adopted January 13, 2015 (the "Resolution"), and a Paying Agent Agreement, dated as of February 1, 2015, between the District and The Bank of New York Mellon Trust Company, N.A., acting as Paying Agent (the "Paying Agent Agreement"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

2. The Resolution has been duly adopted by the Board, and the Resolution and the Paying Agent Agreement constitute valid and binding obligations of the District enforceable upon the District.

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

4. The Boards of Supervisors of San Joaquin and Alameda Counties are required under the Act to levy an *ad valorem* tax upon the property in the District, unlimited as to rate or amount, for the payment of principal of and interest on the Bonds.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Paying Agent Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$14,910,000
TRACY UNIFIED SCHOOL DISTRICT
(San Joaquin County, California)
2015 General Obligation Refunding Bonds

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is dated March 11, 2015 and is executed and delivered by the Tracy Unified School District (the "District") in connection with the issuance of the above-captioned bonds (the "Bonds"). The Bonds are being issued under a resolution adopted by the Board of Education of the District on January 13, 2015 (the "Bond Resolution") and a Paying Agent Agreement, dated as of February 1, 2015, by and between the District and The Bank of New York Mellon Trust Company, N.A. 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 S.E.C. Rule 15c2-12(b)(5).

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

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

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

"Dissemination Agent" means, initially, KNN Public Finance, a Division of Zions National Bank, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 4(a).

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

"Official Statement" means the final official statement executed by the District in connection with the execution and delivery of the Certificates.

"*Participating Underwriter*" means Stifel, Nicolaus & Co. Incorporated, or any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing no later than March 31, 2016 with the report for the 2014-15 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

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

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

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

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

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official

Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, the District shall include in its Annual Report the following information:

(i) assessed valuation of taxable properties in the District, including the assessed valuation in the Alameda County portion that was formerly a part of the District, for the then-current fiscal year;

(ii) assessed valuation of the top ten properties in such area if the combined assessed valuation of the top ten properties is equal to or exceed 10 percent of District assessed value, including the portion of assessed valuation in Alameda County, for the then-current fiscal year; and

(iii) total secured property tax levy and collections, showing current collections as a percent of the total levy, if the County no longer operates pursuant to the Teeter Plan, for the most recently available fiscal year.

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission.

Section 5. Reporting of Significant Events.

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

(1) Principal and interest payment delinquencies.

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

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

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

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

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

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

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

(9) Defeasances.

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

(11) Rating changes.

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

(13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

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

(b) If a Listed Event occurs, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

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

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

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

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

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. Initially, the District shall serve as Dissemination Agent.

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

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

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

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

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

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

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

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

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which 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 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: March 11, 2015

TRACY UNIFIED SCHOOL DISTRICT

By: ________________________________

Associate Superintendent of
Business Services

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	Tracy Unified School District
Name of Bond Issue:	$14,910,000 aggregate principal amount of Tracy Unified School District (San Joaquin County, California) 2015 General Obligation Refunding Bonds
Date of Issuance:	March 11, 2015

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the resolution adopted by the Board of Education of the District authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____________.

Dated: _________________

___________________________,
as Dissemination Agent

By: ________________________________
Authorized Officer

Cc: Tracy Unified School District

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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

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

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (in this Appendix, the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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APPENDIX G

SAN JOAQUIN COUNTY INVESTMENT POLICY AND REPORT

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INVESTMENT POLICY

COUNTY OF SAN JOAQUIN

Pol-2014
Rev 04/29/14

PURPOSE

The Investment Policy establishes the criteria for the prudent investment of the pool participant's temporary surplus treasury funds, and outlines the policies for maximizing the efficiency of the County's cash management system.

OBJECTIVE

The objective of the Investment Policy is to enhance the economic status of all treasury pool participants while protecting their pooled cash.

POLICY

San Joaquin County operates its temporary pooled surplus money investment program under the "Prudent Investor Standard" (California Government Code 53600.3). This affords the County a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California. (Government Code Section 53601, et seq.).

The criteria for selecting investments and their order of priority are as follows:

1. Safety. The safety and risk associated with an investment refers to the potential loss of principal and/or interest. The treasury pool only enters into those investments that are considered very safe.

2. Liquidity. This refers to the ability to "cash in" at any time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds may occur.

3. Yield. Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return.

GENERAL CONSTRAINTS

The following criteria represent the general framework within which the County's Treasury Investment Program shall be conducted:

- The laws of the State of California and the Prudent Person Rule shall be the primary standards by which all County treasury investments are transacted.

- Surplus money management and investment transactions are the responsibility of the County Treasurer.

- The Treasurer strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determination.

- The basic premise underlying the County's investment philosophy is to ensure that the pool funds are always safe and available when needed.

- Surplus (idle) Funds are all funds, which are not required to meet the banks' demands on the treasury to redeem warrants on any given day.

CONSTRAINTS SET BY GOVERNMENT CODE

Government Code Sections 53601 and 53635 impose restrictions on the investments of government entities. All such restrictions are to be adhered to in their entirety. In addition, the Treasurer may make further restrictions to the Code sections if the Treasurer deems such action appropriate. Such action is deemed appropriate with the following section listing the only authorized investments of the County.

AUTHORIZED INVESTMENTS OF THE COUNTY

The following investments are the only authorized investments to be made by the County. The restrictions specified in Government Code sections 53601 and 53635 apply unless stated otherwise. Authorized investments are as follows:

1. **United States Treasury Bills, Notes and Bonds- Maximum of 100%**

   United States Treasury Bills, Notes, Bonds for which the full faith and credit of the United States are pledged for the principal and interest. Zero Coupon issues of these types of investments are authorized. There is no percentage limit on the total dollar amount that may be invested.

2. **Obligations issued by the Federal Government- Maximum of 100%**

   Federal Agency issues of the Federal National Mortgage Association (also known as Fannie Mae and/or FNMA), and the Federal Home Loan Mortgage Corporation (also known as Freddie Mac and/or FHLMC), the Federal Farm Credit Bank System (also known as FFCB), and the Federal Home Loan Bank (also known as FHLB). Debentures, Zero Coupon, Discount Notes, or Floaters of the above issue are authorized. There is no percentage limit on the total dollar amount that may be invested.

3. **Medium Term Notes-** **Maximum of 30%**

Corporate Debentures (Medium Term Notes), other than those of security or insurance firms, that have a rating in the highest or second highest categories of a nationally recognized statistical-rating organization (NRSRO). The maximum maturity of such issues is three years. Floaters of the above issues are authorized as long as the maximum maturity does not exceed three years. Medium Term Notes may not exceed 30 percent of the investments.

4. **Time Deposits-** **Maximum of 30%**

Certificates of Deposits issued by nationally or state-chartered bank, savings association, federal association, or state-licensed branch of a foreign bank. The bank must have a branch or office in the County of San Joaquin. The bank must have a minimum long term credit rating of AA- from Standard & Poor's and a minimum credit rating of Aa3 from Moody's. The limit for each issuer is specified in the Treasurer's "Approved Negotiable Certificates Of Deposit List." Certificates of Deposit may not exceed one year maturity and may not exceed 30 percent of the investments.

5. **Commercial Paper-** **Maximum of 30%**

The maximum maturity of commercial paper is 60 days. The limit for each issuer is specified in the Treasurer's "Approved Commercial Paper Issues". Commercial Paper may not exceed 30 percent of the investments.

6. **Bankers Acceptances-** **Maximum of 40%**

Bills of Exchange or Time Drafts (referred to as Bankers Acceptances). Bankers Acceptances may not exceed 40 percent of the investments and no more than 30 percent may be invested in the Bankers Acceptances of one commercial bank. The limit for each issuer may be specified in the Treasurer's "Approved Bankers Acceptance Issues".

7. **Repurchase Agreements-** **Maximum of 100%**

Term repurchase agreements may be collateralized by either U.S. Treasury Securities or by any U.S. Federal Agency security.

Regardless of maturity, repurchase agreements must be collateralized at 102% (market value plus accrued interest). Repurchase agreements shall only be made with dealers with assets in excess of $500 million and having either the highest commercial paper rating, or A or higher rating for the issuer's debt, if any, as provided by Moody's Investors Service, Inc. or

Standard and Poor's Corporation. There is no percentage limit on the total dollar amount that may be invested.

All Repurchase Agreements with brokers/dealers will be done through a "Tri-Party Custodian Agreement" that has been approved, in writing, by the Treasurer.

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

8. **Mutual Funds-** **Maximum of 20%**

Mutual Funds, as defined in Government Code Section 53601, that consist only of those investments authorized by this Policy. Mutual Funds may not exceed 20 percent of the investments.

9. **Registered California State Warrants or Bonds-** **Maximum of 100%**

Registered California State Warrants or Treasury Notes or Bonds as defined in Government Code Section 53601. There is no percentage limit on the total dollar amount that may be invested.

10. **Local Agency Investment Fund-** **Maximum of $50 Million**

Local Agency Investment Fund (LAIF) of the State of California. There is no percentage limit on the total dollar amount that may be invested, however, the LAIF usually sets a limit on investments.

11. **G.C. Section 53601(m) Specific Securities** **Maximum Per Approval**

Specific securities as specified in the ordinance, resolution, indenture, or agreement for monies pledged to the payment or security of bonds or other indebtedness as governed by section "M" of Section 53601 of the Government Code. The Treasurer must give written approval for any such securities authorized by this paragraph.

12. **Bank Deposits**

Interest-bearing active deposits in a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company. These deposits must be properly collateralized at 110% in accordance with Government Code Section 53652. Deposits with any one depository may not exceed $100 million.

Summary of Maximum Percentage Limitations of Investments, by Investment Type

The following summary of maximum percentage limits, by instrument, is established for the County's total pooled fund's portfolio:

Investment Type	Percentage
U.S. Treasury Bills, Notes and Bonds	0 to 100%
U.S. Government Agency Obligations	0 to 100%
Medium-Term Notes	0 to 30%
Time Deposits	0 to 30%
Commercial Paper	0 to 30%
Bankers Acceptances	0 to 40%
Repurchase Agreements	0 to 100%
Mutual Funds	0 to 20%
Registered State Warrants and Bonds	0 to 100%
LAIF	$50 million

MATURITY STRUCTURE

The maturity of investments, excluding investments that have been specifically matched to a bond issue maturity, are subject to the following restrictions at the time of purchase:

1. 20% of the Portfolio is to mature within 30 days.

2. An additional 30% may mature up to 180 days.

3. An additional 25% may mature up to 1 year.

4. An additional 25% may mature up to 3 years.

If for any reason the investment portfolio is not in compliance with the maturity percentages, all new investments will be restricted to 30 days or less until compliance is achieved.

If the market value of all such securities is less than 95% of the original cost, then any further purchase of maturities of longer than one year is prohibited. Purchases of such securities may resume if the total market value is at least 95% of the original cost.

Securities that are purchased to specifically match the maturity of a bond issue are not included in the above requirements. Such securities shall be clearly designated in the appropriate investment reports and journals.

The Treasurer must give written approval for all purchases of securities with a maturity of one year or longer.

DEALER APPROVAL

All financial institutions used for the placement of treasury pool investments, must have been approved by the Treasurer in writing.

All financial institutions will be investigated by the Treasurer as to their credit-worthiness.

The Treasurer will not approve any broker, brokerage, dealer, or securities firm that has, within the past two years, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Treasurer, any member of the Board of Supervisors, or any candidate for these offices.

COMPETITIVE BIDDING

Bids for any investment shall be taken from a minimum of two banks or broker/dealers. Awards will be made to the highest bidder, giving consideration to safety, a balanced portfolio, and diversification. If two bids for a similar investment security are unavailable, then the second bid may be for another investment security with a similar maturity.

SWAPS AND TRADES

Securities may be swapped and traded for other eligible securities after 1) calculating the gain between the buy and sell candidates in the transaction, and 2) approval by the Treasurer.

A "Swap Calculation Sheet", signed by the Treasurer, will be prepared for each such trade and will be included in that day's "Daily Cash Flow Summary" report.

LOSSES

Generally, losses are acceptable on a sale before maturity and may be taken if reinvested proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment.

SAFEKEEPING

Securities purchased from broker/dealers shall be held in third party safekeeping by the trust department of the County's bank or other designated third party trust and in the County's name. No securities will be held by the broker/dealer from whom they were purchased.

Safekeeping of Repurchase Agreements and Collateralized Non-Negotiable Certificates of Deposit are stipulated in the section titled "Authorized Investments of the County".

CONFIRMATION

All investment confirmations are to be reviewed for conformity with the original transaction. Discrepancies are to be reported to the Treasurer.

DAILY CASH FLOW SUMMARY

A "Daily Cash Flow Summary" report is to be prepared, and kept on file, for each day's work. The report is to include at least the following:

(1) "Daily Cash Flow Summary" sheet.
(2) Daily "Report of Investments" sheet.
(3) "Treasury Deposit Report" detailing the interest and principle that matured on that date. A copy of the original trade confirmation will be attached to this report.
(4) Daily Bank Balance Report.
(5) Copies of all wires used to transfer funds for investments.
(6) "Swap Calculation Sheet" if appropriate.

CREDIT FOR INTEREST EARNINGS

Interest earnings on the County's pooled investments shall be credited to participating entities quarterly. The credit is computed based on the average daily cash balance of funds on deposit during the quarter in the County Treasury.

Authorized costs of investing, depositing, banking, auditing, reporting or otherwise handling or managing funds, and the costs of the County Treasury Oversight Committee will be subtracted from the total interest earnings before the interest earnings are apportioned.

DIRECTED INVESTMENTS

The Treasurer may allow special directed investments for Tax and Revenue Anticipation Note (TRANS) proceeds or other special purposes. The Treasurer will work with the entity to make a single directed investment. For proceeds between $10 and $50 million that investment will be in a U.S. Treasury Bill. For proceeds in excess of $50 million the investment can be in either a U.S. Treasury Bill or a U.S. Treasury Note. Upon the maturity of the investment all funds will be put into the county pool. Any funds from the TRANS sale not included in the investment will be placed in the county pool. The charge for the investment will be $5,000, which is estimated to cover the actual expenses of the offices of the Treasurer and Tax Collector and the Auditor-Controller. These expenses may include paying agent, safekeeping, establishing of entity funds, tracking and recording the investment. The Treasurer may negotiate a different charge if it is cost justified and appropriate. Directed investments will be separate from the county pool.

OUTSIDE AGENCIES

Agencies not required to deposit funds with the County may place funds in the county pool with the approval of the Treasurer. All agencies must comply with this investment policy. It is anticipated that most funds will be withdrawn from the county pool by a warrant. Wire transfers must be arranged with the Treasurer's office.

WITHDRAWALS

The Treasurer has determined that withdrawals of less than $10 million will not affect the stability and predictability of the investments in the County Treasury. Most withdrawals are by warrant and do not require early notification. The Treasurer’s office requires 24 hour notice on wire transfer withdrawals of $1 million to $10 million, at least seven day notice on any withdrawals between $10 million and $25 million, and 30 days’ notice for amounts over $25 million. The Treasurer may waive or reduce the required notice. The Treasurer also reserves the right to work with any agency on the timing of a wire transfer above $10 million if that withdrawal might affect the stability or predictability of the investments in the County Treasury. The Treasurer may refuse any withdrawal above $25 million or any series of withdrawals in one month which exceed $25 million which might affect the stability and predictability of the investments in the County Treasury.

REPORTING

The County Treasurer shall provide a monthly report to the County Board of Supervisors, County Administrator, Auditor-Controller, and the County Treasury Oversight Committee showing all Treasury investments by the type of investment, institution, date of maturity, amount of investment, rate of interest, and for all securities the current market value. Securities will be valued based on information from the trustee, broker, the Wall Street Journal, or other sources approved by the Treasurer. The market value for Certificates of Deposit, Repurchase Agreements of less than 30 days and LAIF will be at cost. The report will include the weighted average maturity of the investments within the treasury, and a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months.

COUNTY TREASURY OVERSIGHT COMMITTEE

The County Treasury Oversight Committee (Committee) will review and monitor this policy. The Committee shall cause an annual audit to be conducted to determine the County Treasury's compliance with the law and this policy.

The Committee shall not direct individual investment decisions, select individual investment advisors, brokers, dealers, or impinge on the day-to-day operations of the County Treasury.

Government Code Section 27132.1 . A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of local Treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the County Treasury, in the previous three years or during the period that the employee is a member of the Committee.

Government Code Section 27132.2 . A member may not directly or indirectly raise money for a candidate for local Treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee. Government Code Section 27132.3. A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the Treasurer is doing business during the period that the person is a member of the Committee or for one year after leaving the Committee.

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act.

INDEMNIFICATION

The standard of care to be used by the County's Investment officials in all investment transactions shall be the Prudent Investor Standard (California Government Code 53600.3), which is expanded as follows:

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, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiar with such 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 of an overall strategy, investments may be acquired as authorized by law.

The above criteria are established as the standard for professional responsibility and shall be applied in the context of managing the County's Treasury investment portfolio. Investment officers acting in accordance with this investment policy shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

CONFLICT OF INTEREST

No employee or member of the Committee may directly or indirectly accept or solicit from any person, corporation, or group having a business relationship with the Treasurer or treasury related functions, any rebate, kickback, or anything of an economic value as a gift, gratuity, or honoraria.

No employee of the Treasurer's office shall, outside of working hours, engage in any profession, trade, business, or occupation, which is incompatible or involves a conflict of interest with his/her duties as a County officer or employee.

SHABBIR A. KHAN
Treasurer
San Joaquin County

SAK: mk

(Replaces Policy, Approved April 2013)

(INV/POLAPR2014)