OFFICIAL STATEMENT SUPPLEMENT NO. 1

Dated: April 6, 2015

$14,000,000
HOLLISTER SCHOOL DISTRICT
(SAN BENITO COUNTY, CALIFORNIA)
General Obligation Bonds, Election of 2014,
Series 2015 A

This Official Statement Supplement No. 1 (the "Supplement") sets forth certain corrective information to that contained in the Official Statement dated March 24, 2015 (the "Official Statement") relating to the $14,000,000 Hollister School District General Obligation Bonds, Election of 2014, Series 2015 A (the "Bonds"). This Supplement should be read together with the Official Statement (a copy of which is available on request from the District or the Underwriter and which is incorporated herein by reference). To the extent the information in this Supplement conflicts with the information in the Official Statement, this Supplement shall govern. This Supplement constitutes an integral part of the Official Statement and recipients are requested to attach this Supplement to the Official Statement. Unless otherwise defined in this Supplement, all capitalized terms used herein shall have the same meanings as those terms in the Official Statement.

The <u>Maturity Schedule</u> shown on the inside cover of the Official Statement is corrected to show September 1, 2040 and September 1, 2044, as the due dates for the term bonds described therein, rather than November 1, 2040 and November 1, 2044. The inside cover page of the Official Statement should be replaced in its entirety with the following corrected page.

MATURITY SCHEDULE

$14,000,000
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Obligation Bonds, Election of 2014, Series 2015A
BASE CUSIP†: 435650

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2016	$350,000.00	2.000%	0.500%	DN3
2017	500,000.00	4.000%	0.800%	DP8
2026	100,000.00	4.000%	2.690%*	DQ6
2027	150,000.00	4.000%	2.800%*	DR4
2028	350,000.00	4.000%	2.940%*	DS2
2029	400,000.00	4.000%	3.000%*	DT0
2030	450,000.00	3.000%	3.270%	DU7
2031	500,000.00	3.250%	3.330%	DV5
2032	550,000.00	3.250%	3.380%	DW3
2033	600,000.00	3.375%	3.420%	DX1
2034	650,000.00	4.000%	3.410%*	DY9
2035	700,000.00	4.000%	3.440%*	DZ6

$4,250,000.00 — 4.000% Term Bonds due September 1, 2040—Yield 3.650%* CUSIP† EA0

$4,450,000.00 — 4.000% Term Bonds due September 1, 2044—Yield 3.690%* CUSIP† EB8

***Yield to par call date of September 1, 2025**

NEW ISSUE — BOOK-ENTRY ONLY

Insured Rating: Standard & Poor's "AA"
Underlying Rating: Standard & Poor's "A+"
(See "MISCELLANEOUS — Ratings.")

In the opinion of Lozano Smith, LLP, Bond Counsel to the District, subject, however to certain qualifications described herein, under existing law, the interest on the 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. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS."

$14,000,000
HOLLISTER SCHOOL DISTRICT
(SAN BENITO COUNTY, CALIFORNIA)
General Obligation Bonds, Election of 2014, Series 2015 A

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

Issuance. The $14,000,000 Hollister School District General Obligation Bonds, Election of 2014, Series 2015A (the "Bonds") are being issued by the Hollister School District (the "District"), located in San Benito County (the "County"), California, pursuant to a resolution of the Board of Trustees of the District adopted on February 24, 2015 (the "Resolution") and certain provisions of the Government and Education Codes of the State of California (the "State").

Authorization. The Bonds were authorized at an election of the registered voters of the District held on November 4, 2014 at which election 63.41% of the voters voting on the proposition authorized the issuance of up to $28.5 million principal of general obligation bonds (the "Authorization") for the purpose of financing the construction, repair, modernization, acquisition, and equipping of school classrooms, facilities, and school sites within the District. The Bonds will be the first series of bonds issued under the Authorization.

Purpose. The Bonds are being issued (i) to finance the costs of construction, repair, modernization, acquisition, and equipping of school classrooms, facilities, and school sites within the District; (ii) partially fund capitalized interest through March 1, 2016; and (iii) to pay costs of issuance of the Bonds. See "THE BONDS – Authority for Issuance" and "THE BONDS – Purpose of Issue" herein.

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

Book-Entry Only. The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Bonds purchased by them.

Payments. The Bonds are dated the date of delivery and are being issued as Current Interest Serial Bonds and Current Interest Term Bonds (all as defined herein). The Bonds shall be issued in denominations of $5,000 principal amount and integral multiples thereof and accrue interest from the dated date at the rates set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1 until maturity, commencing March 1, 2016. Payments of principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent") to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE BONDS – Redemption" herein.

Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.

ASSURED GUARANTY
MUNICIPAL

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

The following firm is serving as financial advisor to the District:

PFM
Public Financial Management, Inc.

MATURITY SCHEDULE
(See Inside Front Cover)

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Lozano Smith, LLP, Fresno, California, Bond Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the District by Lozano Smith, LLP, as counsel to the District, and by Lozano Smith, LLP, as Disclosure Counsel to the District, and for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York, on or about April 9, 2015.

Morgan Stanley

The date of this Official Statement is March 24, 2015.

MATURITY SCHEDULE

$14,000,000
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Obligation Bonds, Election of 2014, Series 2015A
BASE CUSIP†: 435650

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***Priced to par call date of September 1, 2025**

HOLLISTER SCHOOL DISTRICT
(SAN BENITO COUNTY, CALIFORNIA)
General Obligation Bonds, Election of 2014, Series 2015A

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District or any other entity described or referenced herein since the date hereof.

Involvement of Underwriter. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Insurer Disclaimer. Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Exhibit H - Specimen Municipal Bond Insurance Policy".

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

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

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The 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 Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

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

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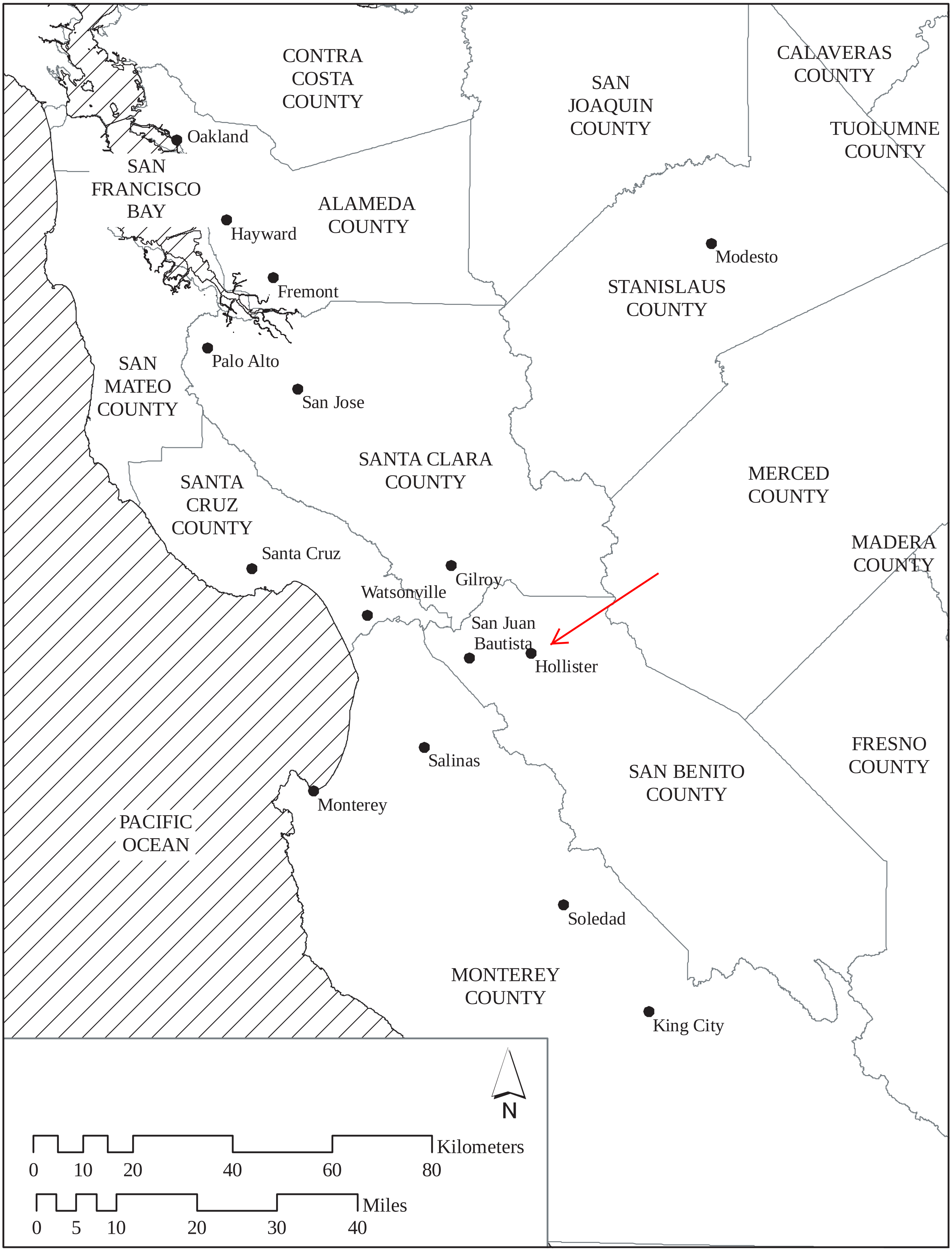

Regional Location

$14,000,000
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Obligation Bonds, Election of 2014, Series 2015A

INTRODUCTION

General

This Official Statement, which includes the cover page, the inside cover page and appendices hereto, is provided to furnish information in connection with the sale of $14,000,000 aggregate principal amount of Hollister School District General Obligation Bonds, Election of 2014, Series 2015A (the "Bonds"), consisting of current interest bonds as indicated on the inside front cover page hereof, to be offered by the Hollister School District (the "District").

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

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

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 Bonds.

Copies of documents referred to herein and information concerning the Bonds are available from the District by contacting: Hollister School District, 2690 Cienega Road, Hollister, California 95023, Attention: Director of Fiscal Services. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District's territory includes approximately 45 square miles in the northeastern part of San Benito County (the "County"). The County is bordered by Santa Clara County on the north, Monterey County on the south and west, Fresno County on the south and east, and Merced County on the east. The District provides K-8 educational services to the residents of the City of Hollister, as well parts of the unincorporated portions of the County. The District operates six elementary schools, two middle schools, one dual-language academy, one accelerated achievement academy, and one charter school. For fiscal year 2014-15, the District has an assessed valuation of $3,860,059,323 and a budgeted enrollment of 5,428 students.

The District is governed by a five member Board of Trustees, each member of which is elected to a four year term. Elections for positions on the Board of Trustees are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board of Trustees who is responsible for day to day District operations as well as the supervision of the District's other personnel. For additional information about the District, see APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX C – "AUDIT REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014."

THE BONDS

Authority for Issuance

The Bonds are issued under the provisions of Article 4.5 (commencing with Section 53506) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and other applicable provisions of law (the "Bond Law") and a resolution adopted by the Board of Trustees of the District on February 24, 2015 (the "Resolution") providing for the issuance of the Bonds. The Bonds were authorized at an election of the registered voters of the District held on November 4, 2014 (the "Bond Election") at which election 63.41% of the voters voting on the proposition authorized the issuance of up to $28,500,000 aggregate principal amount of general obligation bonds (the "Authorization") for the purpose of financing the construction, repair, modernization, acquisition, and equipping of school classrooms, facilities, and school sites within the District. The Bonds will be the first series of bonds issued under the Authorization. Capitalized undefined terms used in this Official Statement have the meanings ascribed thereto in the Resolution.

Purpose of Issue

The net proceeds from the Bonds will be used (i) to finance the costs of construction, repair, modernization, acquisition, and equipping of school classrooms, facilities, and school sites within the District; (ii) partially fund capitalized interest through March 1, 2016; and (iii) to pay costs of issuance of the Bonds. See "–THE BONDS – Authority for Issuance" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Description of the Bonds

The Bonds will be dated their date of delivery (the "Delivery Date") and will be issued as fully registered bonds in the denominations of $5,000 or any integral multiple thereof, dated as of the Delivery Date, and will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "APPENDIX F—Book-Entry Only System."

Payment of Principal and Interest

The Bonds will be issued as current interest serial and/or term bonds as set forth on the inside front cover hereof.

Interest. The Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on March 1 and September 1 of each year, commencing on March 1, 2016 (each, an "Interest Date"), computed on the basis of a 360-day year of twelve 30-day months. Each Bond shall bear interest from the Interest Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Date (the "Record Date") and on or prior to the succeeding Interest Date, in which event it shall bear interest from such Interest Date, or unless it is authenticated on or before the Record Date preceding the first Interest Date, in which event it shall bear interest from its dated date; provided, however, that if, at the time of authentication of any Bond, interest is in default on any outstanding Bonds, such Bond shall bear interest from the Interest Date to which interest has previously been paid or made available for payment on the outstanding Bonds.

Payment of Bonds. The principal and interest on the Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of the Paying Agent at the maturity thereof or upon redemption prior to maturity.

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

Paying Agent

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

The Paying Agent, the District, the County, and the Underwriter of the 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 Bonds.

Redemption

Optional Redemption of Bonds. The Bonds maturing on or before September 1, 2025 are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after September 1, 2026 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after September 1, 2025 at a redemption price equal to the principal amount of the Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption of Bonds. The term Bonds maturing on September 1, 2040, and 2044, respectively, are subject to mandatory sinking fund redemption on September 1 in each of the years and in the respective principal amounts as set forth in the following schedules, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Term Bonds Maturing September 1, 2040

Redemption Date (September 1)	Principal Amount to be Redeemed
2036	$750,000
2037	800,000
2038	850,000
2039	900,000
2040†	950,000
Total	$4,250,000

† Maturity

Term Bonds Maturing September 1, 2044

Redemption Date (September 1)	Principal Amount to be Redeemed
2041	$1,050,000
2042	1,050,000
2043	1,150,000
2044†	1,200,000
Total	$4,450,000

† Maturity

The principal amount to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000, by any portion of such term Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

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

Notice of Redemption. The Paying Agent is required to give notice of the redemption of the Bonds, at the expense of the District. Notice of redemption shall be mailed by the Paying Agent, first class postage prepaid, to the respective owners of any Bonds designated for redemption at their address appearing on the books required to be kept by the Paying Agent, not less than twenty (20) nor more than sixty (60) days prior to the redemption date. Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the Bonds and the dates of maturity or maturities of Bonds to be redeemed; (vi) if less than all of the Bonds of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity to be re-deemed; (vii) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; and (x) notice that further interest on such Bonds will not accrue after the designated redemption date. Neither the failure of the Owners of any Bonds or by any securities depository or information service to receive notice of redemption, nor any defect in such notice will affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

In addition to the notice of redemption given pursuant to the above requirements, further notice shall be given by the Paying Agent as set forth below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption shall be sent at least twenty (20) days before the redemption date by registered or certified mail or overnight delivery service to each of the Securities Depositories which are then in the business of holding substantial amounts of obligations of types comprising the Bonds and to one or more of the Informational Services that disseminate notice of redemption of obligations similar to the Bonds or, in accordance with the then-current guidelines of the Securities and Exchange Commission, such other securities depositories and services providing information on called Bonds, or no such securities depositories and services, as the District may designate in a certificate delivered to the Paying Agent. Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

A certificate of the Paying Agent that notice of redemption has been given to owners of any Bond as herein provided shall be conclusive as against all parties. Neither the failure to receive the notice of redemption as provided in this Section, nor any defect in such notice shall affect the sufficiency of the proceedings for the redemption of the Bonds or the cessation of interest on the date fixed for redemption. When notice of redemption has been given substantially as provided for herein, and when the redemption price of the Bonds called for redemption is set aside for the purpose as described in subsection (f) of this Section, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Bonds so called for redemption after such redemption date shall be entitled to payment thereof only from the Debt Service or Sinking fund, or the trust fund established for such purpose. All Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Prior to or on the redemption date of any Bonds there shall be available in the Debt Service Fund, or held in trust for such purpose as provided by law, monies for the purpose and sufficient to redeem, at the redemption prices set forth in the Resolution, the Bonds designated in the notice of redemption. Such monies shall be applied on or after the redemption date solely for payment of principal of, and interest and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds, provided that all monies in the Debt Service Fund shall be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date shall be paid from the Debt Service Fund, unless otherwise provided to be paid from such monies held in trust. If, after all of the Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the Debt Service Fund or otherwise held in trust for the payment of redemption price of the Bonds, the monies shall be held in or returned or transferred to the Debt Service Fund for payment of any outstanding bonds of the District payable from such fund; provided, however, that if the monies are part of the proceeds of bonds of the District, the monies shall be transferred to the fund created for the payment of principal of and interest on such bonds. If no such bonds of the District are at such time outstanding, the monies shall be transferred to the general fund of the District as provided and permitted by law.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent shall execute and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of Authorized Denominations equal in Principal Amounts to the unredeemed portion of the Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the District shall be released and discharged thereupon from all liability to the extent of such payment.

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

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

Transfer and Exchange

Any Bond may be exchanged for Bonds of like tenor, series, maturity, and principal amount upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of such Bond at the principal office of the Paying Agent together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Defeasance of Bonds

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

Unclaimed Moneys

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

DEBT SERVICE SCHEDULES

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

TABLE 1
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Obligation Bonds, Election of 2014, Series 2015A
Annual Debt Service

Period Ending September 1,	Principal	Interest	Total Debt Service
2016	$350,000.00	$748,642.36	$1,098,642.36
2017	500,000.00	529,875.00	1,029,875.00
2018	--	509,875.00	509,875.00
2019	--	509,875.00	509,875.00
2020	--	509,875.00	509,875.00
2021	--	509,875.00	509,875.00
2022	--	509,875.00	509,875.00
2023	--	509,875.00	509,875.00
2024	--	509,875.00	509,875.00
2025	--	509,875.00	509,875.00
2026	100,000.00	509,875.00	609,875.00
2027	150,000.00	505,875.00	655,875.00
2028	350,000.00	499,875.00	849,875.00
2029	400,000.00	485,875.00	885,875.00
2030	450,000.00	469,875.00	919,875.00
2031	500,000.00	456,375.00	956,375.00
2032	550,000.00	440,125.00	990,125.00
2033	600,000.00	422,250.00	1,022,250.00
2034	650,000.00	402,000.00	1,052,000.00
2035	700,000.00	376,000.00	1,076,000.00
2036	750,000.00	348,000.00	1,098,000.00
2037	800,000.00	318,000.00	1,118,000.00
2038	850,000.00	286,000.00	1,136,000.00
2039	900,000.00	252,000.00	1,152,000.00
2040	950,000.00	216,000.00	1,166,000.00
2041	1,050,000.00	178,000.00	1,228,000.00
2042	1,050,000.00	136,000.00	1,186,000.00
2043	1,150,000.00	94,000.00	1,244,000.00
2044	1,200,000.00	48,000.00	1,248,000.00
Totals	$14,000,000.00	$11,801,642.36	$25,801,642.36

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The following table shows the debt service schedule with respect to the District's outstanding general obligation bonds, namely its 2006 General Obligation Refunding Bonds in the original principal amount of $4,970,000 (the "2006 Refunding Bonds") assuming no optional redemptions. See APPENDIX A under the heading "DISTRICT FINANCIAL INFORMATION – Long-Term Debt" for additional information.

TABLE 2
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
2006 General Obligation Refunding Bonds – Debt Service

Period Ending June 30,	Annual Debt Service on 2006 Refunding Bonds
2015	$434,600.00
2016	432,406.50
2017	441,862.50
2018	433,269.00
2019	444,113.00
2020-22	1,269,615.00
Total	$3,455,865.00

Source: The District's Audit Report for the year ended June 30, 2014.

Combined debt service on the Bonds and the outstanding 2006 Refunding Bonds, assuming no early optional redemptions, is as shown in the following table.

TABLE 3
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Obligation Bonds – Aggregate Debt Service

Period Ending September 1,	Series 2006 Refunding Bonds	Election of 2014, Series 2015A Bonds	Aggregate Total Debt Service
2015	$441,200.00	--	$441,200.00
2016	448,612.50	$1,098,642.36	1,547,254.86
2017	440,112.50	1,029,875.00	1,469,987.50
2018	451,425.00	509,875.00	961,300.00
2019	446,800.00	509,875.00	956,675.00
2020	446,200.00	509,875.00	956,075.00
2021	400,015.00	509,875.00	909,890.00
2022	--	509,875.00	509,875.00
2023	--	509,875.00	509,875.00
2024	--	509,875.00	509,875.00
2025	--	509,875.00	509,875.00
2026	--	609,875.00	609,875.00
2027	--	655,875.00	655,875.00
2028	--	849,875.00	849,875.00
2029	--	885,875.00	885,875.00
2030	--	919,875.00	919,875.00
2031	--	956,375.00	956,375.00
2032	--	990,125.00	990,125.00
2033	--	1,022,250.00	1,022,250.00
2034	--	1,052,000.00	1,052,000.00
2035	--	1,076,000.00	1,076,000.00
2036	--	1,098,000.00	1,098,000.00
2037	--	1,118,000.00	1,118,000.00
2038	--	1,136,000.00	1,136,000.00
2039	--	1,152,000.00	1,152,000.00
2040	--	1,166,000.00	1,166,000.00
2041	--	1,228,000.00	1,228,000.00
2042	--	1,186,000.00	1,186,000.00
2043	--	1,244,000.00	1,244,000.00
2044	--	1,248,000.00	1,248,000.00
Totals	$3,074,365.00	$25,801,642.36	$28,876,007.36

Source: Public Financial Management, Inc.

ESTIMATED SOURCES AND USES OF FUNDS

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

TABLE 4
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Obligation Bonds, Election of 2014, Series 2015A
Estimated Sources and Uses of Funds

Sources of Funds:	
Principal Amount	$14,000,000.00
Net Original Issue Premium	421,825.50
Total Sources of Funds	$14,421,825.50
Uses of Funds:	
Building Fund	$14,000,000.00
Debt Service Fund(1)	157,475.76
Cost of Issuance(2)	160,000.00
Bond Insurance Premium	27,349.74
Underwriter's Discount	77,000.00
Total Uses of Funds	$14,421,825.50

(1) Capitalized interest partially through March 1, 2016.
(2) Includes bond counsel fees, disclosure counsel fees, rating agency fees, if any, financial advisory fees, printing fees, and other miscellaneous expenses.

APPLICATION AND INVESTMENT OF BOND PROCEEDS

The proceeds from the sale of the Bonds shall be deposited in the County Treasury to the credit of the Building Fund of the District. Any premium or accrued interest received by the District shall be deposited in the Interest and Sinking Fund of the District in the County Treasury. Earnings on the investment of moneys in either fund will be retained in that fund and used only for the purposes to which that fund shall lawfully be applied. Moneys in the Building Fund may only be applied for the purposes for which the Bonds were approved. Moneys in the Interest and Sinking Fund may only be applied to make payments of interest, principal, and premium, if any, on bonds of the District. The Paying Agent may hold bond proceeds in the Costs of Issuance Account to pay costs of issuance of the Bonds.

Amounts deposited into the Building Fund and the Interest and Sinking Fund, as well as proceeds of taxes held therein for payment of the Bonds, will be invested at the County Treasurer's discretion pursuant to law and the investment policy of the County. See "THE COUNTY OF SAN BENITO INVESTMENT POOL" herein.

THE COUNTY OF SAN BENITO INVESTMENT POOL

The following information concerning the County's commingled investment pool (the "Investment Pool" or "Pool") has been obtained from the County website (http://www.cosb.us) and has not been confirmed or verified by the District or the Underwriter. The website is not incorporated herein by reference. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The current Statement of Investment Policy (the "Investment Policy") for the County Investment Pool was adopted in January 2014 (See "APPENDIX G – COUNTY OF SAN BENITO INVESTMENT POLICY AND PORTFOLIO SUMMARY"). The Investment Policy applies to all financial assets deposited and retained in the Investment Pool. The primary goal is to invest public funds in a manner which will provide a market average rate of return consistent with the objectives of the County, while meeting the daily cash flow demands of the County Treasury. The main investing objectives, in order of priority are: Safety, Liquidity, Availability, and Yield.

Oversight of the investments is conducted in two ways. First, the County Auditor-Controller's office audits the portfolio on a quarterly and annual basis pursuant to California Government Code Sections 26920 and 26922. Second, an independent audit is also conducted annually as required by Sections 27130 through 27137 of California Government Code and the Investment Policy. All audit reports, and the quarterly Treasurer's Investment Reports are available on-line at http://www.cosb.us/county-departments/treasurer/#.VJsdrpsO4o. (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.)

The District's funds held by the County Treasurer are invested in the Investment Pool. As of December 31, 2014, the market value of the Pool was $157,199,561.12. Approximately 65% of the Pool's assets are invested in securities with virtually no credit risk (i.e., certificates of deposit, LAIF-managed pool accounts, and cash). As of December 31, 2014, the Pool has a weighted average maturity of 279 days. See "APPENDIX G – COUNTY OF SAN BENITO INVESTMENT POLICY AND PORTFOLIO SUMMARY."

None of the District, the Financial Advisor, or the Underwriter has made an independent investigation of the investments in the Pool nor have they made any assessment of the current County Investment Policy. The value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the County Board of Supervisors, may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described herein.

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). In February 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Capitalization of AGM

At December 31, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,763 million and its net unearned premium reserve was approximately \$1,769 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds (if any) for investment or may sell or otherwise dispose of such Bonds or uninsured bonds (if any) at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under this heading.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

In order to provide sufficient funds for repayment of principal of and interest on the Bonds when due, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Debt Service Fund of the District, which is required to be maintained by the County and to be used solely for the payment of Bonds of the District. The Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No funds of the County are pledged or obligated to repayment of the Bonds.

Property Taxation System

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

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

Assessed Valuation of Property within the District

Taxable property located in the District has a 2014-15 assessed value of $3,951,545,059. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described under the heading, See "– *State-Assessed Property"* below.

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

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

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

Under California law, a city or county could, and did, prior to recent California legislation dissolving redevelopment agencies, create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of general fund tax revenues (relating to the 1% countywide general fund levy) to other local taxing agencies, including school districts, from that time forward. However, special *ad valorem* property taxes (in excess of the 1% general fund levy) collected for payment of debt service on school bonds are based on assessed valuation before reduction for redevelopment increment and such special *ad valorem* property taxes are not affected or diverted by the operation of a redevelopment agency project area. The application of such revenues diverted by redevelopment agencies is now substantially limited to meeting existing debt service of the redevelopment agencies.

Shown in the following table is the assessed valuation of property in the District in fiscal years 2005-06 through 2014-15.

TABLE 5
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Assessed Valuations
Fiscal Years 2005-06 through 2014-15

Year	Local Secured and Utility	Unsecured	Total
2005-06	$3,537,442,500	$108,892,472	$3,646,334,972
2006-07	3,893,486,865	125,995,845	4,019,482,710
2007-08	Breakdown not available		4,282,094,542
2008-09	4,011,489,760	140,716,424	4,152,206,184
2009-10	3,509,133,256	143,268,448	3,652,401,704
2010-11	3,303,344,690	140,636,717	3,443,981,407
2011-12	3,257,756,630	142,627,624	3,400,384,254
2012-13	3,178,958,002	146,768,218	3,325,726,220
2013-14	3,374,968,638	164,749,948	3,539,718,568
2014-15	3,691,427,456	168,631,867	3,860,059,323

Source: California Municipal Statistics, Inc.

The following table shows the District's Fiscal Year 2014-15 assessed valuation of property by amount and percentage within the City of Hollister and within the unincorporated area of the County.

TABLE 6
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
2014-15 Assessed Valuation by Jurisdiction

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Hollister	$ 2,851,757,755	73.88%	$2,888,656,266	98.72%
Unincorporated San Benito County	1,008,301,568	26.12	$3,325,834,823	30.32%
Total District	$3,860,059,323	100.00%		

Source: California Municipal Statistics, Inc.

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

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

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

In addition, Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measurement is computed on a calendar year basis. According to the website of the San Benito County Assessors' office, the County has in the past, pursuant to Article XIIIA of the State Constitution and Proposition 8, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

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

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

Bonding Capacity. As an elementary school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2014-15 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately $48,250,741.54 and its net bonding capacity is approximately $45,600,741.54 (taking into account current outstanding debt (based on $2,650,000.00 of outstanding 2006 Refunding Bonds) before issuance of the Bonds and the 2014-15 assessed valuation of taxable property within the District of $3,860,059,323).

Assessed Valuation by Land Use. The following table gives a distribution of taxable property located in the District for the fiscal year 2014-15 tax roll by principal purpose for which the land is used, as measured by assessed valuation and number of parcels.

TABLE 7
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
2014-15 Assessed Valuation and Parcels by Land Use

Non-Residential:	2014-15 Assessed Valuation [(1)]	% of Total	No. of Parcels	% of Total
Agricultural	$163,469,598	4.43%	597	4.99%
Commercial	281,476,989	7.63	410	3.42
Vacant Commercial	11,615,761	0.31	26	0.22
Industrial	204,516,465	5.54	137	1.14
Vacant Industrial	11,444,282	0.31	44	0.37
Government/Social/Institutional	1,215,210	0.03	12	0.10
Subtotal Non-Residential	$673,738,305	18.25%	1,226	10.24%
Residential:				
Single Family Residence	$2,796,189,943	75.75%	9,720	81.19%
Mobile Home	12,152,136	0.33	249	2.08
Mobile Home Park	2,191,451	0.06	6	0.05
2-4 Residential Units	101,271,905	2.74	287	2.40
5+ Residential Units/Apartments	49,209,304	1.33	71	0.59
Vacant Residential	56,674,412	1.54	413	3.45
Subtotal Residential	$3,017,689,151	81.75%	10,746	89.76%
Total	$3,691,427,456	100.00%	11,972	100.00%

[(1)] Secured assessed valuation only, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

__Assessed Valuation of Single-Family Homes.__ The following table shows the distribution of assessed valuation of single-family homes in the District among various categories of value for fiscal year 2014-15, including mean and median value per parcel.

TABLE 8
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Per Parcel 2014-15 Assessed Valuation of Single Family Homes

	No. of Parcels	2014-15 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	9,720	$2,796,189,943	$287,674	$276,650

2014-15 Assessed Valuation	No. of Parcels [1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	27	0.278%	0.278%	$ 532,693	0.019%	0.019%
$25,000 - $49,999	239	2.459	2.737	9,645,652	0.345	0.364
$50,000 - $74,999	295	3.035	5.772	18,489,229	0.661	1.025
$75,000 - $99,999	390	4.012	9.784	34,921,040	1.249	2.274
$100,000 - $124,999	300	3.086	12.870	33,525,822	1.199	3.473
$125,000 - $149,999	383	3.940	16.811	52,531,237	1.879	5.352
$150,000 - $174,999	377	3.879	20.689	61,525,422	2.200	7.552
$175,000 - $199,999	559	5.751	26.440	105,045,883	3.757	11.309
$200,000 - $224,999	662	6.811	33.251	140,680,199	5.031	16.340
$225,000 - $249,999	782	8.045	41.296	185,153,802	6.622	22.962
$250,000 - $274,999	789	8.117	49.414	207,193,672	7.410	30.371
$275,000 - $299,999	718	7.387	56.800	205,806,531	7.360	37.732
$300,000 - $324,999	634	6.523	63.323	197,782,447	7.073	44.805
$325,000 - $349,999	656	6.749	70.072	220,954,863	7.902	52.707
$350,000 - $374,999	580	5.967	76.039	209,106,867	7.478	60.185
$375,000 - $399,999	446	4.588	80.628	172,338,616	6.163	66.349
$400,000 - $424,999	483	4.969	85.597	198,602,716	7.103	73.451
$425,000 - $449,999	274	2.819	88.416	119,540,581	4.275	77.726
$450,000 - $474,999	289	2.973	91.389	132,542,799	4.740	82.467
$475,000 - $499,999	144	1.481	92.870	69,827,768	2.497	84.964
$500,000 and greater	693	7.130	100.000	420,442,104	15.036	100.000
Total	9,720	100.000%		$2,796,189,943	100.000%	

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

Tax Rates

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

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

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area located in the City of Hollister part of the District for fiscal years 2010-11 through 2014-15.

TABLE NO. 9
HOLLISTER SCHOOL DISTRICT
(SAN BENITO COUNTY, CALIFORNIA)
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 01-055)*
Fiscal Years 2010-11 through 2014-15

	2010-11	2011-12	2012-13	2013-14	2014-15
General Tax Rate	1.000000	1.000000	1.000000	1.000000	1.000000
Gavilan Community College District	.019900	.021700	.025700	.024800	.023900
Hollister School District	.012851	.013129	.013233	.012521	.011460
San Benito Health Care District	.028363	.029785	.031094	.029956	.028439
Total Tax Rate	1.061114	1.064614	1.070027	1.067277	1.063799

* 2014-15 assessed valuation for TRA 01-055 is $704,810,489.
Source: California Municipal Statistics, Inc.

Tax Charges and Delinquencies

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

County treasurers prepare the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $17.50 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 State redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurers.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer may also bring a civil suit against the taxpayer for payment. The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

Teeter Plan

Effective July 1, 1993, the Board of Supervisors of the County implemented an alternative method for the distribution of secured property taxes to local agencies, known as the "Teeter Plan." The Teeter Plan provisions are now set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk, which in turn makes it more certain that sufficient funds will be available for the District's repayment of the Bonds.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of assessments (if a county has elected to include assessments), 100% of the assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the assessment. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. The County has never discontinued the Teeter Plan with respect to any levying agency.

If the Teeter Plan for the County was terminated, the amount of the levy of *ad valorem* secured property taxes in the District would depend upon the collections of the *ad valorem* secured property taxes and delinquency rates experienced with respect to the parcels within the District.

Largest Taxpayers in District. The twenty taxpayers with the greatest combined ownership of taxable property in the District on the 2014-15 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are shown below.

TABLE 10
HOLLISTER SCHOOL DISTRICT
(SAN BENITO COUNTY, CALIFORNIA)
Largest 2014-15 Local Secured Taxpayers

	Property Owner	Primary Land Use	2014-15 Assessed Valuation	% of Total (1)
1.	K&S Market Inc.	Commercial	$ 35,385,159	0.96%
2.	Northpointe Associates LLC	Industrial	19,104,515	0.52
3.	Award Homes Inc.	Residential Land	15,616,000	0.42
4.	KMG Electronic Chemicals Inc.	Industrial	12,921,543	0.35
5.	Marich Confectionery Associates	Industrial	12,703,486	0.34
6.	Ken and Jill Gimelli	Industrial	12,309,664	0.33
7.	Heritage Phase I & II LLC	Shopping Center	11,825,007	0.32
8.	Arka Monterey Park LLC	Industrial	11,750,000	0.32
9.	Northwest Packing Co.	Industrial	11,294,686	0.31
10.	Dayton Hudson Corporation	Commercial	10,815,514	0.29
11.	Larry W. and Georgeann N. Anderson	Agricultural	10,004,325	0.27
12.	Janet P. Roberts Family Trust	Residential Properties	9,763,288	0.26
13.	Premier Cinemas Inc.	Theater	9,634,284	0.26
14.	201 Bert Hollister LLC	Industrial	8,226,300	0.22
15.	Ridgefield Storage Inc.	Industrial	7,431,802	0.20
16.	Siri Trust	Commercial	6,804,687	0.18
17.	Fernando Gonzalez	Commercial	6,699,328	0.18
18.	500 Hillock LLC	Apartments	6,069,588	0.16
19.	Richard and Joann Marie Scagliotti Trust	Commercial	6,000,895	0.16
20.	RMP Properties LLC	Commercial	5,700,001	0.15
			$230,060,072	6.23%

(1) 2014-15 Secured Assessed Valuation: $3,691,427,456

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. and effective February 1, 2015. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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

TABLE 11
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Statement of Direct and Overlapping Bonded Debt

2014-15 Assessed Valuation: $3,860,059,323

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/15	
Gavilan Joint Community College District	14.940%	$14,823,468	
Hollister School District	**100.**	**2,650,000**	**(1)**
San Benito Health Care District	62.753	18,521,548	
City of Hollister 1915 Act Bonds	100.	1,974,700	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$37,969,716	
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):		$35,690,000	
COMBINED TOTAL DEBT		$73,659,716	(2)

(1) Excludes general obligation bonds to be sold.
(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 ($2,650,000) 0.07%
Total Direct and Overlapping Tax and Assessment Debt0.98%
Combined Total Debt 1.91%

Ratios to Redevelopment Incremental Valuation ($1,106,528,160):
Total Overlapping Tax Increment Debt............................ 3.23%

Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Lozano Smith, LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto.

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

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

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from State income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, various members of Congress have proposed eliminating or limiting the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

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

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

OTHER LEGAL MATTERS

Legal Opinions

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Lozano Smith, LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Bonds at the time of issuance substantially in the form set forth in APPENDIX D hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Lozano Smith, LLP, as Disclosure Counsel to the District, and for the Underwriter by Norton Rose Fulbright US LLP.

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system (the "EMMA System") or such other electronic system designated by the MSRB certain annual financial information and operating data relating to the District (the "Annual Report") by not later than the March 31 following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2014-15 fiscal year (which is due no later than March 31, 2016) and notice of the occurrence of certain enumerated events ("Listed Events") within ten (10) business days after the occurrence of such a Listed Event. The specific nature of the information to be contained in the Annual Report and the notices of Listed Events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC").

In the five years preceding the date of this Official Statement, the District did not timely file Listed Event Notices related to certain bond insurer rating changes. The District has otherwise not failed to comply in all material respects with its previous continuing disclosure undertakings, namely those arising from the District's outstanding Series 2006 Refunding Bonds. In addition, the District has timely filed its Annual Report for fiscal year 2013-14 before the deadline of March 31, 2015. To assist the District in preparing and filing the Annual Reports and notices of Listed Events, the District has retained Public Financial Management, Inc. as its dissemination agent for the Bonds and for its Series 2006 Refunding Bonds.

Litigation

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

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

The District and certain District employees were named as defendants in a civil suit alleging a District school principal, teacher, and yard duty supervisor each was negligent in failing to prevent an alleged assault by one five year old male student on another five year old male student. The District is vigorously defending this matter. The District acknowledges the possibility that an adverse judgment in the case could affect the financial position or operations of the District if it became an uninsured liability. It is not possible at this time to predict the outcome or a range of potential costs or damages. This matter is being handled by the District's liability insurance carrier Monterey/San Benito Counties Liability and Property Self-Insurance Authority (MSBCLP). Nevertheless, the Bonds are secured by *ad valorem* property taxes. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" above.

MISCELLANEOUS

Ratings

Standard & Poor's Credit Market Services, a Division of The McGraw-Hill Companies ("S&P"), has assigned a rating of "AA" (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (the "Insurer"). See "BOND INSURANCE" herein for a discussion of rating actions taken with respect to the Insurer.. In addition, S&P has assigned an underlying rating of "A+" with a stable outlook, to the Bonds Such ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained only from S&P. Such ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the Underwriter nor the District has undertaken any responsibility after the offering of the Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Lozano Smith, LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Bonds, and will receive compensation contingent upon the sale and delivery of the Bonds.

Public Financial Management, Inc. (the "Financial Advisor"), has been employed by the District to perform financial services in relation to the sale and delivery of the Bonds. The Financial Advisor will not participate in the underwriting of the Bonds. The Financial Advisor is not contractually obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Fees charged by the Financial Advisor are contingent upon the sale of the Bonds.

Contributions for Bond Ballot Campaign

The firm serving as Bond and Disclosure Counsel with respect to the Bonds made voluntary contributions to the 2014 bond ballot campaign for the District's Measure M that authorized the Bonds. These contributions were reported to the County Clerk & Registrar of Voters by the filing of Recipient Committee Campaign Statements (California Fair Political Practices Commission Form 460) by the bond ballot campaign committee. The firm has stated that it did not make, or indicate a willingness to make, any financial contribution as a condition to being retained as a professional with respect to the Bonds, that the campaign contributions were assumed by the firm as general overhead costs, were provided on a voluntary basis only, and were not and will not be passed through to any client, and the firm has not and will not seek reimbursement for such costs.

Underwriting

The Bonds are being purchased for reoffering to the public by Morgan Stanley & Co. LLC (the "Underwriter") pursuant to the terms of a bond purchase agreement executed on March 24, 2015, by and between the Underwriter and the District (the "Purchase Agreement"). The Underwriter has agreed to purchase the Bonds at a purchase price of $14,157,475.76. In addition, on the Closing Date the Underwriter will wire $27,349.74 to the Insurer to pay the bond insurance premium on the transaction, and, at the request of the District, will wire $160,000 to the Paying Agent to pay certain discretionary costs. The Underwriter will retain $77,000 as underwriter compensation. The Purchase Agreement provides that the Underwriter will purchase all of the Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, the Underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Bonds. Quotations from and summaries and explanations of the Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District and the Resolution may be obtained by contacting: Hollister School District, 2690 Cienega Road, Hollister, California 95023, Attention: Superintendent. The District may impose a fee for copying, shipping 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 Bonds.

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

HOLLISTER SCHOOL DISTRICT

By: /s/ Dr. Gary L. McIntire
Superintendent

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APPENDIX A
INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

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

THE DISTRICT

Introduction

The District includes approximately 45 square miles in the northeastern part of the County. The District provides K-8 educational services to the residents of the City of Hollister, as well parts of the unincorporated portions of the County. The District operates six elementary schools, two middle schools, one dual-language academy, one accelerated achievement academy, and one charter school. For fiscal year 2014-15, the District has an assessed valuation of $3,860,059,323 and a budgeted enrollment of 5,457 students.

Board of Trustees

The District is governed by a five-member Board of Trustees elected by voters within the District. The Board of Trustee members are elected to four-year terms in alternate slates of two and three in elections that are held every two years. Each December the Board of Trustees elects a President and a Clerk to serve one year terms. Current voting members of the Board of Trustees, together with their office and the date their term expires, are listed below:

HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Board of Trustees

Name	Office	Term Expires
Ben Flores	President	December 2016
Elizabeth Martinez	Clerk	December 2016
Peter Hernandez	Member	December 2018
Patricia Moore	Member	December 2018
Elsa Rodriguez	Member	December 2018

Administrative Personnel

The day-to-day operations of the District are managed by a board-appointed Superintendent of Schools. Information concerning the Superintendent and certain other key administrative personnel is set forth below.

Dr. Gary McIntire, Superintendent. Dr. McIntire has served as Superintendent of the District since July of 2010. Prior to beginning his service with the District, Dr. McIntire served for three years as the Superintendent of the Susanville School District. Dr. McIntire has also served as a Superintendent/Principal for the Janesville Union School District, and a Special Education Administrator and School Psychologist for the Lassen County Office of Education. Dr. McIntire earned Bachelor of Arts and Master of Arts degrees from Humboldt State University, and a Doctorate degree in education from the University of LaVerne.

Kathy Cunnane, Director of Fiscal Services. Ms. Cunnane joined the District as Director of Fiscal Services in 2013. Ms. Cunnane has over 17 years of experience in education. She previously served 15 years as Director of Fiscal Services of the North Monterey County Unified School District. She received her Bachelor of Arts degree from California State University, Sacramento.

Employment

For Fiscal year 2014-15, the District has budgeted for 494 employees, consisting of 271 certificated non-management employees, 194.6 classified non-management employees, and 34 management/supervisory/confidential employees. The District has budgeted certificated and classified salaries in the amounts of $23.08 million and $5.95 million, respectively. District employees are represented by employee bargaining units as follows:

TABLE A-1
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Employee Bargaining Units and Current Collective Bargaining Agreements

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
Hollister Elementary School Teachers Association	271	June 30, 2016
California School Employees Association, Chp #625	194.6	June 30, 2016

Source: District.

Retirement Benefits

The information set forth below regarding the CalSTRS and CalPERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.

The District participates in retirement plans with the State Teachers' Retirement System ("CalSTRS"), which covers all full-time certificated District employees, and the State Public Employees' Retirement

System ("CalPERS"), which covers classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS. For more information regarding the District's retirement benefits obligations, see "APPENDIX C – "ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014, Note 14 - EMPLOYEE RETIREMENT SYSTEMS."

CalSTRS. The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

For fiscal year 2014-15, active plan members are required to contribute 8.15 % of their salary and the District is required to contribute 8.88% of annual teacher payroll. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The contribution requirements of the plan members and employers are established by State statute. See discussion of rates in ***California Public Employees' Pension Reform Act of 2013*** below.) The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012 were $1,902,637, $1,528,505, and $1,530,764, respectively, and equal 100 % of the required contributions for each year. The District has budgeted employer contributions to CalSTRS of $2,156,312 for fiscal year 2014-15. The State also contributes to CalSTRS, with its contribution for fiscal year 2014-15 equal to 3.454%% of teacher payroll.

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

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

For fiscal year 2014-15, active plan members hired before January 1, 2013 are required to contribute 7.0 % of their salary, members hired after January 1, 2013 are required to contribute 6.0% of their salary, and the District is required to contribute an actuarially determined rate. (See discussion of rates in ***California Public Employees' Pension Reform Act of 2013*** below.) 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 2014-15 is 11.771% of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CaIPERS for the fiscal years ending June 30, 2014, 2013 and 2012, were $645,195, $590,162, and $544,289, respectively, and equal 100 % of the required contributions for each year. The District has budgeted employer contributions to CalPERS of $673,482 for fiscal year 2014-15.

State Pension Trusts. Each of CalSTRS and CalPERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of CalSTRS and CalPERS as follows: (i) CalSTRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) CalPERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of CalSTRS and CalPERS maintains a website, as follows: (i) CalSTRS: www.calstrs.com; (ii) CalPERS: www.calpers.ca.gov. However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both CalSTRS and CalPERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales, and participant contributions. The following table summarizes the most currently available information regarding the actuarially-determined accrued liability for both CalSTRS and CalPERS.

FUNDED STATUS CalSTRS (Defined Benefit Program) and CalPERS (Schools Plan)
(Dollar Amounts in Millions)[1]

Plan	Accrued Liability	Value of Trust Assets	Unfunded Liability
Public Employees Retirement Fund (CalPERS)	$ 61, 487	$ 49,482[2]	$ (12,005)
State Teachers' Retirement Fund Defined Benefit Program (CalSTRS)	222,281	148,614[3]	(73,667)

(1) Amounts may not add due to rounding.
(2) Reflects market value of assets as of June 30, 2013.
(3) Reflects actuarial value of assets as of June 30, 2013.
Source: CalPERS State & Schools Actuarial Valuation; CalSTRS Defined Benefit Program Actuarial Valuation

Unlike CalPERS, CalSTRS contribution rates for participant employers and employees hired prior to the Implementation Date (defined herein), as well as the State's base contribution rate, are set by statute and prior to fiscal year 2014-15 did not vary from year-to-year based on actuarial valuations. In recent years, the combined employer, employee, and State contributions to CalSTRS have been significantly less than actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of CalSTRS has increased significantly. This unfunded liability was expected to continue to increase in the absence of legislation requiring additional or increased contributions. The District can make no representations regarding the future program liabilities of CalSTRS, or whether the District will be required to make larger contributions to CalSTRS in the future.

On April 17, 2013, the CalPERS board of administration (the "CalPERS Board") approved new actuarial policies aimed at returning CalPERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year amortization period for gains and losses and a five-year ramp-up of rates at the start and a five year ramp-down of rates at the end. The CalPERS Board delayed the implementation of the new policies until fiscal year 2015-16 for the State, schools and all other public agencies.

California Public Employees' Pension Reform Act of 2013. The Governor signed the California Public Employee's Pension Reform Act of 2013 ("PEPRA") into law on September 12, 2012. PEPRA affects both CalSTRS and CalPERS, most substantially as they relate to new employees hired after January 1, 2013 (the "Implementation Date"). As it pertains to CalSTRS participants hired after the Implementation Date, PEPRA changes the normal retirement age, increasing the eligibility for the 2% "age factor" (the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. For non-safety CalPERS participants hired after the Implementation Date, PEPRA changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and also increases the eligibility requirement for the maximum age factor of 2.5% to age 67.

PEPRA also implements certain other changes to CalPERS and CalSTRS including the following: (a) all new participants enrolled in CalPERS and CalSTRS after the Implementation Date are required to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (b) CalSTRS and CalPERS are both required to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (currently 12 months for CalSTRS members who retire with 25 years of service), and (c) ″pensionable compensation″ is capped for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for CalSTRS and CalPERS members not participating in Social Security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

CalSTRS Unfunded Liability Drops Significantly. One of the benefits of a long-term funding solution for CalSTRS is a decrease in the system's unfunded liability. Before the passage of the CalSTRS funding bill, AB 1469 (effective on July 1, 2014), the unfunded liability (the difference between the actuarial value of assets and actuarial liabilities that is based on the historic 7.5% annual rate of return on investment) was pegged at $74 billion.

When counted another way, based on Governmental Accounting Standards Board ("GASB") standards, the net pension liability was as high as $167 billion. The GASB methodology factors in a mixed, more conservative discount rate because the fund was projected to run out of money in the future.

Because the CalSTRS funding solution was adopted before the end of the fiscal year, and the Defined Benefit program is no longer projected to run out of funds "in any future year" according to CalSTRS's actuary, the calculated net pension liability has been significantly reduced. The net pension liability was $59.9 billion as of June 30, 2014 due to the new funding plan, above-average returns in fiscal year 2013-14, and the fact that net assets of supplemental programs and accounts (such as the Defined Benefit Supplemental program and the Cash Balance Benefit program) are included in the calculation.

GASB 68 will require school and community college districts to recognize their proportionate share of the net pension liability of their employees' pension programs (i.e., CalSTRS and CalPERS) starting with the 2014-15 fiscal year. While districts will still have to reflect their attributed portion of the unfunded liability, it will now be significantly smaller for CalSTRS.

CalPERS Board Adopts Controversial Pensionable Compensation Regulation. Due to the implementation of PEPRA, CalPERS has been promulgating regulations to support the provisions of PEPRA.

In May 2014, CalPERS issued draft regulations for defining the types of compensation that can be counted toward the pension benefit for new members—generally those hired on or after the January 1, 2013

Implementation Date. This opened up the public comment period, during which time CalPERS received many comments, both in opposition and in support of the draft regulations. After reviewing the comments, CalPERS staff recommended to the CalPERS Board that the regulations should be adopted as proposed.

The regulations specify that pensionable compensation for new members consists of the normal monthly rate of pay or base pay as long as it is for services rendered on a full-time basis during normal work hours and other criteria are met. The regulations then contain a long list of the other types of compensation that can count toward pensionable compensation as long as they meet the same criteria as for the base pay.

The types of pay that CalPERS has seen used in local educational agencies and that are included on this list as counting toward pensionable compensation are as follows:

- *Longevity pay*: Additional compensation to employees who have been with an employer, or in a specified job classification, for a certain minimum period of time exceeding five years
- *Educational incentive:* Compensation to employees for completing educational courses, certificates and degrees which enhance their ability to do their job (in school agencies this is typically referred to as a degree stipend or professional growth increment); a program or system must be in place to evaluate and approve acceptable courses; the cost of education that is required for the employee's current job classification is not included in this item of pensionable compensation
- *Reading specialist premium:* Compensation to certificated employees who have obtained special training and provide literacy instruction as part of their teaching duties
- *Undergraduate/graduate/doctoral credit:* Compensation to school district employees who are required to obtain a specified degree
- *Bilingual premium:* Compensation to employees who are routinely and consistently assigned to positions requiring communication skills in languages other than English
- *School yard premium:* Compensation to part-time school district employees who are routinely and consistently assigned to supervise students during recreation
- *Severely disabled premium:* Compensation to school instructional aides who are routinely and consistently assigned to work with severely disabled students
- *Shift differential:* Compensation to employees who are routinely and consistently scheduled to work other than a standard daytime shift, e.g., graveyard shift, swing shift, shift change, rotating shift, split shift, or weekends
- *Temporary upgrade pay:* Compensation to employees who are required by their employer or governing board or body to work in an upgraded position/classification of limited duration (in school agencies this is typically referred to as out-of-class pay)

This last item, the temporary upgrade pay, is the most controversial item. Many comments were submitted specifically about this item, with, as one would expect, labor groups supporting it and employers—and Governor Brown—opposing it.

With the CalPERS Board's action in August 2014 to adopt the regulations, they were submitted to the State's Office of Administrative Law for inclusion in the California Code of Regulations. The District can make no representations regarding the future of the regulations or how implementation of the regulations may affect the District's future contributions to CalPERS.

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

Other Postemployment Benefits (OPEB) Obligations. In addition to the retirement plan benefits with CalSTRS and CalPERS discussed above, the District provides certain post retirement healthcare benefits, in accordance with District employment contracts. The District's Post-employment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of approximately 59 retirees and beneficiaries currently receiving benefits and approximately 432 active plan members as of the May 29, 2014 actuarial study.

The contribution requirements of plan members and the District are established and may be amended by the District and the employee labor 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 labor agreements. For fiscal year 2013-2014, the District contributed approximately $732,000 to the plan (this does not include factor of 1.2444 to adjust for the implicit rate subsidy), all of which was used for current premiums (approximately 50% of total premiums). Plan members receiving benefits historically have contributed approximately 50% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (the "ARC"), an amount actuarially determined in accordance with GASB No. 45, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded accrued liabilities ("UAAL") (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the 2013-14 fiscal year, the amount actually contributed to the Plan and changes in the District's net OPEB asset/obligation to the Plan:

Annual required contribution	$716,380
Interest on net OPEB obligation	37,150
Adjustment to annual required contribution	(53,710)
Annual OPEB cost (expense)	$699,820
Contributions made	615,472
Increase in net OPEB obligation	100,908
Net OPEB obligation, beginning of year	928,756
Net OPEB obligation, end of year	$1,029,664

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	$699,820	$615,472	87.95%	$1,029,664
2013	646,003	639,145	98.94	928,756
2012	646,390	620,710	96.03	921,898
2011	820,559	721,024	87.87	896,218

Funded Status and Funding Progress

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

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) – PROJECTED UNIT CREDIT (B)	UNFUNDED AAL (UAAL) (B – A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ([B – A] / C)
JULY 1, 2013	$ -	$6,687,752	$6,687,752	$ -	$	%

For more information regarding the actuarial valuation, the District's annual required contributions and the District's net OPEB obligation and prefunding of benefits, as well as the basic assumptions upon which the valuation was based, see Note 12 to the District's financial statements attached hereto as APPENDIX C – "ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014."

Supplemental Retirement Plan. During the 2009-10 fiscal year, the District entered into a supplemental retirement plan ("SERP") pursuant to which the District contracted to provide supplemental retirement benefits and medical coverage for certain eligible retired employees. SERP is fully funded and no future payments are due.

Public Entity Risk Pools and Joint Powers Authorities

The District is a member of the Monterey/San Benito Counties Liability and Property Self-Insurance Authority, the Santa Cruz-San Benito County Schools Insurance Group, and the Self-Insured Schools of California III. The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

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 Monterey/San Benito Counties Liability and Property Self-Insurance Authority ("MSBCLP") for property and liability insurance coverage. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. During the year ended June 30, 2014, the District made payments of $224,067 to the MSBCLP for property and liability insurance coverage. The District has budgeted $248,067 for this expense in fiscal year 2014-15.

Workers' Compensation. For fiscal year 2014, the District participated in the Santa Cruz-San Benito County Schools Insurance Group ("SCSBCSIG"), an insurance purchasing pool. The intent of SCSBCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in SCSBCSIG. 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 SCSBCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of SCSBCSIG. Participation in SCSBCSIG is limited to districts that can meet SCSBCSIG selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to the insurance group. During the year ended June 30, 2014, the District made payments of $524,997 to SCSBCSIG for workers' compensation insurance. The District has budgeted $504,069 for this expense in fiscal year 2014-15.

Employee Medical Benefits. The District has contracted with the Self-Insured Schools of California III (SISC III) to provide employee health benefits. SISC III is a shared risk pool. 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. During the year ended June 30, 2014, the District made payments of $4,502,562 to SISC III for employee medical benefits. The District has budgeted $5,154,744 for this expense in fiscal year 2014-15.

For more information regarding the risk management pools, see APPENDIX C— "ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014, Notes 13 and 16."

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

Revenue Limit Funding. Prior to fiscal year 2013-14, school districts operated under general purpose revenue limits established by the State Board of Education ("SBE"). In general, revenue limits are calculated for each school district by multiplying the average daily attendance for such district by a base revenue limit per unit of ADA. Revenue limit calculations were generally adjusted annually in accordance with a number of factors designed to provide cost of living adjustments ("COLAs") and to equalize revenues among school districts of the same type. Funding of a school district's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Beginning in fiscal year 2013-14, school districts are now being funded based on uniform rates determined on the basis of grade spans. See "—Local Control Funding Formula" herein.

Basic Aid Funding. Prior to fiscal year 203-14, a majority of the funding that California schools received was determined by the State revenue limit formula. See "—Revenue Limit Funding" above and "— Local Control Funding Formula" herein. Each district received a portion of the local property taxes collected within the district boundaries. This amount was compared to the total revenue limit for the district; the balance was received in the form of State aid. Therefore, the sum of the property taxes and State aid was equal to the district's revenue limit. Districts which received the minimum amount of State aid were known as "basic aid" districts. Basic aid school districts continued to receive only special categorical funding, which was deemed to satisfy the "basic aid" requirement of $120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts was that the legislatively determined allocations to school districts, and other politically determined factors, were less significant in determining their primary funding sources. Rather, property tax growth and the local economy were the primary determinants. All other districts were "revenue limit" districts. The District was a revenue limit school district.

The following table sets forth (i) the District's actual Average Daily Attendance ("ADA"), enrollment and base revenue limit or LCFF base grant per unit of ADA for fiscal years 2008-09 through 2013-14, and (ii) the District's budgeted ADA, enrollment and LCFF base grant per unit of ADA for fiscal year 2014-15.

TABLE A-2
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Average Daily Attendance, Enrollment
and Base Revenue Limit/LCFF Base Grant per ADA
Fiscal Years 2008-09 through 2014-15

Fiscal Year	Enrollment	Annual % Change	Average Daily Attendance	Annual % Change	Base Revenue Limit/LCFF Base Grant Per Unit of Average Daily Attendance
2008-09	5,740	--	5,538	--	$5,399
2009-10	5,650	(1.57)	5,475	(1.14)	4,988
2010-11	5,572	(1.38)	5,364	(2.03)	4,992
2011-12	5,640	1.22	5,399	0.65	4,947
2012-13	5,623	(0.30)	5,400	0.02	4,999
2013-14	5,479	(2.56)	5,422	0.407	6,286
2014-15(1)	5,457	(0.40)	5,214	(3.84)	7,180

Note: All amounts are rounded to the nearest whole number.
(1) Budgeted.
Source: District.

Local Control Funding Formula. State Assembly Bill 97 (Chapter 47, Statutes of 2013) ("A.B. 97"), enacted as part of the 2013-14 State budget, established a new system for funding school districts, charter schools and county offices of education. This new system replaced the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. The new system can also affect whether a district qualifies as a basic aid or revenue limit district.

The primary component of A.B. 97 is the implementation of the Local Control Funding Formula ("LCFF"). Beginning in fiscal year 2013-14, the bulk of funding for school districts is being provided on the basis of target base funding grants per unit of ADA (each, a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments, as further described herein. According to a report published by the State Legislative Analyst's Office, the State general fund cost of fully implementing the LCFF in fiscal year 2013-14 would have been approximately $18 billion more than what was spent on education in the prior fiscal year (assuming current levels of property tax revenue, ADA and enrollment). Given this cost, the LCFF will be implemented over a span of eight fiscal years, during which time school districts will receive annual funding increases based on the gap between their respective prior-year funding level and the target LCFF allocation following full implementation. In each year, each school district is expected to see the same proportion of their funding gap closed, with dollar amounts varying depending on the size of district's funding gap. The State cost to fund the LCFF in each fiscal year will fluctuate depending on a number of factors, including the provision of COLAs, fluctuations in ADA and student demographics, and growth in property tax revenues.

The specific Base Grants, per unit of ADA, for each grade span are as follows: (a) $6,845 for grades K-3; (b) $6,947 for grades 4-6; (c) $7,154 for grades 7-8; and (d) $8,289 for grades 9-12. The differences among Base Grants are linked to differentials in the fiscal year 2012-13 statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for 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 early grades and support college and career readiness programs in high schools. As adjusted, the Base Grants per unit of ADA for grades K-3 and 9-12 are $7,557 and $8,505, respectively. Following full implementation of the new funding system, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this class size reduction goal in proportion to the growth in their funding over the implementation period. Supplemental funds derived from the adjustment to the Base Grant for grades 9-12 must be spent to advance college and career readiness goals outlined in the respective district's LCAP, as defined herein.

School districts that serve students of limited English proficiency ("EL" students), students from low income families that are eligible for free or reduced priced meals ("LI" students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI. Foster youth automatically meet the eligibility requirements for free or reduced priced meals, and are therefore not discussed herein separately. A.B. 97 authorizes a supplemental grant add-on (each, a "Supplemental Grant") for school districts that serve EL/LI students, equal 20% of the applicable adjusted Base Grant multiplied by such districts' percentage of unduplicated EL/LI student enrollment. In addition, school districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a "Concentration Grant") equal to 50% of the applicable adjusted Base Grant multiplied the percentage of such district's unduplicated EL/LI student enrollment in excess of the 55% threshold.

The following table shows a breakdown of the District's ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment for fiscal year 2013-14.

TABLE A-3
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
ADA[1] and Enrollment by Grade Span
Fiscal Year 2013-14

	K-3	4-6	7-8	TOTAL ENROLLMENT[1]	% OF EL/LI ENROLLMENT[2]
P2 ENROLLMENT	2,453	1,789	1,171	5,413	69.86%
P2 ADA EL	2,326	1.731	1,157	5,214	69.86%

[1]Includes charter school students, but excludes county instructed, adult education and regional occupational program students.
[2] For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students will be expressed solely as a percentage of its total fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment will be based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI students will be based on a rolling average of such district's EL/LI enrollment for the then current fiscal year and the two immediately preceding fiscal years.
Source: Hollister School District

For certain school districts that would have received greater funding levels under the prior revenue limit system, A.B. 97 provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, A.B. 97 assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the eight-year implementing period of the LCFF. The District does not qualify for the ERT add-on.

The sum of a school district's adjusted Base, Supplemental, and Concentration Grants will be multiplied by such district's P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will yield a district's total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district's share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts.

Certain schools districts, known as "basic aid" districts, have allocable local property tax collections that equal or exceed such districts' total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the "basic aid" requirement of $120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District is not a basic aid school district and formerly was a revenue limit district.

Accountability. The SBE has adopted regulations regarding the expenditure of supplemental and concentration funding. These regulations include a requirement that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt local control and accountability plans ("LCAPs") disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by A.B. 97. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The SBE has adopted a template LCAP for use by school districts.

Support and Intervention. A.B. 97 establishes a new system of support and intervention to assist school districts to meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district's LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (a) the LCAP or annual update adheres to the SBE template, and (b) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district's strengths and weaknesses in the eight State priorities, or the assignment of an academic expert to assist the district to identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a State agency created by A.B. 97 and charged with assisting school districts to achieve the goals set forth in their LCAPs. On or before October 1, 2015, the SBE is required to develop rubrics to assess school district performance and the need for support and intervention.

A.B. 97 also authorizes the State Superintendent of Public Instruction (the "State Superintendent"), with the approval of the SBE, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized to (a) modify a district's LCAP, (b) impose budget revisions designed to improve student outcomes, and (c) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized under A.B. 97 to rescind an action required by a local collective bargaining agreement.

Other State Sources. In addition to State allocations determined pursuant to the LCFF, the District receives other State revenues consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into the LCFF. Categorical funding for 14 programs was excluded from the LCFF—including, among others, child nutrition, after school education and safety, special education, and State preschool—and school districts will continue to receive restricted State revenues to fund these programs.

The State Budget Process. According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget must be adopted by a majority vote (rather than a supermajority, as was the case prior to the passage of Proposition 25) of each house of the Legislature no later than June 15, although this deadline has been breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. As discussed below, the Governor introduced his proposed State Budget for fiscal year 2015-16 on January 9, 2015.

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

State Dissolution of Redevelopment Agencies

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos* ("*Matosantos*"), finding A.B.x1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California ceased to exist as a matter of law on February 1, 2012. The Court in *Matosantos* also found that A.B.x1 27, a companion bill to A.B.x1 26, violated the California Constitution, as amended by Proposition 22. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 1A and Proposition 22" herein. A.B.x1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling $1.7 billion statewide.

A.B.x1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12) ("A.B. 1484"), which, together with A.B.x1 26, is referred to herein as the "Dissolution Act." The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the California Community Redevelopment Law that have not been repealed, restricted or revised pursuant to A.B.x1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a "Successor Agency"). All property tax revenues that would have been allocated to a redevelopment agency, less the corresponding county auditor-controller's cost to administer the allocation of property tax revenues, are now allocated to a corresponding Redevelopment Property Tax Trust Fund ("Trust Fund"), to be used for the payment of pass-through payments to local taxing entities, and thereafter to bonds of the former redevelopment agency and any "enforceable obligations" of the Successor Agency, as well as to pay certain administrative costs. The Dissolution Act defines "enforceable obligations" to include bonds, loans, legally required payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations.

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, equal to at least $250,000 in any year, unless the oversight board reduces such amount for any fiscal year or a lesser amount is agreed to by the Successor Agency; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities. Per statute, 100% of contractual and statutory 2% pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Reform Act of 1993 (A.B. 1290, Chapter 942, Statutes of 1993) ("A.B. 1290"), are restricted to educational facilities without offset against revenue limit apportionments by the State. Only 43.3% of A.B. 1290 pass-throughs are offset against State aid so long as the District uses the moneys received for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

A.B.X1 26 states that in the future, pass-throughs shall be made in the amount "which would have been received had the redevelopment agency existed at that time," and that the County Auditor- Controller shall "determine the amount of property taxes that would have been allocated to each redevelopment agency had the redevelopment agency not been dissolved pursuant to the operation of A.B.X1 26 using current assessed values and pursuant to statutory pass-through formulas and contractual agreements with other taxing agencies."

Successor Agencies continue to operate until all enforceable obligations have been satisfied and all remaining assets of the Successor Agency have been disposed of. A.B. 1484 provides that once the debt of the Successor Agency is paid off and remaining assets have been disposed of, the Successor Agency shall terminate its existence and all pass-through payment obligations shall cease. The District can make no representations as to the extent to which its revenue limit apportionments from the State may be offset by the future receipt of residual distributions or from unencumbered cash and assets of former redevelopment agencies any other surplus property tax revenues pursuant to the Dissolution Act.

Revenue Sources

Major revenue sources of the District are described below.

Revenue Limit Sources and LCFF. State funding, under the LCFF, consists of Base Grants and supplemental grants, and, prior to implementation of the LCFF, the District received 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.

For the fiscal year 2011-12, the District received $27,503,104 income from revenue limit sources, comprising approximately 64.5% of its general fund revenues. For fiscal year 2012-13, the District received $27,565,073 from revenue limit sources, comprising approximately 65.5% of its general fund revenues. For fiscal year 2013-14, the District received $31,975,203 from the LCFF or 72.1% of its general fund revenues. For fiscal year 2014-15, the District has budgeted to receive $37,225,689 from the LCFF or 80.8% of its general fund revenues.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Education Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. Most of the federal revenues received by the District are restricted. For fiscal year 2011-12, the District received $5,933,197 from federal revenues, comprising approximately 13.9% of general fund total revenues. For fiscal year 2012-13, the District received $4,385,510 from federal revenue sources, comprising approximately 10.4% of general fund total revenues. For fiscal year 2013-14, the District received $4,042,609 from federal revenues, comprising approximately 9.1% of general fund total revenues. For fiscal year 2014-15, the District has budgeted to receive $3,744,437 of federal revenues or 8.1% of its general fund revenues.

Other State Revenues. In addition to revenue limit sources prior to fiscal year 2013-14 and the LCFF starting in fiscal year 2013-14, the District receives substantial other State revenues. These other State revenues are primarily restricted revenues funding items such as the Community Day School Additional Funding, Home-to-School Transportation, Economic Impact Aid, and Special Education Transportation. For fiscal year 2011-12, the District received $6,577,513 of other State revenues, comprising approximately 15.4%

of general fund total revenues. For fiscal year 2012-13, the District received $7,380,665 of other State revenues, comprising approximately 17.5% of general fund total revenues. For fiscal year 2013- 14, the District received $5,272,922 of other State revenues, comprising approximately 11.9% of general fund total revenues. For fiscal year 2014-15, the District has budgeted to receive $2,021,606 of other State revenue, or 4.4% of its general fund 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. The District has budgeted receipt of $ 871,572 in Lottery money for fiscal year 2014-15.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as the leasing of property owned by the District and interest earnings. For fiscal year 2011-12, the District received $2,638,603, from other local revenues, comprising approximately 6.2% of general fund total revenues. For fiscal year 2012-13, the District received $2,744,286 from other local revenues, comprising approximately 6.5% of general fund total revenues. For fiscal year 2013-14, the District received $3,072,245 from other local revenues, comprising approximately 6.9% of general fund total revenues. For fiscal year 2014-15, the District has budgeted to receive $3,068,451 of other local revenue 6.7% of its general fund revenues.

Developer Fees

The District collects developer fees to finance essential school facilities within the District. The following table of developer fee revenues reflects the collection of fees from fiscal years 2010-10 through fiscal year 2013-14, and the projected amount of developer fees for fiscal year 2014-15.

TABLE A-4
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Developer Fees
Fiscal Years 2010-11 through 2014-15

Year	Total Revenues
2010-11	$ 272,020
2011-12	78,107
2012-13	116,005
2013-14	594,934
2014-15[1]	300,000

[1] Projected.
Source: District.

State Budget Measures

The following information concerning the State's budget has been obtained from Schools Services of California, Inc. The District believes the information to be reliable; however, the District does not guarantee the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal of or interest on the Notes or Bonds is necessarily payable from the General Fund of the District. The Bonds are payable solely from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

2015-16 State Budget. Governor Brown released his 2015-16 proposed State Budget as scheduled on Friday, January 9, 2015. The Governor's Budget acknowledges a significant improvement in the State revenue outlook when compared to the assumptions contained in the 2014-15 Budget Act. For 2013-14, the Budget identifies an additional $490 million in General Fund revenue and an additional $2.6 billion in the current year. The Budget Proposal reflects a 4.9% increase in revenues, equal to an additional $5.3 billion above the revised current-year level. These annual gains are attributable to stronger-than-expected performance of the personal income tax receipts from both capital gains and wages.

For the current year, the Governor's Budget acknowledges that the strengthening economy is boosting the minimum Proposition 98 guarantee above the level adopted in the 2014-15 Budget Act. For the current year, the Proposition 98 guarantee is now estimated at $63.2 billion, up $2.3 billion from the enacted level. For 2015-16, the Governor's Budget proposes a Proposition 98 guarantee of $65.7 billion, an increase of $2.5 billion, or 4%, from the revised current-year level.

Local Control Funding Formula. The Governor's 2015-16 Budget continues implementation of the LCFF with an infusion of $4.048 billion in additional Proposition 98 revenues. The new formula provides funding to move all school districts and charter schools toward a system of school finance that allocates similar amounts per ADA as base grants within four grade spans, and provides additional percentage increases, or "weights," for class-size reduction (CSR) in grades Transitional Kindergarten (TK)-3, CTE for grades 9-12, and supplemental/concentration grants on behalf of students who are not English language proficient, who are from low-income families, or who are in foster care.

The proposed $4 billion LCFF increase is expected to close the 2015-16 funding gap for each school district and charter school, compared with their 2014-15 funding level adjusted for changes in ADA, by 32.19%, an average per pupil increase of 8.7% ($675 per ADA). Actual percentage and per-ADA increases for individual school districts and charter schools can vary significantly from this average, depending on the LEA gap between current funding and the LCFF full implementation target.

Deferrals. The Governor's Budget proposes $900 million in one-time Proposition 98 funds in 2014-15 to eliminate all remaining outstanding deferral debt for K-12. At their peak, the inter-year deferrals for K-12 had reached a high of $9.5 billion, or about 20% of annual payments to schools. While dollars used to finally eliminate the deferrals count toward Proposition 98 expenditures for the State's purposes, they do not initially provide more spending authority to schools.

Discretionary Funds. The Governor's Budget Proposal includes more than $1.1 billion in prior-year mandated cost reimbursement funds as discretionary one-time Proposition 98 funding to further investments in the implementation of Common Core. Funds would be provided to school districts, charter schools, and COEs and could also help support implementation of newly adopted English language development standards and California's Next Generation Science standards, as well as support expenditures that occur due to the evolving accountability structure of the LCFF. As mentioned above, off the top of the $1.1 billion, $20 million would be provided to COEs, distributed on the basis of countywide ADA and the number of school districts within the COE's jurisdiction with the balance of the funds going to school districts and charters schools on the basis of ADA.

School Facilities. While the Governor's Budget does not identify funding for a school construction State assistance program, the Administration recommends foundational tenets for the next program. These tenets are anchored in the belief that the ongoing fiscal capacity of the State to fund school facilities as it has through the Leroy F. Greene School Facility Program is no longer sustainable, and that the capacity for local school districts to fund their construction needs was greatly enhanced with the passage of Proposition 39 in 2000 that reduced the voter-support rate for local General Obligation bonds from an arduous two-thirds vote to 55%. The Budget outlines two broad principles for the next school facilities proposal that align closely to the tenets of the LCFF, which are (1) enhanced local control and flexibility and (2) targeting resources to areas of need.

CalSTRS and CalPERS. Employer costs for retirement benefits for both the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) are projected to nearly double over the next several years. The 2015-16 State Budget Proposal does not address these cost increases for school districts or COEs.

Proposition 2 and Proposition 98 Reserves. With California's improving economic conditions and the passage of Proposition 2, the State's "Rainy Day Fund," the Governor's Budget proposes an additional deposit into the State's reserve and anticipates that, by the end of the year, the "Rainy Day Fund" will have a balance of $2.8 billion.

Technology Infrastructure. The Governor proposes $100 million to build on last year's investment to assist those LEAs most in need of securing internet connectivity and infrastructure in order to administer the computer-based assessments called for under Common Core. The first round recipients of more than $27 million in Broadband Infrastructure Improvement Grants were announced on January 7, 2015. Approximately 300 sites were identified as lacking online capacity to administer last year's field tests, and approximately 227 school sites were awarded funding.

The Governor's Budget Proposals do not mark the end of the Budget cycle—they mark the beginning. The Legislature will have a lot to say about the Governor's priorities, especially with all the new revenues streaming in. This would be the third year in a row that the Governor has made public education his highest priority. In his press conference announcing his Budget, the Governor made the valid point that education took more than its fair share of reductions during the last recession.

LAO Analysis. In a report released on January 13, the Legislative Analyst's Office (the"LAO") concludes that the Governor's Budget proposal for 2015-16 is "generally prudent" and, if enacted by the Legislature, "could help avoid the boom and bust budgeting of the past."

The LAO notes that there is upside potential in the Administration's revenue estimate for the current year. Citing the strength of revenues collected in December, the LAO concludes that a revenue gain of $1 billion to $2 billion in the current year "seems likely" and an even larger gain is possible. Because of the requirements of Proposition 98, any State General Fund revenue gain will primarily accrue to K-12 education and the community colleges, a development reflected in the Governor's Budget for revenues that have already been recognized by the Administration.

With regard to education funding through Proposition 98 and the Local Control Funding Formula (LCFF), the LAO concludes that the Governor's proposal to provide $4 billion toward implementation of the new funding model is consistent with the approach the Legislature has taken over the last two years. This appropriation will further the phase-in of the funding target and retain the State's emphasis on local control and flexibility.

While generally supportive of the Governor's workforce education and training initiative—$500 million for Adult Education, $250 million for a Career Technical Education (CTE) Incentive Grant Program, and $48 million for CTE Pathways Initiative—the LAO points out that these proposals do nothing to streamline the existing, overlapping regional groupings, citing 15 community college economic development regions, 49 workforce investment boards and 70 adult education consortia. Nevertheless, in the end the LAO calls the Governor's goals in this area laudable.

Finally, the LAO notes that Proposition 98 funding in the current year could be increased above the Governor's Budget proposal by upward of $2 billion at the May Revision in just four months. This is due to the underlying strength of the California economy and the potential for greater tax revenues. The LAO, however, cautions that committing too much into ongoing programs could unravel the progress made under the LCFF if the State economy were to slip into a recession.

Future Actions. The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools. State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District.

Audited Financial Statements

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial report for the fiscal year ended June 30, 2014, which are included as APPENDIX C.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from annual financial reports prepared by the District's independent auditor Vavrinek, Trine, Day & Co., LLP, Fresno, California, for fiscal years 2010-11 through 2013-14.

The District's auditor has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has not audited or reviewed this Official Statement. The District is required by law to adopt its audited financial report after a public meeting to be conducted no later than January 31 following the close of each fiscal year. Completion of the District's audit report for the year ended June 30, 2014 was delayed due to the extra time needed to reconcile differences in the accounting records maintained by the County Office of Education and the County Treasurer-Tax Collector. The District received an extension of time from the State Controller's Office and adopted its audit report for the fiscal year ended June 30, 2014 on February 24, 2015.

District Budget Process and County Review

The District is required by State law to adopt a final budget by July 1 in each year. The 2014-15 budget was adopted by the District on June 24, 2014 and is subject to future adjustment by the District during the 2014-15 fiscal year. Throughout the fiscal year, all revenues and appropriations are subject to review and since the budget must remain in balance, any shortfall in revenues could require a reduction in appropriations.

The District is under the jurisdiction of the County of San Benito 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.

Past Financial Difficulties of the District

Beginning in mid-2009, several factors contributed to lower the District's ending fund balances and deplete reserves, including declining enrollment, significant reductions to State funding of education and expanded deferral of State apportionments. In its budget for the 2009-10 fiscal year, the District projected deficit spending of $1.4 million in that fiscal year, as well as deficit spending of approximately $5.9 million in each of fiscal years 2010-11 and 2011-12. In August of 2009, the San Benito County Office of Education (the "Office of Education") issued a conditional approval of the District's fiscal year 2009-10 budget, indicating that the budgetary projections did not ensure that District would meet its financial obligations. Concurrently, the District secured the services of the Fiscal Crisis Management Assistance Team ("FCMAT") to prepare multiyear financial projections, conduct a fiscal health risk analysis, and prepare recommendations to improve the District's fiscal condition. The County Office of Education also appointed a fiscal advisor to the District with authority to stay and rescind financial decisions approved by the District's Board of Trustees.

In September of 2009, the District met with representatives of the County Office of Education to review details of the District's proposed budgetary adjustments, which at the time were projected to equal $6.37 million, and included approximately $3.6 million worth of staffing reductions. Throughout the 2009-10 fiscal year, the District self-certified its interim financial reports as "qualified," indicating that the District might not meet its financial obligations in either the then-current or two future fiscal years.

FCMAT published its report in January of 2010. FCMAT projected total budget shortfalls of $4.7 million and $11.9 million in fiscal years 2010-11 and 2011-12, respectively. FCMAT also projected that the District would not be able to maintain State-mandated general fund reserves in these fiscal years. FCMAT noted that the District's finances were being particularly affected by high revenue limit deficits and apportionment deferrals. Significantly, at the time FCMAT published its report, the Board of Trustees had not formally approved any of the proposed budgetary adjustments. Throughout fiscal year 2010-11, the District self-certified its interim financial reports as "negative," indicating that, without corrective action, the District would not be able to meet its financial obligations in the then-current or two future fiscal years.

In December of 2010, the District approved a formal deficit reduction plan that implemented a series of budget solutions, including classified, certificated, and administrative staffing reductions, salary and benefit reductions, restructuring of certain administrative departments, and school consolidations. These measures, which applied to the 2010-11 through 2012-13 fiscal years, totaled approximately $3.86 million. The District also negotiated additional furloughs with its administrative, certificated, and classified employees, as well as reductions to the District's contributions towards employee health and welfare benefits for these groups.

ECONOMIC FACTORS AND NEXT YEARS' BUDGETS. The District's adopted budgets for fiscal years 2012-13 , 2013-14, and 2014-15 were submitted to the County Office of Education with a positive certification that the District would be able to meet its then-current fiscal year financial obligations and those for the following two fiscal years. At the time the 2013-14 Budget was adopted at June 30, 2013 the District was projecting a 12.62 percent reserve at the end of 2013-14 and a 3. 78 percent reserve at the end of 2015-16. Based on the Audit Report for 2013-14, the District achieved a reserve of __% by years end. For 2014-15, the District's adopted budget projects a general fund reserve of __%.

There are many factors which affect the District's finances either directly or indirectly. Many of these economic forces are outside the control of the District, and they are a function of International, United States, State, County, and City of Hollister economic conditions. The District expects to continue to monitor the economy and the budget, exercise caution in its multi-year budget forecasts, and remain conservative in budgeting new revenues.

The Board of Trustees approved the District's First Interim Budget Report for 2014-15 on December 9, 2014 with a positive certification. This Report made the following assumptions about District revenues:

- Based on FCMAT LCFF Calculator version 15.3a
- ADA 5249.03 (includes County schools)
- Gap Funding for 2014-15 29.56%
- K-3 Base rate adjusted for CSR (10.4%)
- Includes supplemental and concentration funding for English Learners, Foster and Low Income Students @ 69.34%
- Minimum Proportionality Percentage-9.22% ($3,124,908)
- Actual Enrollment of 5428-Projecting flat enrollment in Multi-Year Projections

Changes in Gap Funding since Budget Development

	2014/15	2015/16	2016/17
Budget	28.05 %	33.95%	21.67%
	$4,042,104	$3,837,486	$1,858.088
First Interim	29.56%	20.68%	25.48%
	$4,304,498	$2,311,050	$2,547,909
Difference	$ 262,394	($1,526,436)	$689,821
Increase/Decrease (over 3 years)			($574,221)

Increase to STRS & PERS
(Employer Portion)

	2014-15	2015-16	2016-17
STRS	8.88%	10.73%	12.58%
	$2,077,303	$470,000	$491,127
PERS	11.77%	12.60%	15.00%
	$769,838	$56,729	$166,414

State law requires local governments to maintain a balanced budget and the District anticipates that it will have no difficulty in complying with the State requirement for fiscal years 2014-15, 2015-16, and 2016-17.

The following table shows the statement of revenues, expenditures, and changes in fund balances for the District's general fund for the fiscal years 2010-11 through 2014-15.

TABLE A-5
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2010-11 through 2014-15

	FY 2010-11[1]	FY 2011-12[1]	FY 2012-13[1]	FY 2013-14[1]	FY2014-15[2]
REVENUES[3]					
Revenue limit/LCFF sources	$27,213,923	$ 27,503,104	$27,565,073	$28,242,089	$37,225,689
Federal Revenue	5,341,360	5,933,197	4,385,510	3,471,180	3,744,437
Other State Revenue	6,841,666	6,577,513	7,380,665	6,192,262	2,021,606
Other Local Revenue	2,938,685	2,638,603	2,744,286	2,507,700	3,068,451
Total Revenues[4][5]	$42,335,634	$42,652,417	$42,075,534	$40,413,231	$46,060,183
EXPENDITURES[6]					
Certificated Salaries	$18,989,556	$18,896,851	$19,354,804	$19,931,075	$23,083,549
Classified Salaries	5,033,685	4,657,697	4,818,603	5,325,408	5,950,983
Employee Benefits	9,072,253	8,124,221	9,383,025	9,007,708	10,137,296
Books and Supplies	1,105,904	1,069,553	1,456,953	1,191,432	4,023,498
Services and Operating Expenditures	5,072,201	5,626,827	4,929,780	5,738,411	4,921,089
Capital Outlay	0.00	29,556	16,790	967,146	78,582
Other Outgo	393,021	867,854	736,102	17,350	907,257
Total Expenditures[5]	$39,666,620	$39,272,559	$40,696,057	$42,178,530	49,102,254
Excess (Deficiency) of Revenues Over Expenditures	2,669,014	3,379,858	1,379,477	(1,765,299)	(3,042,072)
NET CHANGE IN FUND BALANCES	2,669,014	3,379,858	1,379,477	(1,765,299)	(3,192,072)
Fund Balances, July 1, beginning	$3,919,120	$6,588,133	$ 9,967,991	$11,347,468	$11,205,614
Fund Balances, June 30, ending	$6,588,134	$9,967,991	$11,347,468	$ 9,582,169	$ 8,013,542

(1) Audited.
(2) Budgeted
(3) Restricted and Unrestricted General Fund Revenues.
(4) Columns may not add to Totals due to rounding.
(5) With implementation of the Local Control Funding Formula program in fiscal year 2013-14, the categorical funding received in prior years as part of "Other State sources" has been folded into the LCFF income sources, thereby increasing income from Revenue limit/LCFF sources, and decreasing income from Other State sources.
(6) Expenditures by Budget Object Code.
Source: Hollister School District Audited Financial Reports for fiscal years 2010-11 through 2013-14; District adopted budget for fiscal year 2014-15.

The following table shows the District's general fund budget for the fiscal year 2014-15.

TABLE A-6
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
General Fund Budget for Fiscal Year 2014-15

REVENUES[1]	
LCFF SOURCES	$37,225,689
FEDERAL REVENUE	3,744,437
OTHER STATE REVENUE	2,021,606
OTHER LOCAL REVENUE	3,068,451
TOTAL REVENUES[2]	**$46,060,183**
EXPENDITURES[3]	
CERTIFICATED SALARIES	23,083,549
CLASSIFIED SALARIES	5,950,983
EMPLOYEE BENEFITS	10,137,296
BOOKS AND SUPPLIES	4,023,498
SERVICES, OTHER OPERATING EXPENSES	4,921,089
CAPITAL OUTLAY	78,582
OTHER OUTGO (EXCLUDING TRANSFERS OF INDIRECT COSTS)	1,010,694
OTHER OUTGO - TRANSFERS OF INDIRECT COSTS	(103,437)
TOTAL EXPENDITURES[2]	$49,102,254
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,042,072)
OTHER FINANCING SOURCES (USES)	
TRANSFERS IN	0.00
TRANSFERS OUT	(150,000)
OTHER SOURCES	0.00
TOTAL, OTHER FINANCING SOURCES (USES)	(150,000)
NET CHANGE IN FUND BALANCES	**(3,192,072)**
FUND BALANCE BEGINNING	$11,205,614
FUND BALANCE ENDING	$ 8,013,542

(1) Restricted and Unrestricted General Fund Revenues.
(2) Columns may not add to Totals due to rounding.
(3) Expenditures by Budget Object Code.
Source: Hollister School District's adopted General Fund Budgets for fiscal year 2014-15.

Reports and Certifications

The Education Code of the State of California (Section 42133 *et seq.*) requires each school district to report and certify two times during the fiscal year whether it is able to meet its financial year. The first report covers the period ending October 31 and the second report covers the period ending January 31. Such certifications are based on the governing board's assessment based on standards and criteria for fiscal stability adopted by the State Board of Education and the State Superintendent of Public Instruction. Each certification is required to be classified as positive, qualified, or negative on the basis of a review of the respective report against such criteria, but may include additional financial information known by the governing board to exist at the time of each certification. Such certifications are to be filed with the County Superintendent of Schools within forty-five days after the close of the period being reported and, in the event of a negative or qualified certification, to the State Controller and the State Superintendent of Public Instruction. A negative certification is to be assigned to any school district that likely will be unable to meet its financial obligations for the remainder of the fiscal year or for which existing expenditure practices jeopardize the ability of the district to meet its multi-year financial commitments.

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 fiscal succeeding 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 County Superintendent of Schools determines that the district's repayment of indebtedness is probable.

The District received a positive certification applicable to First and Second Interim Reports for fiscal year 2013-14 and a positive certification applicable to its First Interim Report for fiscal year 2014-15 within the meaning of Section 42133 of the Education Code of the State of California.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District's long-term obligations for the year ended June 30, 2014, consisted of the following:

TABLE A-7
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
Summary of Long-Term Debt,
for Fiscal Years 2012-13 through 2013-14

Long-Term Debt	Beginning Balance July 1, 2013	Additions	Deductions	Ending Balance June 30, 2014	Due Within One Year
General Obligation Bonds	$3,270,000	$	$430,875	$	$434,600
Supplemental Retirement Plan	230,852	0.00	230,852	0.00	--
Other postemployment benefits (OPEB)	928,756		732,000		-
Total	**$ 4,429,608**	**$**	**$1,393,727**	**$**	**$**

Source: District.

General Obligation Bonds. In addition to the Bonds, the District has one additional outstanding series of bonds which are secured by *ad valorem* taxes levied upon all property subject to taxation by the District:

On January 11, 2006, the District issued $4,970,000 in General Obligation Refunding Bonds. The Bonds were issued to refund a portion of the outstanding principal amount of the District's Election of 1997 General Obligation Bonds, Series A and B, and to pay costs of issuance associated with the Bonds. Interest on the Bonds accrues from the date of their delivery and is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2006. Interest on the Bonds ranges from 3.5 to 5.25 percent. The Bonds mature annually beginning September 1, 2006 through September 1, 2021.

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue	Maturity Date	Coupon Rate Range	Original Issue	Bonds Outstanding June 30, 2013	Redeemed	Bonds Outstanding June 30, 2014
01/11/06	2006	09/01/21	3.50-5.25%	$4,970,000	$3,270,000		

See also "THE BONDS – Outstanding Bonds" and "–Aggregate Debt Service" in the front portion of this Official Statement for the annual debt service requirements for the Bonds and the District's outstanding bonds described above.

IRS Routine Examination of Certain 2006 General Obligation Refunding Bonds. On March 27, 2014, the District previously received written notification from the Internal Revenue Service that its $4,970,000 2006 General Obligation Refunding Bonds had been selected for a routine examination. On September 8, 2014, the Internal Revenue Service issued a letter to the District stating that such examination was complete, and closed with a determination made of no-change to the position that interest received by the beneficial owners of the referenced bonds is excludable from gross income under Section 103 of the Internal Revenue Code.

Legal Challenges to State Funding of Education

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "- State Funding of Education and Recent State Budgets" above.

2010 Robles-Wong Litigation. On May 20, 2010, a plaintiff class of numerous current California public school students and several school districts, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators, and the California School Boards Association ("CSBA" filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In Maya Robles-Wong, et al. v. State of California, plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance. On July 16, 2010, the California Teachers' Association filed a Complaint in Intervention, making the same allegations and seeking the same declaratory and injunctive relief. On January 14, 2011, the court dismissed certain of the causes of action, including causes of action that alleged a constitutional right to a particular level of education funding and violations of equal protection of the law, based on certain State constitutional provisions. On July 26, 2011, the Superior Court rejected the plaintiff's amended complaint as not stating an equal protection claim, but allowed the plaintiffs to amend their complaint if filed by August 25, 2011. However, CSBA and the other plaintiffs declined to amend the complaint further and in January 2012, filed an appeal with the First District Court of Appeal challenging the findings of the trial court. On appeal, the ELA and the district plaintiffs elected to join with a related case known as *Campaign for Quality Education v. California*, which was filed by Public Advocates, Inc. and others after Robles-Wong was filed. The joint appeal has been fully briefed, and the parties are awaiting oral argument. The District cannot predict the outcome of the Robles-Wong litigation, however, if successful, the lawsuit could result in changes in how school finance is implemented in the State of California.

2013 CSBA Litigation. CSBA, the Butte County Office of Education, Castro Valley Unified School District, San Diego Unified School District, and San Joaquin County of Education have sued the State of California in Alameda County Superior Court in a challenge to the statutory scheme regarding mandate reimbursement. The plaintiffs have argued that the scheme, as a whole, frustrates the right of reimbursement under the California Constitution. Districts and county offices of education are being required to provide services without a reasonable expectation of timely reimbursement. Plus, the procedures for reimbursement impose an unreasonable burden on the right to reimbursement. The case does not challenge the constitutionality of the mandate block grant explicitly, although as part of the statutory scheme it is included in the lawsuit. The lawsuit does explicitly challenge the statutes which allow the State to eliminate the reimbursement requirement by "redetermining" or reconsidering whether a mandate exists. Because of subsequent changes in state law, the plaintiffs have had to amend their complaint to challenge the various new tactics that the State has devised to avoid reimbursing districts and county offices of education for their mandate claims. The plaintiffs amended their complaint in January 2014. In July 2014, the plaintiffs served the defendants with a number of discovery requests. Depending on the discovery responses, the plaintiffs may choose to file a motion to compel to force the defendants to response to discovery or may choose to ask the courts to address the merits of the complaint, particularly as it relates to the constitutionality of offsetting revenues. The District cannot predict the outcome of the 2013 CSBA Litigation, however, if successful, the lawsuit could result in changes in how a part of school finance is implemented in the State of California.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem property tax levied by the County for the payment thereof as described herein under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS." Articles XIIIA, XIIIB, XIIIC and XIIID of the State Constitution, Propositions 98 and 111, 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 Bonds. The tax levied by the County for payment of Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA of the California Constitution

Article XIIIA ("Article XIIIA") of the State Constitution limits the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. Determined in this manner, the full cash value is also referred to as the "base year value." The full cash value is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIIIA has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the adjusted base year value described above. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the Counties to pay debt service on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the front part of this Official Statement.

Article XIIIA requires a vote of two-thirds or more of the qualified electorate of a city, county, special district, or other public agency to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978; or (b) as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978; or (c) 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% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The taxes for payment of the Bonds as well as the District's outstanding Bonds of the 2002, 2006, and 2012 Authorizations fall within the exception described in clause (c) of the immediately preceding sentence. In addition, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues.

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 relevant 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.

All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

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

State-Assessed Utility Property

Some amount of property tax revenue of the District is derived from utility property that is considered part of a utility system with components located in many taxing jurisdictions. Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. Such State-assessed property is allocated to the counties by the SBE, taxed at special countywide 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.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, non-utility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL MATTERS - State Funding of Education; State Budget Process" herein.

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. As amended, Article XIIIB defines:

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California per capita income from the preceding year; and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance ("ADA") of the school district from the preceding fiscal year.

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 pursuant to 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 State 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.

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 pursuant to Section 8.5 of Article XVI of the State Constitution. See "—Propositions 98 and 111" below.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID (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. Article XIIID deals with assessments and property- related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (a) 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; (b) 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; (c) 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; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (e) 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; (f) a charge imposed as a condition of property development; and (g) 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.

Propositions 98 and 111

On November 8, 1988, voters of the State of California 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 changed State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of the State general fund revenues as the percentage appropriated to such districts in 1986-87; and (b) the amount actually appropriated to such districts from the State 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 changed how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount are, 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 is automatically 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 that can be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. On June 5, 1990, the voters of the State of California approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") that 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:

(a) 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.

(b) 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. In addition, 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.

(c) Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations that 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.

(d) 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.

(e) School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 that 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 (i) 40.9% of State general fund revenues (the "first test") or (ii) 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 (A) the first test; (B) the second test, or (C) 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. 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 that 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 (a) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the Bonds, and (b) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property, and property taxes could only exceed this limit to pay for (i) any local government debts approved by the voters prior to July 1, 1978, or (ii) Bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement applies only if the local bond measure presented to the voters includes: (a) 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; (b) 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 (c) 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 placed certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for a high school or elementary school district), or $25 (for a community college district), per $100,000 of taxable property value, when assessed valuation is projected to increase in accordance with Article XIIIA of the Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Jarvis v. Connell

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to State statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (a) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (b) shift property taxes from local governments to schools or community colleges, (c) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (d) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. 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 amends 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, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on State transportation bonds, to borrow or change the distribution of State fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for State mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was expected to be approximately $1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately $1 billion annually for several decades. See "DISTRICT FINANCIAL MATTERS—State Dissolution of Redevelopment Agencies" above.

Proposition 30

On November 6, 2012, voters of the State of California approved the Temporary Taxes to Fund Education, 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, for storage, use, or other consumption in the State. This excise tax is being 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 in the taxable year ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (a) 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), (b) 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 (c) 3% for taxable income over $500,000 for single filers (over $680,000 for joint filers).

The revenues generated from the temporary tax increases are included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Propositions 98 and 111" herein. From an accounting perspective, the revenues generated from the temporary tax increases are being 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 are allocated quarterly, with 89% of such funds provided to school 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.

Future Initiatives

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

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APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION FOR COUNTY OF SAN BENITO, AND THE CITY OF HOLLISTER

The following information concerning the County and the City of Hollister (the "City") is included only for the purpose of supplying general information regarding the area of the District. The Bonds are not a debt of the County, , the City, other listed cities, the State or any of its political subdivisions, and neither the County, the City, other listed cities, the State nor any of its political subdivisions are liable therefor.

San Benito County

The County is located in the Coast Range Mountains, south of San Jose and west of the Central Valley of California. The county is surrounded by Santa Cruz and Monterey Counties to the west, Santa Clara County to the north, and Merced and Fresno Counties to the east and south. The county is served by State Route 25, which runs north/south through the middle of the county, State Highways 152 and 156, which run east west through the northern portion of the county, and U.S. Highway 101, which runs north/south through the northwest corner of the county. U.S. Highway 101 provides a major connection between the San Francisco Bay area and the coastal communities within the Monterey Peninsula.

The majority of the county consists of steep mountains, rolling and rocky hillsides, and open grassland vegetation, with agricultural and grazing lands primarily located through the central and northern portion of the county. The San Andreas Fault runs through the center of the county. This geologic feature separates the county's two distinct mountain ranges: the Diablo Range to the east and the Gabilan Range to the west. The Diablo Range includes summits over 5,000 feet, and steep transitions from the San Benito river valley floor to 2,000 foot plateaus. San Benito Mountain, at 5,241 feet, is the highest peak in the Clear Creek Management Area, a United States Bureau of Land Management (BLM) wilderness area. The Gabilan Range is bordered by the Santa Lucia Range towards Big Sur to the west, and the San Andreas Fault, San Benito Valley, State Route 25, and the Diablo Range to the east. Fremont Peak, at 3,173 feet, is the highest peak within San Benito County in the Gabilan Range. It is protected within the 244-acre Fremont Peak State Park.

The County occupies over 890,000 acres or 1,391 square miles, of which approximately 882,675 acres or 99.5 percent of all the land is unincorporated. Incorporated cities, including the City of Hollister and the City of San Juan Bautista, account for roughly 4,044 acres, or approximately 0.5 percent of the land within the county. There are also several historic unincorporated communities in the county, including Aromas, Paicines, Panoche, Tres Pinos, and New Idria.

The County is largely rural, with over 90 percent of the land used for farming, ranching, or forestry. Agriculture, which includes grazing land, is the predominant use in the county, totaling 747,409 acres or 85 percent of the unincorporated county. After grazing, the largest other agricultural land uses include general agriculture and crops (86,391 acres combined), dry farming (13,906 acres), vineyards (9,512 acres), and orchards (6,420 acres). The county also has significant land, over 78,931 acres (8.9 percent of the unincorporated county) owned and maintained by city, state, and federal governments. Primary public lands management agencies include the BLM and the California Department of Parks and Recreation (DPR). Publically managed lands include the Pinnacles National Park managed by the National Park

Service (NPS), and the Hollister Hills State Vehicular Recreation Area and Fremont Peak State Park managed by the California DPR.

Currently, residential land accounts for only 9,668 acres or 1.1 percent of the existing land use in the unincorporated county. Commercial uses include a range of general service uses, such as restaurants, banks, auto repair shops, offices, grocery or convenience stores, car washes, medical facilities, and some recreation uses. Outside the incorporated cities, there are only 1,633 acres of commercial land in the county. Recreational uses, including golf courses and campgrounds, account for 76 percent of the commercial uses in the unincorporated county. Other land uses in the county include industrial (such as heavy industrial operations), mines and quarries, vacant land, infrastructure, public/quasipublic uses (i.e., airports and schools), parks, and resource management areas.

Over the decade between 2000 and 2010, the tri-county region of Monterey, San Benito, and Santa Cruz Counties grew in population from around 710,600 residents in the year 2000, to 732,700 residents in 2010. This is equal to an increase of three percent over the year 2000 and a total of 22,100 new residents. San Benito County experienced the lowest absolute change with only around 2,000 new residents. Compared to the year 2000, however, this is equal to a 3.8 percent increase. San Benito County accounts for eight percent of regional population.

Population change, such as that described above, is driven by two primary components, natural population change (i.e. births vs. deaths) and net migration (i.e. in-migration vs. out-migration). Within the tri-county region, natural population change has remained positive over the past decade, netting an average of 7,400 new residents each year. Simultaneously, the region also experienced an average loss of nearly 5,200 residents per year through net outmigration. Because the rate of natural population growth exceeded the rate of net outmigration, the regional population has continued to expand at a modest rate. The County added an average of 600 new residents per year, while losing about 430.

City of Hollister

The City has a population of over 36,000, and is located about 100 miles southeast of San Francisco and 40 miles east of Monterey. It has a blend of older and newer homes, tree lined streets, good schools, and numerous parks. The City maintains its heritage of agriculture and cattle ranching ambiance while encouraging new business to locate in Hollister by creating a business friendly environment. There are many recreational opportunities in and around Hollister, including Pinnacles National Park, Hollister Hills State Recreational Area, San Justo Reservoir, and Thousand Trails Campground.

The City is located in California's Central Coast region, between the Gavilan and Diablo Ranges of the Santa Cruz Mountains. The City is blessed with a temperate climate. Cool ocean air regulates the City's temperature resulting in warm summers and mild winters.

The City was incorporated in 1872 as a general-law city with a Council/Manager form of government (Mayor-at-Large and 4 member City Council elected by district, by the City's voters). The City Manager is appointed by the City Council as the City's Chief Administrator. The City provides full city services including a municipal airport, water system, and sewer plants. The City operates a police department and a fire department. Hollister is one of two incorporated cities within the County, with the other being the City of San Juan Bautista.

The City is a suburb to the affluent San Jose and San Francisco Bay metropolitan areas as well as the Monterey Bay area, and functions as a major commuter hub. The City is a major regional shopping hub for the County area.

Population

The following table shows the population of Hollister, San Juan Bautista, and the County for the last five years. Hollister, with an estimated 2014 population of 36,676, is the largest city in the County.

**POPULATION OF THE CITIES OF HOLLISTER,
SAN JUAN BAUTISTA, AND THE COUNTY
2010 - 2014**

	4/1/2010	1/1/2011	1/1/2012	1/1/2013	1/1/2014
Hollister	34,928	35,123	35,738	36,370	36,676
San Juan Bautista	1,862	1,862	1,866	1,894	1,905
Balance of County	18,479	18,489	18,533	18,815	18,936
Incorporated	36,790	36,985	37,604	38,264	38,581
County Total	55,269	55,474	56,137	57,079	57,517

Source: California State Department of Finance.

Employment and Industry

The unemployment rate in County was estimated to be 11.1 % in November 2014, below the year-ago estimate of 13.9 %. This compares with an unadjusted unemployment rate of 8.9 % for California and 5.8 % for the nation in November 2014.

The table below provides information about employment by industry type for the County for calendar years 2009 through 2013, which is the last full year for which such information is available.

SAN BENITO COUNTY
Civilian Labor Force, Employment, and Unemployment by Industry (Annual Averages)

TITLE	2009	2010	2011	2012	2013
Civilian Labor Force (1)	**24,900**	**26,000**	**26,300**	**26,600**	**26,600**
Civilian Employment (2)	21,400	21,500	22,100	22,900	23,600
Civilian Unemployment	3,500	4,500	4,200	3,700	3,000
Civilian Unemployment Rate	**14.3%**	**17.3%**	**15.9%**	**13.9%**	**11.1%**
Total, All Industries (3)	**14,700**	**14,200**	**14,100**	**14,500**	**15,200**
Total Farm	**2,100**	**1,600**	**1,600**	**1,500**	**1,600**
Total Nonfarm	**12,600**	**12,600**	**12,600**	**12,900**	**13,600**
Goods Producing	3,500	3,300	3,400	3,400	3,500
Mining and Logging	0	0	0	0	0
Construction	1,000	800	700	700	800
Manufacturing	2,500	2,500	2,700	2,700	2,700
Durable Goods	1,100	1,000	1,000	900	1,000
Nondurable Goods	1,400	1,500	1,700	1,800	1,700
Service Providing	9,100	9,300	9,200	9,500	10,100
Trade, Transportation & Utilities	2,200	2,700	2,800	2,900	3,200
Wholesale Trade	400	400	300	400	300
Retail Trade	1,600	2,000	2,200	2,200	2,400
Transportation, Warehousing & Utilities	200	300	300	300	400
Information	100	100	100	100	100
Financial Activities	300	300	300	300	400
Finance & Insurance	200	200	200	200	200
Real Estate & Rental & Leasing	100	100	100	100	200
Professional & Business Services	700	700	700	900	1,000
Professional, Scientific & Technical Services	200	200	200	200	400
Management of Companies & Enterprises	0	0	0	0	0
Administrative & Support & Waste Services	500	500	500	700	700
Educational & Health Services	1,000	1,000	1,000	1,000	1,100
Educational Services	100	100	100	100	100
Health Care & Social Assistance	900	900	900	900	1,000
Leisure & Hospitality	1,400	1,100	1,100	1,200	1,200
Other Services	400	400	500	400	400
Government	3,000	3,000	2,800	2,700	2,700
Federal Government	200	200	200	100	100
State Government	200	200	200	200	200
Local Government	2,600	2,600	2,500	2,400	2,400

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

Largest Employers

The following table shows the principal employers in the County for the fiscal year ended June 30, 2014:

SAN BENITO COUNTY
Principal Employers, 2014
(By numbers of employees)

Rank	Employer Name	Location	Industry	No. of Employees
1.	Earthbound Farm	San Juan Bautista	Fruits & Vegetables-Growers & Shippers	1,000-4,999
2.	San Benito Health Care District*	Hollister	Hospitals & Med Clinics	500-999
3.	County of San Benito	Hollister	Local Gov't	250-499
4.	Hollister School District	Hollister	Schools	250-499
5.	Mc Electronics Inc	Hollister	Wire Harnesses-Electrical-Mfrs	250-499
6.	Milgard Manufacturing Inc	Hollister	Windows-Manufacturers	250-499
7.	San Benito High School District	Hollister	Schools	250-499
8.	True Leaf Farms	San Juan Bautista	Farm Management Service	250-499
9.	Cedar Valley Shingle Systems	Hollister	Shingles & Shakes	100-249
10.	City of Hollister	Hollister	Local Gov't	100-249
11.	Corbin	Hollister	Motorcycles-Supls & Parts-Mfrs	100-249
12.	Denise & Filice Packing Co	Hollister	Fruits & Vegetables-Wholesale	100-249
13.	Diageo North America	Paicines	Liquors-Wholesale	100-249
14.	Lifeparc, Inc.	Hollister	Auto Parts & Accessories-Mfrs	100-249
15.	Nob Hill Foods	Hollister	Grocers-Retail	100-249
16.	Ridgemark Golf & Country Club	Hollister	Full-Service Restaurant	100-249
17.	San Benito Foods	Hollister	Canning (Mfrs)	100-249
18.	Target	Hollister	Department Stores	100-249
19.	Trical Inc	Hollister	Farms	100-249
20.	West Marine	Hollister	Marine Equipment & Supplies	100-249

* San Benito Health Care District owns and operates the Hazel Hawkins Memorial Hospital + 2 skilled nursing facilities and various outpatient facilities in the County.

Source: City of Hollister Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013; County of San Benito Recommended Budget for FY 2012-13; Ed-Data; San Benito Health Care District; America's Labor Market Information System (ALMIS) Employer Database, 2014 2nd edition.

Personal Income

The following tables summarize the total personal income and per capita personal income estimates for the County of San Benito, the State of California, and the United States for the years 2004 through 2013. Figures for 2014 are not yet available.

TOTAL PERSONAL INCOME*
County of San Benito, State of California, and United States
2004-2013
(In Thousands)

Year	County of San Benito	California	United States
2004	$ 1,727,265	$ 1,321,815,484	$ 10,043,231,000
2005	1,748,023	1,387,661,013	10,476,669,000
2006	1,859,490	1,495,533,388	11,256,516,000
2007	1,969,783	1,566,400,134	11,900,562,000
2008	1,959,040	1,610,697,843	12,380,225,000
2009	1,867,092	1,526,531,367	12,168,161,000
2010	1,968,266	1,587,403,857	12,353,577,000
2011	2,031,403	1,676,564,972	12,981,740,848
2012	2,153,480	1,805,193,769	13,873,161,000
2013	2,224,472	1,856,614,186	14,151,427,000

* Total personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, property income, and personal current transfer receipts. All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME*
County of San Benito, State of California, and United States
2004-2013

Year	County of San Benito	California	United States
2004	$ 31,491	$ 37,156	$ 34,300
2005	31,988	38,767	35,424
2006	34,356	41,567	37,698
2007	36,429	43,240	39,461
2008	36,100	43,853	40,674
2009	34,299	42,395	39,635
2010	35,451	42,514	39,937
2011	36,189	44,481	41,663
2012	37,867	47,505	44,200
2013	38,619	48,434	44,765

* Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis

Commercial Activity

A summary of taxable sales within the County of San Benito in recent years is shown in the following table. Complete annual figures for 2013 and 2014 are not yet available.

COUNTY OF SAN BENITO
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail & Food Services		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	573	$291,420	1,330	504,523
2009	816	245,237	1,219	422,942
2010	833	257,233	1,244	449,872
2011	803	281,201	1,217	486,490
2012	786	308,777	1,199	530,017

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

A summary of taxable sales within the City of Hollister in recent years is shown in the following table. Complete annual figures for 2013 and 2014 are not yet available.

CITY OF HOLLISTER
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail & Food Services		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	339	$236,165	751	$290,048
2009	449	199,961	694	240,643
2010	458	207,213	714	249,704
2011	439	223,561	702	264,973
2012	421	244,627	685	280,951

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

Building activity for the past five years in the County is shown in the following table. Figures for 2014 are not yet available.

COUNTY OF SAN BENITO
Total Building Permit Valuations
(Valuations in Thousands)*

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$11,355.6	$10,191.6	$9,030.4	$9,115.1	$32,574.5
New Multi-family	0.0	7,708.6	0.0	0.0	0.0
Res. Alterations/Additions	2,244.8	2,384.2	3,601.5	1,936.0	3,019.5
Total Residential	$13,600.4	$20,284.4	$12,631.9	$11,051.1	$35,594.0
New Commercial	$1,107.0	$225.0	$2,007.7	$7,614.9	$4,763.9
New Industrial	750.0	1,900.0	750.0	2,340.0	42.0
New Other	3,193.6	1,757.7	1,484.3	20.0	2,623.5
Com. Alterations/Additions	2,472.4	5,031.0	2,483.6	10,415.9	3,200.0
Total Nonresidential	$7,522.9	$8,913.7	$6,725.6	$20,390.8	$10,629.4
New Dwelling Units					
Single Family	40	48	32	36	138
Multiple Family	0	97	0	0	0
TOTAL	40	145	32	36	138

* Subtotals may be slightly off due to rounding.
Source: Construction Industry Research Board, Building Permit Summary.

Building activity for the past five years in Hollister is shown in the following table. Figures for 2014 are not yet available.

CITY OF HOLLISTER
Total Building Permit Valuations
(Valuations in Thousands)*

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$8,997.2	$7,967.7	$7,088.1	$8,180.1	$25,430.8
New Multi-family	0.0	7,708.6	0.0	0.0	0.0
Res. Alterations/Additions	880.8	655.8	1,551.1	1,236.1	1,635.4
Total Residential	$9,878.0	$16,332.1	$8,639.2	$ 9,416.2	$27,066.2
New Commercial	$1,107.0	$0.0	$103.3	$445.6	$1,721.0
New Industrial	750.0	0.0	750.0	0.0	0.0
New Other	342.8	583.4	844.3	0.0	970.8
Com. Alterations/Additions	1,371.3	1,942.4	986.6	4,137.7	1,886.7
Total Nonresidential	$3,571.1	$2,525.8	$2,684.2	$4,583.3	$4,578.5
New Dwelling Units					
Single Family	35	42	27	32	109
Multiple Family	0	97	0	0	0
TOTAL	35	139	27	32	109

* Subtotals may be slightly off due to rounding.
Source: Construction Industry Research Board, Building Permit Summary.

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APPENDIX C

ANNUAL FINANCIAL REPORT OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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HOLLISTER SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

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HOLLISTER SCHOOL DISTRICT

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JUNE 30, 2014

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Hollister School District
Hollister, 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 Hollister 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.

6051 N. Fresno Street, Suite 101 Fresno, CA 93710 Tel: 559.248.0871 Fax: 559.248.0875 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 11, budgetary comparison information and other postemployment benefit information on pages 44 and 45, 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 Hollister School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements 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*, 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 February 19, 2015, on our consideration of the Hollister 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 Hollister School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
February 19, 2015

This section of Hollister School District's (comprehensive) 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 Hollister School District (the District) using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement Number 34.

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

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

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the Hollister School District.

Governing Board

Ben Flores
Elizabeth Martinez ● Patricia Moore
Lupe Navarro ● Elsa Rodriguez

Superintendent

Gary L. McIntire, Ed. D.

District Administrative Office

2690 Cienega Road ● Hollister, CA 95023
Telephone: (831) 630-6300
Fax: (831) 634-2080

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our fund 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 $43.4 million for the fiscal year ended June 30, 2014, and $45.1 million for the fiscal year ended June 30, 2013; a decrease of $1.7 million. Of this amount, $5.7 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	Governmental Activities		
	2014	2013	Variance
Assets			
Current and other assets	$ 20.5	$ 22.0	$ (1.5)
Capital assets	30.4	32.5	(2.1)
Total Assets	50.9	54.5	(3.6)
Liabilities			
Current liabilities	3.7	5.0	(1.3)
Long-term obligations	3.8	4.4	(0.6)
Total Liabilities	7.5	9.4	(1.9)
Net Position			
Net investment in capital assets	28.0	29.8	(1.8)
Restricted	5.7	5.1	0.6
Unrestricted	9.7	10.2	(0.5)
Total Net Position	**$ 43.4**	**$ 45.1**	**$ (1.7)**

The $9.7 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 4.9 percent ($9.7 million compared to $10.2 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*. 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	Variance
Revenues			
Program revenues:			
Charges for services	$ 0.6	$ 0.8	$ (0.2)
Operating grants and contributions	10.2	10.9	(0.7)
General revenues:			
Property taxes	9.8	11.1	(1.3)
Federal and State aid not restricted	26.3	21.9	4.4
Other general revenues	0.8	0.7	0.1
Total Revenues	47.7	45.4	2.3
Expenses			
Instruction related	35.4	33.4	2.0
Student support services	5.8	5.2	0.6
Administration	3.0	1.9	1.1
Maintenance and operations	3.7	3.7	-
Other	1.5	1.0	0.5
Total Expenses	49.4	45.2	4.2
Change in Net Position	**$ (1.7)**	**$ 0.2**	**$ (1.9)**

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was $49.4 million as compared to $45.2 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $9.8 million because the cost was paid by those who benefited from the programs ($0.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($10.2 million). We paid for the remaining "public benefit" portion of our governmental activities with $26.3 million in Federal and State funds and $0.8 million in other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost of each of the District's largest functions - Instruction related, Student support services, Administration, and Maintenance and operations. 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

(Dollar amounts in millions)	Net Cost of Services		
	2014	2013	Variance
Instruction related	$ 29.0	$ 25.8	$ 3.2
Student support services	2.9	1.9	1.0
Administration	2.1	1.4	0.7
Maintenance and operations	3.6	3.7	(0.1)
Other	0.9	0.7	0.2
Total	**$ 38.5**	**$ 33.5**	**$ 5.0**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $16.5 million while the prior year reported a balance of $17.0 million, which is a decrease of $0.5 million from last year.

The primary reasons for the overall decrease are:

a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased from $11.3 million to $10.6 million. This decrease is due to increased costs for the district as a whole.
b. The remaining District funds showed a combined increase of approximately $0.5 million.

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 March 11, 2014, at Second Interim. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had $32.5 million in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2014, the net capital assets were $30.4 million. This amount represents a net decrease (including additions and deductions) of about $2.1 million from last year.

Table 4

(Amounts in millions)	Governmental Activities		
	2014	2013	Variance
Land and construction in progress	$ 3.1	$ 3.1	$ -
Buildings and improvements	27.0	29.2	(2.2)
Equipment	0.3	0.2	0.1
Total	**$ 30.4**	**$ 32.5**	**$ (2.1)**

We present more detailed information about our capital assets in the Notes to Financial Statements.

Long-Term Obligations

At the end of this year, the District had approximately $3.8 million in obligations outstanding versus $4.4 million last year, a decrease of about $0.6 million. These liabilities consist of:

Table 5

(Amounts in millions)	Governmental Activities		
	2014	2013	Variance
General obligation bonds	$ 3.0	$ 3.3	$ (0.3)
Supplemental retirement plan	-	0.2	(0.2)
Other postemployment benefits	0.8	0.9	(0.1)
Total	**$ 3.8**	**$ 4.4**	**$ (0.6)**

The District's S&P general obligation bond rating as of the most recent bond issuance was "AAA". We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

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

The District ended the 2013-2014 fiscal year with a combined Unrestricted/Restricted ending fund balance of $10,570,359, a decrease of $635,255 from the estimated actuals at the time of the 2014-2015 budget development.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2014-2015 Adopted budget was submitted to the San Benito County Office of Education with a positive certification that it would be able to meet its current fiscal year financial obligations. At the time the 2014-2015 Budget was adopted at June 24, 2014 the District was projecting a 13.54 percent reserve at the end of 2014-2015 and an 8.85 percent reserve at the end of 2016-2017.

There are many factors which affect the Hollister School District's finances either directly or indirectly. Many of these economic forces are outside the control of the District, and they are a function of International, United States, State of California, San Benito County, City of Hollister, and our own internal economic conditions. Some specific HSD assumptions for the 2014-2015 Approved Budget and MYP are:

1. LCFF calculations were based on the FCMAT LCFF Calculator v15.2b.
2. ADA estimates: 2014-2015: 5,193.05, 2015-2016: 5,173.99, 2016-2017: 5,236.96; The District hopes to experience some growth due to new housing developments which we believe will help offset the loss of students to the Charter School.
3. COLA Factor estimates: 2014-2015: 0.85 percent, 2015-2016: 2.19 percent, 2016-2017: 2.14 percent.
4. Estimated Supplemental and Concentration grant funding $3,091,768 for the 2014-2015 year.

The 2014-2015 school year is the first year that California Districts must align their budget with the Local Control Accountability Plan (LCAP). The District met with stakeholders (parents, teachers, staff, and outside groups) over the course of the 2013-2014 school year in order to receive input on the development of the plan. The 2014-2015 budget is now linked directly to the LCAP plan. The District receives additional funding based on the number of English Learners, Free and Reduced Students and Foster Youth. The use of these funds is targeted toward the groups that generate them and must be accounted for in the LCAP plan. The LCAP and the Budget were submitted to the San Benito County Office of Education for final review by the June 30, 2014 deadline.

There is no such thing as a good budget without reasonable reserves. The state minimum level reserve is three percent for a district this size which is $1,477,568. At the October 8, 2013 Board meeting, the Hollister School Board voted to increase the reserve level beginning in budget year 2014-2015 to a minimum of five to six percent in the 2016-2017 year and a minimum of eight to nine percent in the 2017-2018 year. This level of reserves will help the District should the state experience a downturn in revenue and decrease funding to the schools.

The District will continue to monitor the State’s economy and the budget, exercise caution in its multi-year forecast, and remain conservative in budgeting new revenues.

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, Hollister School District, 2690 Cienega Road, Hollister, California, 95023.

HOLLISTER SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2014

		Governmental Activities
ASSETS		
Deposits and investments	$	11,369,958
Receivables		8,926,234
Stores inventories		125,727
Nondepreciable capital assets		3,149,827
Capital assets being depreciated		64,177,714
Accumulated depreciation		(36,888,702)
Total Assets		50,860,758
LIABILITIES		
Overdrafts		48,931
Accounts payable		3,430,256
Unearned revenue		213,442
Current portion of long-term obligations		320,000
Noncurrent portion of long-term obligations		3,454,885
Total Liabilities		7,467,514
NET POSITION		
Net investment in capital assets		27,953,992
Restricted for:		
Debt service		554,084
Capital projects		1,840,683
Educational programs		1,547,657
Other activities		1,762,937
Unrestricted		9,733,891
Total Net Position	$	43,393,244

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**
Governmental Activities:			
Instruction	$ 29,668,538	$ 168,331	$ 4,789,995
Instruction-related activities:			
Supervision of instruction	1,860,364	22,537	1,257,324
Instructional library, media, and technology	587,543	318	54,318
School site administration	3,312,069	7,534	131,952
Pupil services:			
Home-to-school transportation	1,245,199	125	35,722
Food services	2,108,213	309,240	1,833,201
All other pupil services	2,431,237	62,221	696,454
Administration:			
Data processing	1,157,741	-	484,504
All other administration	1,820,263	26,883	342,746
Plant services	3,651,396	-	31,714
Ancillary services	5,332	-	-
Interest on long-term obligations	131,429	-	-
Other outgo	1,385,800	45,327	573,061
Total Governmental Activities	$ 49,365,124	$ 642,516	$ 10,230,991

General revenues and subventions:
- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position
Governmental Activities
$ (24,710,212)
(580,503)
(532,907)
(3,172,583)
(1,209,352)
34,228
(1,672,562)
(673,237)
(1,450,634)
(3,619,682)
(5,332)
(131,429)
(767,412)
(38,491,617)
9,288,735
449,740
26,260,991
64,049
749,970
36,813,485
(1,678,132)
45,071,376
$ 43,393,244

HOLLISTER SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	$ 5,682,417	$ 5,687,541	$ 11,369,958
Receivables	8,308,348	617,886	8,926,234
Due from other funds	8,528	88	8,616
Stores inventories	104,728	20,999	125,727
Total Assets	$ 14,104,021	$ 6,326,514	$ 20,430,535
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	$ -	$ 48,931	$ 48,931
Accounts payable	3,324,665	105,591	3,430,256
Due to other funds	20	8,596	8,616
Unearned revenue	201,113	12,329	213,442
Total Liabilities	3,525,798	175,447	3,701,245
Fund Balances:			
Nonspendable	109,755	20,999	130,754
Restricted	1,536,717	4,379,352	5,916,069
Assigned	-	1,497,270	1,497,270
Unassigned	8,931,751	253,446	9,185,197
Total Fund Balances	10,578,223	6,151,067	16,729,290
Total Liabilities and Fund Balances	$ 14,104,021	$ 6,326,514	$ 20,430,535

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

HOLLISTER SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		**$ 16,729,290**
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	$ 67,327,541	
Accumulated depreciation is	(36,888,702)	
Net Capital Assets		30,438,839
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
General obligation bonds	2,970,000	
Other postemployment benefits	804,885	
Total Long-Term Obligations		(3,774,885)
Total Net Position - Governmental Activities		**$ 43,393,244**

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

HOLLISTER SCHOOL DISTRICT

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Local Control Funding Formula	$ 33,265,024	$ -	$ 33,265,024
Federal sources	3,530,520	1,812,277	5,342,797
Other State sources	4,405,410	400,821	4,806,231
Other local sources	2,880,175	1,392,765	4,272,940
Total Revenues	44,081,129	3,605,863	47,686,992
EXPENDITURES			
Current			
Instruction	28,183,090	289,408	28,472,498
Instruction-related activities:			
Supervision of instruction	1,885,105	-	1,885,105
Instructional library, media and technology	519,477	-	519,477
School site administration	3,293,138	30,393	3,323,531
Pupil services:			
Home-to-school transportation	869,925	-	869,925
Food services	-	2,017,248	2,017,248
All other pupil services	2,389,953	-	2,389,953
Administration:			
Data processing	1,159,154	-	1,159,154
All other administration	1,823,698	98,699	1,922,397
Plant services	3,335,702	57,403	3,393,105
Facility acquisition and construction	-	147,720	147,720
Ancillary services	5,332	-	5,332
Other outgo	1,385,800	-	1,385,800
Debt service			
Principal	-	300,000	300,000
Interest and other	-	131,429	131,429
Total Expenditures	44,850,374	3,072,300	47,922,674
NET CHANGE IN FUND BALANCES	(769,245)	533,563	(235,682)
Fund Balance - Beginning	11,347,468	5,617,504	16,964,972
Fund Balance - Ending	$ 10,578,223	$ 6,151,067	$ 16,729,290

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

HOLLISTER SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		**$ (235,682)**
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 expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Capital outlays	$ 250,085	
Depreciation expense	(2,347,258)	
Net Expense Adjustment		(2,097,173)
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		123,871
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		300,000
Supplemental retirement plan		230,852
Change in Net Position of Governmental Activities		**$ (1,678,132)**

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

HOLLISTER SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

		Agency Funds
ASSETS		
Deposits and investments	$	50,050
Total Assets	$	50,050
LIABILITIES		
Due to student groups	$	50,050
Total Liabilities	$	50,050

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hollister School District (the District) was organized in 1872, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates eight elementary and two middle schools.

A reporting entity is comprised of the primary government 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 Hollister School District, this includes general operations, food service, and student related activities of the District.

Other Related Entities

Charter School The District has approved a charter for Hollister Prep School pursuant to *Education Code* Section 47605. The Hollister Prep School is not operated by the District and is not considered a component unit of the District.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Fund

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.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been consolidated with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of $7,864, $7,864, and $35, respectively.

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).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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).

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.

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

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

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.

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).

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

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of 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, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net 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 financial statements is on major funds rather than reporting funds by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances 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 60 days. However to achieve comparability of reporting among California LEAs 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 LEAs 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, insurance settlements, 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 requirements. 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 60 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 pools are determined by the program sponsor.

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.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not 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 of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 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.

Accounts Payable and Long-Term Obligations

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

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 resolutions or other action as approved by the governing board. The District has no committed fund balances.

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 chief business official may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy 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 3.0 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. The government-wide financial statements report $5,451,915 of restricted net position.

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For 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 Benito bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change 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 No. 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 District has implemented the provisions of this Statement for the year ended June 30, 2014, which did not have a material effect on the District's financial statements.

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 No. 27 and No. 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 No. 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 No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 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 No. 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 No. 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 No. 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 No. 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 No. 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 activities, net of overdrafts	$ 11,321,027
Fiduciary funds	50,050
Total Deposits and Investments	$ 11,371,077

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

Cash on hand and in banks	$ 53,487
Cash in revolving	5,027
Investments	11,312,563
Total Deposits and Investments	$ 11,371,077

The Child Development Fund and Deferred Maintenance Fund had deficit Cash in County balances at June 30, 2014, in the amounts of $48,863 and $68, respectively.

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 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	$ 11,324,464	$ -	$ 11,324,464	$ -	$ -

NOTE 3 - RECEIVABLES

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

	General Fund	Non-Major Governmental Funds	Total
Federal Government			
Categorical aid	$ 2,118,431	$ 542,480	$ 2,660,911
State Government			
State principal apportionment	4,543,398	-	4,543,398
Other state	1,199,300	75,406	1,274,706
Local sources	447,219	-	447,219
Total	$ 8,308,348	$ 617,886	$ 8,926,234

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Balance June 30, 2014
Governmental Activities			
Capital Assets not being depreciated			
Land	$ 3,096,897	$ -	$ 3,096,897
Construction in progress	-	52,930	52,930
Total Capital Assets Not Being Depreciated	3,096,897	52,930	3,149,827
Capital Assets being depreciated			
Land improvements	9,442,200	-	9,442,200
Buildings and improvements	53,588,762	-	53,588,762
Furniture and equipment	949,597	197,155	1,146,752
Total Capital Assets Being Depreciated	63,980,559	197,155	64,177,714
Less Accumulated Depreciation			
Land improvements	6,400,676	603,898	7,004,574
Buildings and improvements	27,359,096	1,702,168	29,061,264
Furniture and equipment	781,672	41,192	822,864
Total Accumulated Depreciation	34,541,444	2,347,258	36,888,702
Governmental Activities Capital Assets, Net	$ 32,536,012	$ (2,097,173)	$ 30,438,839

Depreciation expense was charged to functional expenses as follows:

Governmental Activities	
Instruction	$ 1,290,992
Instructional library, media, and technology	70,418
Home-to-school transportation	375,561
Food services	93,890
All other pupil services	46,945
All other general administration	117,363
Plant services	352,089
Total Depreciation Expenses, Governmental Activities	$ 2,347,258

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:

	Interfund Receivables	Interfund Payables
Major Governmental Fund		
General	$ 8,528	$ 20
Non-Major Governmental Funds		
Child Development	-	8,048
Cafeteria	20	480
Deferred Maintenance	68	-
Special Reserve Capital Outlay	-	68
Subtotal Non-Major Governmental Funds	88	8,596
Total	$ 8,616	$ 8,616

The Child Development Fund owes the General Fund for a prior year due to/due from carry over.	$ 5,371
The Child Development Fund owes the General Fund for indirect costs.	2,677
The Cafeteria Fund owes the General Fund for indirect costs.	480
The Special Reserve Capital Outlay Fund owes the Deferred Maintenance Fund for interest.	68
The General Fund owes the Cafeteria Fund for miscellaneous expenses.	20
Total	$ 8,616

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Non-Major Governmental Funds	Total
Deferred payroll	$ 1,799,868	$ -	$ 1,799,868
Vendor payables	742,245	102,301	844,546
State principal apportionment	735,049	-	735,049
Salaries and benefits	47,503	3,290	50,793
Total	$ 3,324,665	$ 105,591	$ 3,430,256

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 201,113	$ -	$ 201,113
State categorical aid	-	12,329	12,329
Total	$ 201,113	$ 12,329	$ 213,442

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2013, the District had outstanding Tax and Revenue Anticipation Notes in the amount of $1,575,000, which matured on October 1, 2013.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes is as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2013	Payments	Outstanding June 30, 2014
February 27, 2013	2.0%	October 1, 2013	$ 1,575,000	$ 1,575,000	$ -

NOTE 9 - 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	$ 3,270,000	$ -	$ 300,000	$ 2,970,000	$ 320,000
Supplemental retirement plan	230,852	-	230,852	-	-
Other postemployment benefits	928,756	753,530	877,401	804,885	-
Total	$ 4,429,608	$ 753,530	$ 1,408,253	$ 3,774,885	$ 320,000

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local property tax revenues. The supplemental retirement plan and the other postemployment benefits obligations will be paid by the General Fund.

Bonded Debt

On January 11, 2006, the District issued $4,970,000 in General Obligation Refunding Bonds. The Bonds were issued to refund a portion of the outstanding principal amount of the District's Election of 1997 General Obligation Bonds, Series A and B, and to pay costs of issuance associated with the Bonds. Interest on the Bonds accrues from the date of their delivery and is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2006. Interest on the Bonds ranges from 3.5 to 5.25 percent. The Bonds mature annually beginning September 1, 2006 through September 1, 2021.

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue	Maturity Date	Coupon Rate Range	Original Issue	Bonds Outstanding July 1, 2013	Redeemed	Bonds Outstanding June 30, 2014
01/11/06	2006	09/01/21	3.50-5.25%	$ 4,970,000	$ 3,270,000	$ 300,000	$ 2,970,000

Debt Service Requirements to Maturity

2006 Refunding Fiscal Year	Principal	Interest to Maturity	Total
2015	$ 320,000	$ 114,600	$ 434,600
2016	335,000	97,406	432,406
2017	360,000	81,862	441,862
2018	365,000	68,269	433,269
2019	390,000	54,113	444,113
2020-2022	1,200,000	69,615	1,269,615
Total	$ 2,970,000	$ 485,865	$ 3,455,865

Supplemental Retirement Plan

During the 2009-2010 fiscal year, the District entered into an agreement for a Supplemental Retirement Plan. During the 2013-2014 fiscal year, the District made the final payment on the obligation.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was $716,380, and contributions made by the District during the year were $823,691 (includes implicit subsidy rate of 1.2834). Interest on the net OPEB obligation and adjustments to the annual required contribution were $37,150 and $(53,710), respectively, which resulted in a decrease to the net OPEB obligation of $123,871. As of June 30, 2014, the net OPEB obligation was $804,885. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable			
Revolving cash	$ 5,027	$ -	$ 5,027
Stores inventories	104,728	20,999	125,727
Total Nonspendable	109,755	20,999	130,754
Restricted			
Legally restricted programs	1,536,717	10,940	1,547,657
Food service	-	1,741,938	1,741,938
Capital projects	-	2,072,390	2,072,390
Debt service	-	554,084	554,084
Total Restricted	1,536,717	4,379,352	5,916,069
Assigned			
Future capital projects	-	1,497,270	1,497,270
Total Assigned	-	1,497,270	1,497,270
Unassigned			
Reserve for economic uncertainties	1,322,977	-	1,322,977
Remaining unassigned	7,608,774	-	7,608,774
Total Unassigned	8,931,751	-	8,931,751
Total	$ 10,578,223	$ 5,897,621	$ 16,475,844

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2014, the following District major fund exceeded the budgeted amounts in total as follows:

	Expenditures and Other Uses		
Fund	Budget	Actual	Excess
General			
Certificated salaries	$ 20,423,463	$ 20,920,960	$ 497,497
Classified salaries	$ 5,491,605	$ 5,753,829	$ 262,224
Other outgo	$ 1,222,992	$ 1,287,102	$ 64,110
Capital outlay	$ 108,944	$ 120,208	$ 11,264

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Hollister School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 59 retirees and beneficiaries currently receiving benefits and 374 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Hollister Elementary School Teachers Association (HESTA), the local California Service Employees Association (CSEA), 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, FEA, CSEA and the unrepresented groups. For fiscal year 2013-2014, the District contributed $641,804 to the plan (adjusted for an implicit rate subsidy of 1.2834 in the calculation of the OPEB obligation), all of which was used for current premiums (approximately 55.29 percent of total premiums). Plan members receiving benefits contributed $519,048, or approximately 44.71 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 716,380
Interest on net OPEB obligation	37,150
Adjustment to annual required contribution	(53,710)
Annual OPEB cost (expense)	699,820
Contributions made	(823,691)
Decrease in net OPEB obligation	(123,871)
Net OPEB obligation, beginning of year	928,756
Net OPEB obligation, end of year	$ 804,885

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	$ 699,820	$ 823,691	117.70%	$ 804,885
2013	646,003	639,145	98.94%	928,756
2012	646,390	620,710	96.03%	921,898

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2013	$ -	$ 6,687,752	$ 6,687,752	0%	$ 26,498,200	25.24%

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 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 July 1, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial 8.0 percent to an ultimate rate of 5.0 percent. The cost trend rate used for the Dental and Vision programs was 5.0 percent. The UAAL is being amortized at a level dollar open method. The remaining amortization period at July 1, 2014, was 25 years.

NOTE 13 - 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 Monterey and San Benito Counties Liability and Property Self-Insurance Authority for property and liability insurance coverage. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2014, the District participated in the Santa Cruz-San Benito County Schools Insurance Group (SCSBCSIG), an insurance purchasing pool. The intent of SCSBCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in SCSBCSIG. 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 SCSBCSIG. Each participant pays its workers ' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of SCSBCSIG. Participation in SCSBCSIG is limited to districts that can meet SCSBCSIG selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to the insurance group.

Employee Medical Benefits

The District has contracted with the Self-Insured Schools of California III (SISC III) to provide employee health benefits. SISC III is a shared risk pool. 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 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. 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, California 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 2013-2014, 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 $1,706,632, $1,528,505, and $1,530,764, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. 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 11.442 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 $695,950, $590,162, and $544,289, respectively, and equal 100 percent of the required contributions for each year.

Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS.

Social Security

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

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 $1,026,249 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. 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 not been included in the budgeted and actual amounts reported in the General Fund - Budgetary Comparison Schedule.

NOTE 15 - 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.

Operating Leases

The District has entered into various operating leases for equipment. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Self-Insured Schools of California III (SISC III), the Monterey and San Benito Counties Liability and Property Self-Insurance Authority (MSBCLP), and the Santa Cruz-San Benito County Schools Insurance Group (SCSBCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

The District has no appointed members to the governing board of SISC III.

During the year ended June 30, 2014, the District made payment of $4,739,971 to SISC III for health, medical, dental, vision and life coverage.

The District has no appointed members to the governing board of MSBCLP.

During the year ended June 30, 2014, the District made payment of $225,170 to MSBCLP for liability and property damage insurance.

The District has no appointed members to the governing board of SCSBCSIG.

During the year ended June 30, 2014, the District made payment of $507,631 to SCSBCSIG for workers' compensation insurance.

NOTE 17 - SUBSEQUENT EVENTS

On November 4, 2014, Measure M General Obligation Bonds were authorized pursuant to a requisite 55 percent vote at an election of the registered voters of the District, which authorized the issuance of $28,500,000 principal amount of general obligation bonds for the purpose of financing improvements, maintenance, construction and repair projects at various school sites. The District plans to issue bonds in March, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

HOLLISTER SCHOOL DISTRICT

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

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Local Control Funding Formula	$ 28,242,089	$ 31,975,203	$ 33,265,024	$ 1,289,821
Federal sources	3,471,180	4,042,609	3,530,520	(512,089)
Other State sources	6,192,262	5,272,922	3,379,161	(1,893,761)
Other local sources	2,507,700	3,072,245	2,880,175	(192,070)
Total Revenues [1]	40,413,231	44,362,979	43,054,880	(1,308,099)
EXPENDITURES				
Current				
Certificated salaries	19,931,075	20,423,463	20,920,960	(497,497)
Classified salaries	5,325,408	5,491,605	5,753,829	(262,224)
Employee benefits	9,007,708	9,471,659	9,299,517	172,142
Books and supplies	1,191,432	2,940,864	2,136,361	804,503
Services and operating expenditures	5,738,411	4,837,478	4,306,148	531,330
Other outgo	967,146	1,222,992	1,287,102	(64,110)
Capital outlay	17,350	108,944	120,208	(11,264)
Total Expenditures [1]	42,178,530	44,497,005	43,824,125	672,880
NET CHANGE IN FUND BALANCES	(1,765,299)	(134,026)	(769,245)	(635,219)
Fund Balance - Beginning	11,347,468	11,347,468	11,347,468	-
Fund Balance - Ending	$ 9,582,169	$ 11,213,442	$ 10,578,223	$ (635,219)

[1] On behalf payments are not included in revenues and expenditures in this schedule. In addition, due to the consolidation of Fund 17, Special Reserve Non-Capital Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2013	$ -	$ 6,687,752	$ 6,687,752	0%	$ 26,498,200	25.24%
July 1, 2011	$ -	$ 5,911,863	$ 5,911,863	0%	$ 23,110,893	25.58%
July 1, 2009	$ -	$ 6,531,657	$ 6,531,657	0%	$ 24,800,225	26.34%

SUPPLEMENTARY INFORMATION

HOLLISTER SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
No Child Left Behind:			
Title I - Part A, Basic	84.010	14329	$ 943,266
Title I - Part C, Migrant Education, Regular	84.011	14326	571,885
Title I - Part C, Migrant Education, Summer	84.011	10005	234,139
Title II - Part A, Improving Teacher Quality	84.367	14341	357,563
Title II - Part B, Math and Science Partnership	84.366	14512	138,681
Title II - Part D, Enhancing Education Through Technology	84.318	14334	14,847
Title III - Limited English Proficiency	84.365	14346	145,155
Title IV - Safe and Drug Free Schools	84.186	14347	425
Special Education - IDEA, Basic	84.027	13379	861,115
Total U.S. Department of Education			3,267,076
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13391	1,254,806
Especially Needy Breakfast	10.553	13526	430,702
Meals Supplements - Snack	10.555	13391	68,147
Summer Food Program	10.559	13004	17,181
Food Distribution - Commodities	10.555	13391	101,026
Subtotal, Child Nutrition Cluster			1,871,862
Total U.S. Department of Agriculture			1,871,862
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Child Development: Federal Child Care, Center-based	93.596	13609	41,441
Medi-Cal Billing Option	93.778	10013	263,444
Total U.S. Department of Health and Human Services			304,885
Total Expenditures of Federal Awards			$ 5,443,823

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2014

ORGANIZATION

The Hollister School District was established in 1862 and consists of an area comprising approximately 37.49 square miles. The District operates eight elementary and two middle schools. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Elizabeth Martinez	President	2016
Lupe Navarro	Clerk	2014
Elsa Rodriguez	Member	2014
Ben Flores	Member	2016
Patricia Moore	Member	2014

ADMINISTRATION

Gary L. McIntire, Ed.D.	Superintendent
Kathy Cunnane	Director of Fiscal Services
Lonna Martinez	Director of Educational Services
Dr. Dennis Kurtz	Assistant Superintendent of Administration & Human Resources
Karen Lopes	Director of Student Services/Special Education
C.R. Rogers	Director of Technology
John Teliha	Director of Student Nutrition, Maintenance & Operations, and Warehouse Services

See accompanying note to supplementary information.

HOLLISTER SCHOOL DISTRICT

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

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,325.44	2,331.57
Fourth through sixth	1,730.69	1,727.10
Seventh and eighth	1,157.01	1,149.60
Total ADA	5,213.14	5,208.27

See accompanying note to supplementary information.

HOLLISTER SCHOOL DISTRICT

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

Grade Level	1986-1987 Minutes Requirement	Reduced 1986-1987 Minutes Requirement	2013-2014 Actual Minutes	Number of Days: Traditional Calendar	Number of Days: Multitrack Calendar	Status
Kindergarten	36,000	35,000	55,890	180	N/A	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			53,122	180	N/A	Complied
Grade 2			53,122	180	N/A	Complied
Grade 3			53,122	180	N/A	Complied
Grades 4 - 8	54,000	52,500				
Grade 4			55,039	180	N/A	Complied
Grade 5			55,039	180	N/A	Complied
Grade 6			55,039	180	N/A	Complied
Grade 7			55,039	180	N/A	Complied
Grade 8			55,039	180	N/A	Complied

See accompanying note to supplementary information.

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

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

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

	(Budget) 2015 [1, 4]	2014 [4]	2013 [4]	2012 [4]
GENERAL FUND				
Revenues and other sources [3]	$ 46,060,183	$ 43,054,845	$ 41,343,442	$ 42,443,815
Expenditures and other uses [3]	49,252,254	43,824,125	39,732,790	39,302,961
INCREASE/(DECREASE) IN FUND BALANCE	$ (3,192,071)	$ (769,280)	$ 1,610,652	$ 3,140,854
ENDING FUND BALANCE	$ 7,378,288	$ 10,570,359	$ 11,339,639	$ 9,728,987
AVAILABLE RESERVES [2]	$ 6,668,465	$ 8,931,751	$ 9,722,532	$ 5,332,457
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	13.54%	20.38%	24.47%	13.57%
LONG-TERM OBLIGATIONS	Not Available	$ 3,774,885	$ 4,429,608	$ 4,948,602
AVERAGE DAILY ATTENDANCE AT P-2	5,193	5,213	5,370	5,394

The General Fund balance has increased by $841,372 over the past two years. The fiscal year 2014-2015 budget projects a decrease of $3,192,071 (30.2 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have decreased by $1,173,717 over the past two years.

Average daily attendance has decreased by 181 over the past two years. A decline of 20 ADA is anticipated during fiscal year 2014-2015.

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[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 with the General Fund.

[3] On behalf payments have been excluded from revenues and expenditures in this schedule.

[4] General Fund amounts do not include activity related to the consolidation of the Special Revenue Non-Capital Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

HOLLISTER SCHOOL DISTRICT

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

Name of Charter School	Included in Audit Report
Hollister Prep School (Charter School Number 1507)	No

See accompanying note to supplementary information.

HOLLISTER SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	$ -	$ 1,246,259	$ -
Receivables	81,697	536,189	-
Due from other funds	-	20	68
Stores inventories	-	20,999	-
Total Assets	$ 81,697	$ 1,803,467	$ 68
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	$ 48,863	$ -	$ 68
Accounts payable	1,517	40,050	-
Due to other funds	8,048	480	-
Unearned revenue	12,329	-	-
Total Liabilities	70,757	40,530	68
Fund Balances:			
Nonspendable	-	20,999	-
Restricted	10,940	1,741,938	-
Assigned	-	-	-
Total Fund Balances	10,940	1,762,937	-
Total Liabilities and Fund Balances	$ 81,697	$ 1,803,467	$ 68

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ 485,153	$ 1,886,531	$ 1,515,514	$ 554,084	$ 5,687,541
-	-	-	-	617,886
-	-	-	-	88
-	-	-	-	20,999
$ 485,153	$ 1,886,531	$ 1,515,514	$ 554,084	$ 6,326,514
$ -	$ -	$ -	$ -	$ 48,931
-	45,848	18,176	-	105,591
-	-	68	-	8,596
-	-	-	-	12,329
-	45,848	18,244	-	175,447
-	-	-	-	20,999
485,153	1,587,237	-	554,084	4,379,352
-	-	1,497,270	-	1,497,270
485,153	1,840,683	1,497,270	554,084	6,151,067
$ 485,153	$ 1,886,531	$ 1,515,514	$ 554,084	$ 6,326,514

HOLLISTER 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	Deferred Maintenance Fund
REVENUES			
Federal sources	$ 41,441	$ 1,770,836	$ -
Other State sources	257,267	137,995	-
Other local sources	5,315	335,590	-
Total Revenues	304,023	2,244,421	-
EXPENDITURES			
Current			
Instruction	289,408	-	-
Instruction-related activities:			
School site administration	30,393	-	-
Pupil services:			
Food services	-	2,017,248	-
Administration:			
All other administration	2,677	96,022	-
Plant services	-	-	-
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	322,478	2,113,270	-
NET CHANGE IN FUND BALANCES	(18,455)	131,151	-
Fund Balance - Beginning	29,395	1,631,786	-
Fund Balance - Ending	$ 10,940	$ 1,762,937	$ -

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ 1,812,277
-	-	-	5,559	400,821
2,265	594,933	8,067	446,595	1,392,765
2,265	594,933	8,067	452,154	3,605,863
-	-	-	-	289,408
-	-	-	-	30,393
-	-	-	-	2,017,248
-	-	-	-	98,699
-	57,403	-	-	57,403
-	68,881	78,839	-	147,720
-	-	-	300,000	300,000
554	-	-	130,875	131,429
554	126,284	78,839	430,875	3,072,300
1,711	468,649	(70,772)	21,279	533,563
483,442	1,372,034	1,568,042	532,805	5,617,504
$ 485,153	$ 1,840,683	$ 1,497,270	$ 554,084	$ 6,151,067

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 Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of the fair value of commodities received by the District that are not recorded in the District's financial statements.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 5,342,797
Reconciling items:		
Food Distribution - Commodities	10.555	101,026
Total Schedule of Expenditures of Federal Awards		$ 5,443,823

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 1986-1987 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 Annual Financial and Budget Report Unaudited Actuals 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 District, and displays information for each charter school on whether or not the charter school is included in the District audit.

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

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

INDEPENDENT AUDITOR'S REPORTS

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
Hollister School District
Hollister, 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 Hollister 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 Hollister School District's basic financial statements, and have issued our report thereon dated February 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hollister 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 Hollister School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hollister 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hollister 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 Hollister School District in a separate letter dated February 19, 2015.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

Fresno, California
February 19, 2015

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

Governing Board
Hollister School District
Hollister, California

Report on Compliance for Each Major Federal Program

We have audited Hollister 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 Hollister School District's (the District) major Federal programs for the year ended June 30, 2014. Hollister 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 Hollister 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 Hollister 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 Hollister School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hollister 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 Hollister 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 Hollister 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 Hollister 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

Fresno, California
February 19, 2015

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hollister School District
Hollister, California

Report on State Compliance

We have audited Hollister 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 Hollister 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 Hollister 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 Hollister 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~~s~~. Our audit does not provide a legal determination of Hollister School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Hollister 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.

6051 N. Fresno Street, Suite 101 Fresno, CA 93710 Tel: 559.248.0871 Fax: 559.248.0875 www.vtdcpa.com

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable
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	Yes
After School	5	Yes
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 for independent study because the independent study ADA was under the level that requires testing. Additionally, we did not perform the recommended procedures for the California Clean Energy Jobs Act because the District did not expend any of the California Clean Energy Jobs Act funding received.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
February 19, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLLISTER 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 deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency 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 Numbers	Name of Federal Program or Cluster
84.010	Title I - Part A, Basic
84.367	Title II - Part A, Improving Teacher Quality
84.027	Special Educaiton - IDEA, Basic

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

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.

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

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

State Awards Findings

2013-1 10000

Attendance Reporting

Criteria

According to Standards *and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, attendance reports must be amended for any change in ADA. [*Education Code* Sections 41341 (a)(1) and 14503 (a)].

Condition

During our audit of the District's P-2 and Annual Attendance Reports, we found that the District did not include its full-time independent study ADA in the A section of either report. The attendance reports should be revised as follows:

	P2 Attendance Report			
	Report Line	Original Report	Additional IS ADA	Adjusted per Audit
ELEMENTARY				
Kindergarten	A-1	610.79	2.06	612.85
First through third	A-2	1,775.02	5.08	1,780.10
Fourth through sixth	A-3	1,738.15	4.40	1,742.55
Seventh and eighth	A-4	1,084.00	6.66	1,090.66
Home and Hospital	A-8	1.70	-	1.70
Special Ed. - Special Day	A-9	134.54	-	134.54
Special Ed. - Nonpublic	A-10	0.99	-	0.99
Special Ed. - Extended Year	A-14	6.47	-	6.47
Totals		5,351.66	18.20	5,369.86

		Annual Attendance Report		
	Report Line	Original Report	Additional IS ADA	Adjusted per Audit
ELEMENTARY				
Kindergarten	A-1	610.36	2.05	612.41
First through third	A-2	1,777.90	5.04	1,782.94
Fourth through sixth	A-3	1,738.18	4.83	1,743.01
Seventh and eighth	A-4	1,078.49	7.00	1,085.49
Home and Hospital	A-8	2.10	-	2.10
Special Ed. - Special Day	A-9	135.76	-	135.76
Special Ed. - Nonpublic	A-10	0.99	-	0.99
Special Ed. - Extended Year	A-14	6.47	-	6.47
Totals		5,350.25	18.92	5,369.17

Effect

The District will need to revise the P-2 and Annual Attendance Reports for the changes noted above. There is no questioned cost associated with the change because it is an increase in Revenue Limit ADA.

Cause

The responsibilities for preparing the reports were transferred to a different individual in 2012-2013 who was not aware that the independent study ADA needed to be included in A section of the report. Also, the reports were not reviewed by a second knowledgeable person.

Recommendation

The District should revise the P-2 and Annual Attendance Reports to reflect the audited ADA. Additionally, the District should have a second employee review future attendance reports for accuracy prior to their submission.

Current Status

Implemented.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

Governing Board
Hollister School District
Hollister, California

In planning and performing our audit of the financial statements of Hollister School District, for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated February 19, 2015, on the government-wide financial statements of the District.

DISTRICT OFFICE

Interfund Receivables and Payables

Finding

During our audit, we discovered the District has had an interfund balance between funds that has not been cleared for several years. The recorded carry over balance of $5,371 as an interfund payable in the Child Development Fund and a corresponding interfund receivable in the General Fund.

California Education Code Section 42603 states, "Amounts transferred shall be repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year."

Recommendation

The Child Development Fund should either repay the General Fund or the District should make a permanent transfer between the funds.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day & Co. LLP

Fresno, California
February 19, 2015

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the Bonds, Lozano Smith, LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[LETTERHEAD OF LOZANO SMITH]

April 9, 2015

Board of Trustees
Hollister School District
2690 Cienega Road
Hollister, California 95023

$14,000,000
Hollister School District
(San Benito County, California)
General Obligation Bonds, Election of 2014, Series 2015A
(Final Opinion of Bond Counsel)

Ladies and Gentlemen:

We have acted as bond counsel to the Hollister School District (the "District") in connection with the issuance by the District of its Hollister School District (San Benito County, California) General Obligation Bonds, Election of 2014, Series 2015A in the aggregate principal amount of $14,000,000 (the "Bonds"), issued under Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53506 thereof (the "Bond Law") and under a Resolution adopted by your Board on February 24, 2015 (the "Bond Resolution"). The Bonds were sold to Morgan, Stanley & Co. LLC, as Underwriter (the "Underwriter") pursuant to a Bond Purchase Agreement, dated March 24, 2015 (the "Bond Purchase Agreement"), between the District and the Underwriter.

In such connection, we have examined the Bond Resolution, the Bond Law, the tax certificate, dated the date hereof and executed by the District (the "Tax Certificate"), the Bond Purchase Agreement, the Continuing Disclosure Certificate, dated the date hereof and executed by the District (the "Continuing Disclosure Certificate"), certificates of the District and others, and such other law, documents, opinions and matters to the extent we deemed necessary to render the opinions or conclusions set forth herein.

The opinions and conclusions herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions or conclusions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Bond Resolution, the Tax Certificate, the Continuing Disclosure Certificate and the Bond Purchase Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver, or severability provisions contained in the foregoing documents. We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds, dated March 24, 2015.

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

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

2. The Bonds have been duly authorized, issued and sold by the District and are valid and binding general obligations of the District and the County of San Benito is obligated and authorized under the laws of the State of California to levy *ad valorem* taxes, without limit as to rate or amount (except with respect to certain personal property which is taxable at limited rates), upon the taxable property in the District for the payment when due of the principal of and interest on the Bonds.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. 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, as amended (the "Code") which 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 income tax purposes. The District has covenanted in the Bond Resolution and the Tax Certificate and other instruments relating to the Bonds to comply with each of such requirements under the Code. Failure to comply with certain of such requirements under the Code 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.

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

Except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the Bonds.

Our opinions are based on existing law, which is subject to change. The opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any fact or circumstance that may thereafter come to our attention or to reflect any change in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

Lozano Smith, LLP

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$14,000,000
HOLLISTER SCHOOL DISTRICT
(San Benito County, California)
GENERAL OBLIGATION BONDS
Election of 2014, Series A

CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate"), dated April 9, 2015, is executed and delivered by the Hollister School District (the "District") in connection with the issuance of $14,000,000 aggregate principal amount of Hollister School District General Obligation Bonds, Election of 2014, Series A (the "Bonds"). The District covenants and agrees as follows:

1. ***Purpose of the Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Bonds are issued pursuant to the Resolution adopted by the Board of Trustees of the District on February 24, 2015 (the "District Resolution").

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

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 hereof.

"*Annual Report Date*" means the date in each year that is nine months after the end of the District's fiscal year, which date, as of the date of this Disclosure Certificate, is March 31.

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

"*Dissemination Agent*" means, initially, Public Financial Management, Inc., and any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

"*Listed Events*" means any of the events listed in Section 6(a) or (b) hereof.

"*MSRB*" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made in electronic format through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org, accompanied by such identifying information as is prescribed by the MSRB.

"*Official Statement*" means the Official Statement, dated March 24, 2015 (including all appendices thereto), relating to the offering and sale of Bonds.

"*Owner*" means the person in whose name any Bond shall be registered.

"*Participating Underwriter*" means the original Underwriter of the Bonds, Morgan Stanley & Co. LLC, 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.

3. ***CUSIP Numbers.*** The CUSIP Numbers for the Bonds have been assigned and are shown on the inside cover of the Official Statement.

4. ***Provision of Annual Reports.***

(a) The District shall cause the Dissemination Agent to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 hereof, not later than the Annual Report Date, commencing with the report for the 2014-15 fiscal year, which shall be filed by no later than March 31, 2016. The Annual Report may include by reference other information as provided in Section 5 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB.

(b) If the District is unable to file, or cause the Dissemination Agent to file, an Annual Report with the MSRB by the date required in subsection (a) of this Section, the District shall, in a timely manner, file or cause the Dissemination Agent to file with the MSRB through the EMMA System, a notice in substantially the form attached as ***Exhibit A.***

(c) The Dissemination Agent shall determine each year prior to the Annual Report Date the electronic filing requirements of the MSRB for the Annual Reports. If the Dissemination Agent is other than the District or an official of the District, then the Dissemination Agent shall file a report with the District certifying that the Annual Report has been filed with the MSRB pursuant to this Disclosure Certificate, stating the date it was so filed and confirming it was filed with the MSRB through the EMMA System.

5. ***Content of Annual Reports.*** The Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 4(a) hereof, then the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

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

(1) The District's most recent approved annual budget;

(2) The most recent assessed value of taxable property in the District;

(3) If San Benito County no longer includes the tax levy for payment of the Bonds in its Teeter Plan, then the most recent property tax levies, collections and delinquencies of the District; and

(4) The most recent list of the top twenty property owners in the District, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value.

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

(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 have been submitted to the EMMA System or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available to the public on the MSRB website. The District shall clearly identify each such other document so included by reference.

6. ***Reporting of Listed Events.***

(a) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) business days after the occurrence of the event:

(1) Principal and interest payment delinquencies;

(2) Unscheduled draws on debt service reserves reflecting financial difficulties;

(3) Unscheduled draws on credit enhancements reflecting financial difficulties;

(4) Substitution of or failure to perform by any credit provider;

(5) Issuance by the Internal Revenue Service of an adverse tax opinion, a proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(6) Tender offers;

(7) Defeasances;

(8) Rating changes; and

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

(b) For purposes of the events identified in paragraph (9), the event 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 U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the 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 other 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.

(c) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten (10) business days after the occurrence of the event:

(1) Unless described in paragraph (5) of subsection (a) of this Section, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(2) Modifications to rights of Owners;

(3) Optional, unscheduled, or contingent bond calls;

(4) Release, substitution or sale of property securing repayment of the Bonds;

(5) Non-payment related defaults;

(6) 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; or

(7) Appointment of a successor or additional Paying Agent or the change of name of a Paying Agent.

(d) The District shall give, or cause the Dissemination Agent to give, in a timely manner, notice of a failure to provide the Annual Report or parts thereof on or before the Annual Report Date, as provided in Section 4(b) hereof.

(e) Whenever the District obtains knowledge of the occurrence of a Listed Event described in subsection (c) of this Section, the District shall determine if such event would be material under applicable Federal securities laws.

(f) Whenever the District obtains knowledge of the occurrence of a Listed Event described in subsection (a) of this Section, or determines that knowledge of a Listed Event described in subsection (c) of this Section would be material under applicable Federal securities laws, the District shall file, or shall cause the Dissemination Agent to file, within ten (10) business days of such occurrence, a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in paragraphs (7) of subsection (a) of this Section and (3) of subsection (c) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the District Resolution.

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, or cause the Dissemination Agent to give, notice of such termination in a filing with the MSRB.

8. ***Dissemination Agent.***

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

(b)The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities, and indemnities provided to the Paying Agent as set forth in the District Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in this Disclosure Certificate, and no implied duties, covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent.

(c) The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Disclosure Certificate, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

(d) The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Disclosure Certificate shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Disclosure Certificate upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Certificate in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Disclosure Certificate and the Bonds.

9. ***Amendment; Waiver.*** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate under the following conditions, provided no amendment to this Disclosure Certificate shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only 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 the District, or type of business conducted;

(b) This Disclosure Certificate, as amended, would 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 amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report 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.

10. ***Additional Information.***

(a) Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate.

(b) If the District chooses to include any information from any document or notice of occurrence of a Designated Material Event or a Material 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 to include it in any future disclosure or notice of occurrence of a Designated Material Event or Material Event.

11. ***Default.*** The District shall give notice to the MSRB through the EMMA System of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of San Benito or in U.S. District Court in or nearest to the County of San Benito. A default under this Disclosure Certificate shall not be deemed an event of default under the District Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

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

13. ***Governing Law.*** This Disclosure Certificate shall be governed by the laws of the State of California, applicable to contracts made and performed in California.

Dated as of March __, 2015

HOLLISTER
SCHOOL DISTRICT

By: ____
Superintendent

ACCEPTED AND AGREED TO:

PUBLIC FINANCIAL MANAGEMENT, INC.,
AS DISSEMINATION AGENT

By: ____
Authorized Signatory

EXHIBIT A

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

Name of Issuer: HOLLISTER SCHOOL DISTRICT (San Benito County, California)

Name of Issue: $14,000,000 General Obligation Bonds, Election of 2014, Series A

Date of Issuance: _______________, 2015

NOTICE IS HEREBY GIVEN that the Hollister School District (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate, dated April 9, 2015, executed and delivered by the District. The District anticipates that the Annual Report will be filed by ______________.

Dated: ________________

[ISSUER OR DISSEMINATION AGENT]

By: [Form Only – no signature required]_______________
Authorized Officer

cc: Hollister School District
Morgan, Stanley & Co. LLC

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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 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, the Underwriter nor the Paying Agent takes any responsibility for the information contained in this APPENDIX.

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) prepayment 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 (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

& Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except if use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as prepayments, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Prepayment proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Paying Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Paying Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, if a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

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APPENDIX G

COUNTY OF SAN BENITO INVESTMENT POLICY AND PORTFOLIO SUMMARY

The information in this section has been provided by the San Benito County Treasurer-Tax Collector-Public Administrator. Neither the District, the Financial Advisor, nor the Underwriter have independently verified this information and neither guarantees the completeness or accuracy thereof.

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County of San Benito

STATEMENT OF INVESTMENT POLICY

Year 2014

From the office of
MARY LOU ANDRADE
TREASURER-TAX COLLECTOR
PUBLIC ADMIMISTRATOR
440 Fifth St., Courthouse Room 107
Hollister, Ca. 95023
Phone (831) 636-4043 Fax (831) 636 4014
mlandrade@cosb.us

STATEMENT OF INVESTMENT POLICY

Updated for the year 2014

As designated by the Board of Supervisors under the laws of the State of California, it is the responsibility of the County Treasurer, to secure and protect the public funds of the County, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are not immediately required for daily operations, in a manner anticipated to provide additional benefit to the people of the County of San Benito. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County, rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments and other financial duties separately. This pooling of public funds not only eliminates duplication of expenses, but also smoothes out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers. This document contains the policies, procedures, and legalities guiding the County Treasurer when investing the Pool's temporarily unemployed funds.

This Statement of Investment Policy is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices. Upon request, this Policy will be provided to participants in the County Investment Pool; to securities dealers, banks and brokers currently approved for conducting investment transactions with the County Treasurer's office in the ongoing effort to manage the excess cash portfolio; to other involved persons or entities; and to any member of the electorate wishing to review this document. The Treasurer reserves the right to provide these documents on a cost basis.

SCOPE

This Statement of Investment Policy pertains to those temporarily surplus funds under the control of the Treasurer, designated for the daily ongoing operations of the County-Pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, delayed compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool. Percentage limitations noted within this Policy shall apply to all money considered to be within the County Investment Pool. Any investments existing outside the Pool shall be subject to the local agency's individual percentages.

PURPOSE OF POLICY STATEMENT

The purpose of this Statement of Investment Policy is to provide those entities participating in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed to not be required to meet immediate cash flow requirements.

TREASURY OBJECTIVES

The prime and overriding objective of the Treasurer is to protect the safety of the principal of the Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

Safety: It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

Liquidity: It is imperative that a vast majority of all investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

Availability: Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available, without risk of trading loss, to pay normal cash requirements. A vast majority of the moneys invested by the Treasurer should never require the realization of immoderate losses should an unforeseen cash demand require the sale of investments prior to maturity. A sufficient portion of all funds shall be invested in securities providing a high degree of availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

Yield: While it is considered desirable to obtain a yield commensurate to current conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lesser importance than either safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a respectable rate of return, not attempting to maximize yield at the expense of either safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

PRUDENCE

The Treasurer is subject to the "Prudent Person Rule" whenever making a decision regarding the investment of the Pool's funds. This rule states, in principle:

> *"In investing property for the benefit of others, a trustee shall exercise the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence, would exercise in the management of their own affairs – not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable safety of, as well as the probable income from, their capital."*

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

DELEGATION OF AUTHORITY

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day to day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the Pool, as of the date entered on this Policy, are listed below. This list is subject to change, and those parties newly involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

Authorized Personnel	***Title***
Katherine Casey	Treasurer-Public Admin. Office Manager

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. Only the persons listed on a current *Trading Authorization & Agreement,* and the Treasurer, may initiate trading activity.

SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements**.**

AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Securities brokers dealing with the County Pool should possess a complete understanding of these Code sections.

An attached Addendum briefly describes the types of securities legal within the Government Code sections noted above and outlines the various limitations included in these sections. Except for the restrictions noted below in this section, all legality permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer under this Policy, various temporary and more restrictive constraints may at times be deemed beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but may be obtained by requesting a current "Temporary Constraints and Restrictions on Investments" document, which will change on an "as needed" basis. These constraints or restrictions may only be ***more*** restrictive than those of the Policy, but may ***not*** be ***less*** restrictive. Securities Brokers and Dealers should be aware of these temporary conditions in order to save time and best serve the County Pool.

Though the Government Code sections define the investment types and terms permissible to the Treasurer, the Treasurer currently will not currently:

- Invest in any security or investment with a stated or potential final maturity longer than five years, unless the conditions of the security include terms that permit the purchaser to *unconditionally* “put”, or sell back, to the *original issuer*, the security prior to five years from the purchase date; or the Board of Supervisors has pre-approved, as required by the Government Codes.
- Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein the investment runs a risk of earning a rate of return substantially below other investments obtainable on a fixed rate basis at the time of purchase, or drastically different than the prevailing rate during any time prior to the maturity of the issue.
- Enter into a reverse repurchase agreement.
- Purchase any Collateralized Mortgage Obligation.
- Invest in futures or options.

AUTHORIZED DEALER LIST

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer's efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. To qualify for Authorized Dealer status, a brokerage firm or bank must:

1) Be a dealer operation properly licensed to deal with local agencies in California, **and;**
2) Have a minimum of $10mm in capital, or, be a Primary Dealer of the Federal Reserve Bank of New York; **and;**
3) Be headquartered in the State of California, or, the City of New York or its environs, or be the direct issuer of a security type normally purchased by the Treasurer; **or;**
   Be a department or subsidiary of an insured bank with minimum assets of $500mm that the County has comprehensive banking relationships with; **or;**
   Be an established broker operation in New York or its environs, with a history of profitability, that is properly licensed to deal with local agencies in California, that has capital of not less than

$10mm, and does not position securities for their own portfolio, but brokers securities for their established clients consisting primarily of traders for Primary Dealers and/or other major institutional fixed income brokerage operations, issuers and investors.

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

1) Their reasons for believing they would add value to the present coverage; **and,**
2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; [**or,** a list of those dealers they are able to represent, and the securities they regularly position;] **and,**
3) A list of five references, at least three being California local agency treasurers, including telephone numbers that the Treasurer or his representative may contact.

The Treasurer will instigate an investigation of the applying salesperson and the firm through various sources, including the California Department of Corporations and FINRA, to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests at the end of each quarter, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, are prohibited from dealing with a salesman, broker, or account executive from any broker, dealer or bank investment department or bank subsidiary until the Acknowledgment form found on the last page of the Trading Authorization and Agreement is signed by all parties and received by the Treasurer. The Trading Authorization and Agreement is sent out to all approved dealers, and is an integral addition to this Policy Statement for Brokers/ Dealers, etc. doing investment business with the County Treasurer or Treasury staff.

Similar restrictions and forms may be required of those firms doing business with the County Pool through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G 37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

THE COUNTY TREASURY OVERSIGHT COMMITTEE

[Due to the current lack of State mandate and funding for Oversight Committees, the terms, conditions and requirements regarding this once mandated committee are being held in indefinite abeyance.]

TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is responsible for overseeing, are to be invested. The Treasurer must take into consideration the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all others affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are not immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Pool. Funds will earn interest based on the average daily balance, paid on a quarterly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least two years, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time, without the specific permission of the Treasurer. Any such investments shall either be terminated and all funds returned to the Pool, or the securities so purchased shall be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL

By Code, the County Treasurer shall set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds.

Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, shall be accepted under the terms existing in this Policy, along with any additional terms the Treasurer deems prudent, given the entity's particular situation. Voluntary money maybe withdrawn under conditions set forth in Sections 27133 and 27136 of the Government Codes and as previously specified in any agreements made with the Treasurer. Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

OVERDRAFTS AND BORROWING

The Government Codes set certain requirements for overdrafts. Participants may overdraw their accounts on a temporary basis, but only when such overdrafts are due to cash flow differences, and not the result of indeterminate budget shortfalls. **All overdrafts existing longer than one month must be repaid no later than eight weeks prior to the end of the fiscal year. Because of the short term nature, and liquidity and availability requirements, of cash management portfolios, the ability to 'loan' money to participants in lieu of the issuance of notes of bonds by the local agency is severally limited. Only insignificant amounts, not budgeted for repayment during the current fiscal year, can be considered, and under no circumstances can such loans be considered for periods longer than the fiscal year end.**

APPORTIONING OF COSTS AND INTEREST

All costs related to investing, maintaining and accounting for the investments purchased for the Investment Pool, as authorized by Section 27013 of the Government Code, shall be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool, including those held in specific investments. Interest earning shall be apportioned on the same basis and also distributed quarterly.

REPORTING

The Treasurer generally makes adjustments to the County Pool Investment Policy near the beginning of the calendar year and makes the revised document available to those requesting it. Other reports on the holdings, status and earnings of the portfolio may also be available during the year.

Addendum

Legal Pool Investments*

Investment Type	Max. % of Portfolio	Max. Maturity	Quality Requirements
a) Bonds issued by a local agency	None	None	None
b) Treasury obligations	None	None	None
c) State of California Obligations	None	None	None
d) Obligation of Calif. local agency	None	None	None
e) Obligations issued by Federal Agencies and U.S. Government Sponsored Enterprises	None	None	None
f) Bankers Acceptances	40%	180 days max.	None
g) Commercial Paper	40%	270 days max.	U.S. entity with credit enhancements resulting in paper rating A1/P1 or better; with $500MM in assets; A or higher long term rating if any; max. 10% of portfolio per issuer.
h) Negotiable C.D.s	30%	5 years	None
i) Repurchase Agreements	None	1 year	Collateral must be a legal investment
Reverse Repurchase Agreements	20% of base	92 days max., or to maturity	None
j) Medium Term Note	30%	5 years	U.S. Corporations, or Banks licensed within any State of the U.S., "A" or better rating by major rating service.
k) Mutual Funds	20%, 10% per fund	NA	A defined money market fund; or invest only in a-j, m, n, of this list, as restricted; Highest letter and number ranking of 2 of 3 rating services; or a SEC Registered Advisor with 5 Yrs. experience, managing assets of $500MM or more; No load.
l) Investments as permitted by provision in agreements of indebtedness	As per bond documentation	NA	Not contrary to 53601 & 35 and other pertinent law.
m) Asset secured indebtedness	None	None	As required by 53652
o) Collaterallized Mortgage obligations	20%	5 years	Issuer must be rated "A" minimum, security must be "AA" by national rating service.
p) Contracted Non-Neg. Time Deposits	None	None	None
635.8) Deposited Pooled small C.D.s	30%	None	Insured as to principle and interest

These tables are not meant to be a replacement for the Government Code. Involved parties should obtain a valid, updated copy of the pertinent Code sections to fully understand all the details included within these Codes.

***See Temporary Constraints & Restrictions document for conditions on these permitted investments in effect at the annual review of this Policy.**

SAN BENITO COUNTY
PORTFOLIO MANAGEMENT SUMMARY
December 31, 2014

STATEMENT OF COMPLIANCE AND AVAILABILITY: I hereby declare, that to the best of knowledge, all investments held within the County Investment Pool meet the requisites of the government codes and the terms of the County Investment Policy and are valued currently within this report. Market valuations are provided by the County's Custody / Safekeeping Bank, Union Bank. Furthermore, the Investment Portfolio is structured in such a way that sufficient cash shall be available to meet the normal, projected cash needs of the County and the Investment Pool participants during the next six months.

Asset Class	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
Certificate of Deposit - Negotiable	47,000,000.00	47,011,963.00	47,006,693.20	29.92	0.60	433
Commercial Paper - Discount	10,000,000.00	9,999,150.00	9,988,755.55	6.37	0.33	18
Managed Pool Accounts	50,000,000.00	50,000,000.00	50,000,000.00	31.83	0.27	1
Medium Term Notes	45,140,000.00	45,232,021.20	45,182,402.66	28.73	0.68	515
Passbook Checking Accounts	4,956,426.92	4,956,426.92	4,956,426.92	3.16	0.00	1
Total / Average	**157,096,426.92**	**157,199,561.12**	**157,134,278.33**	**100.00**	**0.48**	**279**

s/Mary Lou Andrade — 01-28-2015

Mary Lou Andrade, Treasurer-Tax Collector — Date

San Benito County
Portfolio Holdings by Asset Class
Report Group: San Benito County

Date: 12/31/2014

Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
Certificate of Deposit - Negotiable								
Abbey National YCD Var. Negotiable CD 1/17/2017		1/17/2014	5,000,000.00	100.00	5,000,000.00	3.18%	S&P-A	748
00279HR40	5,000,000.00	0.66	5,000,000.00	0.66	6,855.21	0.00	Moodys-A2	0
Bank of Nova Scotia Hou. Var. Negotiable CD 2/23/2		8/22/2014	4,999,167.51	99.98	4,999,170.00	3.18%	S&P-A+	419
06417HSX5	5,000,000.00	0.36	4,999,306.76	0.36	1,966.19	-136.76	Moodys-Aa1	0
Bank of Nova Scotia Houston Var. Negotiable CD 5/6		5/6/2014	5,000,982.98	100.02	5,000,985.00	3.18%	S&P-A+	492
06417HKP0	5,000,000.00	0.40	5,000,735.55	0.40	3,069.69	249.45	Moodys-Aa2	0
Bank of Tokyo Var. Negotiable CD 12/17/2015		12/17/2013	5,002,011.88	100.04	5,002,010.00	3.18%	NR	351
06538GVJ8	5,000,000.00	0.61	5,001,005.94	0.61	1,174.85	1,004.06	NR	0
Barclays Bank NY Var. Negotiable CD 1/15/2015		12/14/2012	5,003,081.75	100.00	5,000,000.00	3.18%	S&P-A+	15
06741XKK3	5,000,000.00	0.69	5,000,125.37	0.69	1,526.84	-125.37	NR	0
Credit Suisse NY Var. Negotiable CD 4/11/2016		4/11/2014	7,003,511.39	100.05	7,003,514.00	4.46%	Moodys-A	467
22549TYC6	7,000,000.00	0.60	7,002,632.34	0.60	9,452.39	881.66	S&P-A1	0
Credit Suisse NY Var. Negotiable CD 4/29/2016		4/29/2014	2,000,796.00	100.04	2,000,796.00	1.27%	Moodys-A1	485
22549TB56	2,000,000.00	0.60	2,000,596.73	0.60	2,109.10	199.27	S&P-A1	0
Nordia Bank, NY Var. Negotiable CD 1/30/2017		1/30/2014	3,000,904.03	100.03	3,000,903.00	1.91%	S&P-AA-	761
65558EYK8	3,000,000.00	0.54	3,000,678.02	0.54	2,758.22	224.98	Moodys-Aa3	0
Nordia Bank, NY Var. Negotiable CD 12/21/2015		12/20/2012	5,000,000.00	100.00	5,000,000.00	3.18%	S&P-A1+	355
65558EFN3	5,000,000.00	0.75	5,000,000.00	0.75	1,137.51	0.00	NR	0
Standard Charter, NY Var. Negotiable CD 1/21/2016		12/21/2012	5,004,585.00	100.09	5,004,585.00	3.18%	S&P-A	386
85325BTK0	5,000,000.00	0.73	5,001,612.49	0.73	1,007.92	2,972.51	NR	0
			47,015,040.54		**47,011,963.00**	**29.9%**		**433**
Sub Total Certificate of Deposit - Negotiable	**47,000,000.00**	**0.60**	**47,006,693.20**	**0.60**	**31,057.92**	**5,269.80**		**0**

San Benito County
Portfolio Holdings by Asset Class
Report Group: San Benito County

Date: 12/31/2014

Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
Commercial Paper - Discount								
ANGLESEA FUNDING 0 1/30/2015		9/26/2014	4,994,400.00	99.99	4,999,250.00	3.18%	S&P-A1	30
0347M3NW0	5,000,000.00	0.33	4,994,400.00	0.18	0.00	4,850.00	Moodys-P1	0.08
ANGLESEA FUNDING 0 1/7/2015		9/2/2014	4,994,355.55	100.00	4,999,900.00	3.18%	S&P-A1	7
0347M3N75	5,000,000.00	0.33	4,994,355.55	0.10	0.00	5,544.45	Moodys-P1	0.02
			9,988,755.55		**9,999,150.00**	**6.36%**		**19**
Sub Total Commercial Paper - Discount	**10,000,000.00**	**0.33**	**9,988,755.55**	**0.14**	**0.00**	**10,394.45**		**0.05**
Managed Pool Accounts								
LAIF LGIP		6/30/2013	50,000,000.00	100.00	50,000,000.00	31.82%	None	1
LAIF5000	50,000,000.00	0.27	50,000,000.00	0.27		0.00	None	0
			50,000,000.00		**50,000,000.00**	**31.82%**		**1**
Sub Total Managed Pool Accounts	**50,000,000.00**	**0.27**	**50,000,000.00**	**0.27**		**0.00**		**0**
Medium Term Notes								
AUST. & NZ BANKING GROUP Var. Corp 5/15/2018		1/27/2014	3,011,670.00	100.23	3,007,020.00	1.92%	Moodys-Aa2	1231
05253JAD3	3,000,000.00	0.79	3,009,498.15	0.79	3,036.63	-2,478.15	S&P-AA-	0
Branch Banking & Trust BK Note MTN Var. Corp 9		12/17/2014	2,993,190.00	99.66	2,989,740.00	1.9%	S&P-A-	622
10513KAB0	3,000,000.00	0.24	2,993,190.00	0.24	357.51	-3,450.00	Moodys-A2	0
Commonwealth Bank Aust Var. Corp 9/20/2016		5/1/2014	4,469,170.80	100.29	4,452,787.20	2.84%	Moodys-Aa2	629
2027A0GW3	4,440,000.00	0.75	4,461,385.24	0.75	1,010.11	-8,598.04	S&P-AA-	0
Dexia Credit NY Var. Corp 1/21/2016		4/4/2014	5,004,779.60	100.10	5,005,150.00	3.18%	S&P-AA	386
25215BAG8	5,000,000.00	0.51	5,003,324.62	0.51	5,042.48	1,825.38	Moodys-Aa3	0
General Electric CAP Var. Corp 5/11/2016		12/13/2012	4,923,870.00	100.03	5,001,250.00	3.16%	Moodys-A1	497
36962G2V5	5,000,000.00	0.43	4,966,551.72	0.43	3,007.64	34,698.28	Moodys-Aa	0
JPMorgan Chase Var. Corp 2/26/2016		12/17/2013	4,922,834.00	100.20	4,909,702.00	3.13%	Moodys-A3	422
46623EJV2	4,900,000.00	0.85	4,913,023.19	0.85	4,070.03	-3,321.19	S&P-A	0

San Benito County
Portfolio Holdings by Asset Class
Report Group: San Benito County

Date: 12/31/2014

Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
National Australia Bank Var. Corp 7/25/2016 63254AAH1	6,000,000.00	3/31/2014 0.78	6,041,214.00 6,031,092.97	100.40 0.78	6,024,180.00 8,750.37	3.84% -6,912.97	Moodys-Aa2 S&P-AA-	572 0
National Australia Bank Var. Corp 8/7/2015 63254AAD0	3,000,000.00	8/10/2012 1.36	3,020,400.00 3,005,100.00	100.66 1.36	3,019,740.00 6,128.32	1.91% 14,640.00	S&P-AA NR	219 0
Royal Bank of Canada NY Var. Corp 9/9/2016 78010UBZ9	4,000,000.00	4/17/2014 0.69	4,020,600.00 4,015,050.23	100.37 0.69	4,014,720.00 1,692.29	2.56% -330.23	Moodys-Aa3 S&P-AA-	618 0
Wells Fargo Var. Corp 10/28/2015 949746NA5	5,000,000.00	7/27/2012 0.43	4,917,500.00 4,974,652.78	100.01 0.43	5,000,550.00 3,849.78	3.17% 25,897.22	Moodys-A2 S&P-A+	301 0
Westpac Banking Var. Corp 7/17/2015 96122WAC4	1,800,000.00	9/27/2013 1.03	1,822,978.80 1,809,533.76	100.40 1.03	1,807,182.00 3,855.38	1.15% -2,351.76	Moodys-Aaa S&P-AA+	198 0
Sub Total Medium Term Notes	**45,140,000.00**	**0.68**	**45,148,207.20** **45,182,402.66**	**0.68**	**45,232,021.20** **40,800.54**	**28.76%** **49,618.54**		**515** **0**
Passbook Checking Accounts								
Bank of America Cash CASH1283	4,956,426.92	6/30/2013 0.00	4,956,426.92 4,956,426.92	100.00 0.00	4,956,426.92	3.15% 0.00	None None	1 0
Sub Total Passbook Checking Accounts	**4,956,426.92**	**0.00**	**4,956,426.92** **4,956,426.92**	**0.00**	**4,956,426.92**	**3.15%** **0.00**		**1** **0**
TOTAL PORTFOLIO	**157,096,426.92**	**0.48**	**157,108,430.21** **157,134,278.33**	**0.47**	**157,199,561.12** **71,858.46**	**100.00%** **65,282.79**		**279** **0**

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APPENDIX H

SPECIMEN BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ________________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100