

NEW ISSUE—BOOK-ENTRY ONLY

RATING:

Standard & Poor's: **"SP - 1+"**
See **"MISCELLANEOUS — Rating"** herein.

*In the opinion of Quint & Thimmig LLP, San Francisco, California, Note Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Notes are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Note Counsel, such interest is exempt from California personal income taxes. See **"LEGAL MATTERS—Tax Matters"** herein.*

\$7,400,000*
PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
(Sonoma County, California)
2011 Tax and Revenue Anticipation Notes
(Bank Qualified)



Dated: Date of Delivery

Due: June 1, 2012

The Notes are general obligations of the Petaluma City (Elementary) School District, California (the "District"), issued by the Board of Supervisors of Sonoma County in the name of the District. The principal amount of the Notes, together with the interest thereon, will be payable from taxes, income, revenue, cash receipts and other moneys received by the District allocable to fiscal year 2011/12 and which are generally available for the payment of current expenses and other obligations of the District. As security for the payment of principal of and interest on the Notes, the District has pledged to deposit in the Repayment Fund, as defined herein, on or before June 30, 2012, moneys sufficient to pay principal of, and interest on, the Notes at maturity. See **"THE NOTES — Security for and Sources of Payment"** herein.

The Notes are issued in denominations of \$1,000 or integral multiples thereof. All principal of, and all interest on, the Notes will be payable upon maturity. The Notes are to be delivered as fully registered Notes, without coupons and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Notes. Purchases will be made in book-entry form only (as described herein under **"THE NOTES — Book-Entry System"**). The Notes are not subject to redemption prior to maturity.

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



Interest Rate

Yield

CUSIP No. ^(a)

The Notes were sold by competitive sale on September __, 2011 to _____ as Underwriter at a true interest cost of _____%. The Notes will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Quint & Thimmig LLP, San Francisco, California, Note Counsel. It is anticipated that the Notes in book-entry only form will be available for delivery through the facilities of DTC in New York, New York, on or about September 29, 2011

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

Official Statement dated: September __, 2011

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data on the cover hereof is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The District, the Financial Advisor and the Underwriters are not responsible for the selection or correctness of these CUSIP numbers.

***Subject to change.**

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. The information set forth herein has been obtained from sources which are believed to be reliable and is in a form deemed final as of its date by the District for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities by any person, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesperson or other person has been authorized by the Petaluma City (Elementary) School District (the "District") to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The information set forth herein has been obtained from either the books and records of the District or from sources which are believed to be reliable. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE NOTES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON THE EXEMPTION CONTAINED IN SECTION 3(a)(2) OF SUCH ACT, AND HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

SONOMA COUNTY

Board Supervisors

Efren Carrillo
Chairman, Fifth District

Shirlee Zane
Vice-chairman, Third District

Valerie Brown
First District

David Rabbit
Second District

Mike McGuire
Fourth District

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT

Board of Education

Mary Schafer
President

Carolyn Tennyson
Clerk

Michael Baddeley
Member

Troy Sanderson
Member

Sheri Chlebowski
Member

District Administration

Steve Bolman
Interim Superintendent

Midge Hoffman
Chief Business Official

Sonoma County Auditor/Controller/Treasurer/Tax Collector

Donna Dunk

PROFESSIONAL SERVICES

Financial Advisor

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

Note Counsel

Quint & Thimmig LLP
San Francisco, California

Paying Agent

Sonoma County
Office of the Treasurer-Tax Collector
Santa Rosa, California

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	<u>1</u>
The District	<u>1</u>
Authority for Issuance of the Notes	<u>1</u>
Purpose of the Notes	<u>1</u>
Security and Sources of Payment for the Notes	<u>2</u>
Description of the Notes	<u>2</u>
District Investments	<u>2</u>
Tax Matters	<u>3</u>
Bank Qualified	<u>3</u>
Professionals Involved in the Offering	<u>3</u>
Offering and Delivery of the Notes	<u>3</u>
Other Information	<u>3</u>
THE NOTES	<u>4</u>
Authority for Issuance	<u>4</u>
Purpose of the Notes	<u>4</u>
Sources and Uses of Funds	<u>4</u>
Description of the Notes	<u>4</u>
Security for and Sources of Payment	<u>5</u>
Deposit of Note Proceeds	<u>5</u>
Investment of Proceeds Fund and Repayment Fund	<u>6</u>
Note Net Coverage Ratio	<u>6</u>
Other District Funds	<u>6</u>
Book-Entry System	<u>6</u>
Payment to Beneficial Owners	<u>8</u>
CONSTITUTIONAL AND STATUTORY PROVISIONS	<u>9</u>
AFFECTING DISTRICT REVENUES AND APPROPRIATIONS	<u>9</u>
Article XIII A - Limit on Property Tax	<u>9</u>
Article XIII B - Appropriations Limit	<u>10</u>
Propositions 98 and 111 - State Funding for School Districts	<u>11</u>
Propositions 57 and 58 - California Economic Recovery Bond Act and State Budget Requirements	<u>12</u>
Proposition 1A - Limit On ERAF Shifts To School Districts	<u>12</u>
ERAF and SERAF Payments	<u>13</u>
Proposition 22 - Further Limit on State Use and Shifts of Local Government Funds	<u>13</u>
Articles XIII C and XIII D - Right to Vote on Taxes, Assessments, Fees and Charges	<u>14</u>
Future Initiatives	<u>15</u>
AD VALOREM PROPERTY TAXATION	<u>15</u>
County Tax Services	<u>15</u>
Assessed Valuation	<u>15</u>
State-Assessed Utility Property	<u>16</u>
Tax Levies, Collections and Delinquencies	<u>16</u>
Teeter Plan	<u>17</u>
GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION	<u>18</u>
State Funding of School Districts	<u>18</u>
Basic Aid Districts	<u>19</u>
State Budget	<u>19</u>
State Funding of School Construction	<u>21</u>
State Retirement Programs	<u>22</u>
County Office of Education	<u>22</u>
School District Budget Process	<u>23</u>
Temporary Inter-fund Borrowing	<u>24</u>

Accounting Practices	24
County Investment Pool	24
THE DISTRICT	25
Introduction	25
Combined Operations	25
Average Daily Attendance and Revenue Limit	26
Labor Relations	27
Retirement Programs	27
Other Post-Employment Benefits	27
Comparative Financial Statements and Estimated Budget	28
Other Funds of the Districts	30
Audit	30
2011/12 Budget Assumptions	30
Cash Flows	31
Note Net Coverage Ratio	33
District Debt	33
Availability of Documents	35
DISTRICT TAX BASE INFORMATION	36
Assessed Valuation	36
Secured Tax Charges and Delinquencies	37
Tax Rates	37
Largest Taxpayers	38
Statement of Direct and Overlapping Debt	38
ECONOMIC PROFILE	40
Introduction	40
Population	40
Employment	41
Major Employers	42
Construction Activity	43
Commercial Activity	43
LEGAL MATTERS	44
Tax Matters	44
Legality for Investment in California	45
No Litigation	45
Legal Opinion	45
MISCELLANEOUS	45
Ratings	45
Financial Advisor	46
Underwriting	46
Continuing Disclosure	46
Additional Information	47
APPENDIX A — Basic Financial Statements for Year Ended June 30, 2010, with Management’s Discussion and Analysis, Independent Auditor’s Letter for Petaluma City (Elementary) School District 	A-1
APPENDIX B — Form of Legal Opinion	B-1
APPENDIX C — Form of Continuing Disclosure Certificate	C-1
APPENDIX D — Sonoma County Investment Pool	D-1

OFFICIAL STATEMENT

\$7,400,000*

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT

(Sonoma County, California)

2011 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTION

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

This Official Statement, which includes the cover page, appendices hereto and this Introduction, is provided to furnish information in connection with the sale of \$7,400,000* Petaluma City (Elementary) School District (Sonoma County, California) 2011 Tax and Revenue Anticipation Notes (the “Notes”).

The District

Petaluma City (Elementary) School District (the “District”) provides educational services to residents of the City of Petaluma (the “City”), California (the “State”) and surrounding areas in Sonoma County (the “County”). See “**THE DISTRICT**” and “**ECONOMIC PROFILE**” herein

Authority for Issuance of the Notes

The Notes are by statute a general obligation of the District issued pursuant to Article 7.6 (Section 53850 *et. seq.*) of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Government Code”) and pursuant to respective authorizing resolutions adopted by the Board of Trustees of the District (the “Board of Trustees”) and by the Sonoma County Board of Supervisors (the “Board of Supervisors”). See “**THE NOTES — Authority for Issuance**” herein.

Purpose of the Notes

Proceeds of the Notes will be used and expended for any purpose for which the District is authorized to expend funds from the general fund of the District, including, but not limited to, current expenses, capital expenditures, and the discharge of other obligations or indebtedness of the District, including repayment of monies temporarily borrowed for general fund use from other funds of the District. See “**THE NOTES — Purpose of the Notes**” herein.

*Subject to change.

Security and Sources of Payment for the Notes

The principal amount of the Notes, together with interest thereon, will be payable from taxes, income, revenue and other moneys intended as receipts for the general fund of the District allocable to fiscal year 2011/12 which are generally available for the payment of current expenses and other obligations of the District (the “Unrestricted Monies”). As security for the payment of principal of and interest on the Notes, the District has pledged from Unrestricted Revenues certain Pledged Revenues, as defined herein, to be deposited at certain times on or before June 30, 2012 in a special fund created pursuant to the Resolution, as defined herein, to be held on behalf of the District by the County Treasurer, separate and distinct from all other County and District funds and accounts, designated as the “Petaluma City (Elementary) School District (Sonoma County, California) 2011 Tax and Revenue Anticipation Notes Repayment Fund” (the “Repayment Fund”). Any moneys placed in the Repayment Fund will be for the benefit of the registered owners of the Notes, and until the principal of and interest on the Notes is paid or provided for, the Repayment Fund will be used solely for the payment of principal of and interest on the Notes.

In the event of bankruptcy of either the District or the County, the rights of owners of the Notes regarding the deposit of the Pledged Revenues into the Repayment Fund may be subject to the discretion of the bankruptcy court. See **“THE NOTES — Security and Sources of Payment”** herein.

Description of the Notes

The Notes will be issued in denominations of \$1,000 or any integral multiple thereof, in fully registered form and will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Notes. So long as DTC, or Cede & Co., as its nominee, is the registered owner of all the Notes, payments on the Notes will be made directly to DTC, disbursement of such payments to the DTC Participants (defined herein) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined herein) will be the responsibility of the DTC Participants, as more fully described hereinafter. See **“THE NOTES — Book-Entry System”** and **“— Payment to Beneficial Owners”** herein.

All principal of, and all interest on, the Notes is payable only at maturity. Interest on the Notes is payable from the date of delivery thereof, calculated on a 30-day month, 360-day year basis. The Notes are not subject to optional redemption prior to maturity.

District Investments

Proceeds from the sale of the Notes will be deposited in the Treasury of the County, credited to the “Petaluma City (Elementary) School District (Sonoma County, California) 2011 Tax and Revenue Anticipation Notes Proceeds Fund” of the District (the “Proceeds Fund”). The proceeds, as well as deposits to the Repayment Fund, will be invested by the County Treasurer in the County pool or in other investments as directed by the District and as permitted by the laws of the State of California. See **“THE NOTES — Investment of Note Proceeds”** herein.

Substantially all operating funds of the District are invested in the Sonoma County Treasury. Generally, the County Treasurer pools County funds with school district funds and funds of other public agencies and invests the cash. See **“GENERAL SCHOOL DISTRICT INFORMATION — County Investment Pools”**.

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, note counsel (“Note Counsel”), subject, however to certain qualifications described herein, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Note Counsel, such interest is exempt from California personal income taxes. See “**LEGAL MATTERS — Tax Matters**” herein.

Bank Qualified

The Notes are deemed by the District to be “bank qualified” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986. See “**LEGAL MATTERS**” herein.

Professionals Involved in the Offering

KNN Public Finance, a Division of Zions First National Bank, Oakland, California, is the financial advisor to the District with respect to the Notes (“Financial Advisor”). All proceedings in connection with the issuance of the Notes are subject to the approval of Note Counsel. Both the Financial Advisor and Note Counsel will receive compensation from the District contingent upon the sale and delivery of the Notes. The paying agent for the Notes is the Sonoma County Office of the Treasurer- Tax Collector (the “Paying Agent”).

Offering and Delivery of the Notes

The Notes will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Note Counsel. It is anticipated that the Notes in book-entry only form will be available for delivery through DTC in New York, New York, on or about September 29, 2011.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Notes are available from the Business Office, Petaluma City Schools, 200 Douglas Street, Petaluma, California 94952 telephone: (707) 778-4604. The District may impose a charge for copying, mailing and handling. See also “**MISCELLANEOUS — Continuing Disclosure**” herein. The District may impose a charge for copying, mailing and handling. See also “**MISCELLANEOUS — Continuing Disclosure**” herein.

END OF INTRODUCTION

THE NOTES

Authority for Issuance

The Notes are general obligations of the District issued by the Board of Supervisors in the name of the District in conformity with the laws of the State, including the provisions of the Government Code, and pursuant to resolutions adopted by the Board of Trustees on August 16, 2011, and by the Board of Supervisors on August 23, 2011, authorizing the sale and issuance of the Notes (together, the “Resolution”).

Purpose of the Notes

Proceeds of the Notes will be used and expended for any purpose for which the District is authorized to expend funds from the general fund of the District, including, but not limited to, current expenses, capital expenditures and the discharge of other obligations or indebtedness of the District, including repayment of monies temporarily borrowed for general fund use from other funds of the District.

Sources and Uses of Funds

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

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT Estimated Sources and Uses of Funds

Sources of Funds

Principal of Notes
Original Issue Premium
Less Underwriter's Discount
Total Sources

Uses of Funds

Deposit to General Fund:
Allowance for Costs of Issuance
Available for Other General Fund Purposes
Total Uses

Description of the Notes

The Notes in the aggregate principal amount of \$_____,000 will be dated the date of delivery thereof, will mature on June 1, 2012, and will bear interest from the date of delivery thereof at the rate per annum set forth on the cover page hereof, calculated on the basis of a 360-day year of twelve 30-day months. All principal of, and all interest on, the Notes is payable at maturity. The Notes will be issued in book-entry form (see “**THE NOTES — Book-Entry System**” and “**— Payment to Beneficial Owners**” herein) and registered in the name of Cede & Co., as nominee of DTC, in denominations of \$1,000 each or any integral multiple thereof. The Notes are not subject to optional redemption prior to maturity.

Security for and Sources of Payment

The Notes of the District are, by statute, general obligations of the District. As security for the payment of principal of and interest on an issue of Notes, the District has pledged to deposit in the Repayment Fund the first Unrestricted Moneys received (a), in the month ending January 31, 2012, an amount equal to fifty percent (50%) of the principal amount of the Notes, (b), in the month ending April 30, 2012, an amount equal to fifty percent (50%) of the principal amount of the Notes, and (c), in the month ending May 31, 2012, an amount sufficient to pay the interest on the Notes at maturity and to make up any deficiency in the amounts required to be deposited during any prior month (the "Pledged Revenues"). The Pledged Revenues will be in an amount sufficient to pay the principal of and interest on the Notes. The principal of and interest on the Notes constitute a first lien and charge against, and will be paid from, the Pledged Revenues. In dollars, the amounts and times of transfer of the Pledged Revenues to the Repayment Account are as follows:

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT		
Amount of Pledge*		
<u>January 2012</u>	<u>April 2012</u>	<u>May 2012</u>
\$3,700,000.00	\$3,700,000.00	\$99,489.00

To the extent not paid from Pledged Revenues, the Notes will be paid from any other moneys of the District lawfully available therefor. In the event that there are insufficient Unrestricted Moneys received by the District to permit deposit into its Repayment Fund of the full amount of the Pledged Revenues to be deposited in that month on the last business day of such month, then the amount of any deficiency shall be satisfied and made up from any other moneys of the District lawfully available for the repayment of the Notes and the interest thereon. Any moneys placed in the Repayment Fund will be for the benefit of the registered owners of the Notes, and until the principal of and interest on the Notes is paid or provided for, the Repayment Fund will be used solely for the payment of principal of and interest on the Notes.

As further security, the District has covenanted in the Resolution that it will not request the County Treasurer to make temporary transfers of funds during the 2011/12 fiscal year until the full amount of Pledged Revenues has been deposited into the Repayment Fund. The Resolution, however, does not preclude the District from issuing subsequent series of tax and revenue anticipation notes during the 2011/12 fiscal year.

Because the County will be in possession of the taxes and other revenues to be set aside to pay one or more issues of Notes, and such moneys are likely to be invested in its pooled investment fund, should the County go into bankruptcy, a court might hold that the Owners of the Notes do not have a valid lien on the amounts set aside in the Repayment Fund. In that case, unless the Owners could trace the funds, the Owners would be merely unsecured creditors of the County. There can be no assurance that the Owners could successfully so trace the Pledged Revenues and other Unrestricted Moneys, if any, set aside in the Repayment Fund.

Deposit of Note Proceeds

Proceeds from the sale of the Notes will be deposited in the Treasury of the County, credited to the Proceeds Fund, to be used and expended by the District for any purpose for which it is authorized to expend funds from the general fund of the District, including, but not limited to, current expenses, capital expenditures and the discharge of any obligation or indebtedness of the District.

Investment of Proceeds Fund and Repayment Fund

Monies in the Proceeds Fund and Repayment Fund shall be invested by the County in any one or more investments generally permitted to school districts under the laws of the State of California, consistent with the investment policy of the County and the Resolution (the “Permitted Investments”). Permitted Investments shall specifically include: (a) the County Pooled Investment Fund maintained by the County Treasurer; and, (b) at the request of the District, (i) the Local Agency Investment Fund maintained by the Treasurer of the State of California; (ii) other investments permitted under section 53601 of the California Government Code; and (iii) investment agreements with financial institutions with senior unsecured credit ratings at least one of the two highest rating categories (without regard to any refinement or gradation of such rating category by a plus or minus or a numeral) from one or more nationally recognized statistical rating organizations then rating the Notes. In regard to any investments requested by the District specified in clauses (b)(i), (b)(ii) or (b)(iii) above, the County may decline the request of the District upon any reasonable basis, including specifically, any concerns of the County regarding the legality, structure or appropriateness of the investment vehicle generally or the process for the bidding or execution of the investment.

Note Net Coverage Ratio

A “Note Net Coverage Ratio” can be calculated for the District by dividing the July 1, 2012 estimated ending cash balance before payment of principal of and interest on the Notes by the sum of the principal of and interest on the Notes. See **“GENERAL AND FINANCIAL DISTRICT INFORMATION — Note Net Coverage Ratio”** for further detail.

Other District Funds

The District maintains certain segregated and special purpose funds outside its general fund not pledged to the payment of the Notes, which could, if needed and to the extent monies are available therein, be accessed on a temporary basis through action of the Board of Trustees. Such borrowed amounts must be repaid within the fiscal year borrowed, or in the following fiscal year under certain circumstances. See **“GENERAL AND FINANCIAL DISTRICT INFORMATION”** herein for a description of significant other such funds maintained by the District.

Book-Entry System

The information in this section concerning DTC and DTC’s book-entry system has been furnished by DTC for use in disclosure documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC will distribute to Direct Participants, or that Direct Participants or Indirect Participants will distribute to the Beneficial Owners, payments of principal of, interest, and premium, if any, on the Notes paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the District nor the County nor the Paying Agent are responsible or liable for the failure of DTC or any Direct or Indirect Participant to make any payments or give any notice to a Beneficial Owner or any error or delay relating thereto. Accordingly, no representations can be made concerning these matters and neither the Direct nor Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC will act as securities depository for the Notes. The Notes will be executed and delivered 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 certificate will be executed and delivered for the Notes, in the aggregate principal amount, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information set forth on such websites is not incorporated herein by reference thereto.

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

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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.

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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as prepayments, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, the District or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the County or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

Payment to Beneficial Owners

The following provisions governing the payment, transfer and exchange of the Notes apply to holders of the Notes. As long as the DTC book-entry system described above is in effect, Cede & Co., or such other nominee of DTC, but not the Beneficial Owners, are holders of the Notes. Only in the event that Notes are printed and delivered to the Beneficial Owners do these provisions then apply directly to Beneficial Owners as holders of the Notes.

Principal of and interest on the Notes will be payable upon presentation and surrender of the Notes in lawful money of the United States of America at the principal office of the Paying Agent, or such other location as the Paying Agent may specify.

Any Note may be exchanged for a like aggregate principal amount of Notes in other authorized denominations upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Note may be transferred only on the Note registration books upon

presentation and surrender of the Note at the principal office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the designated District official shall execute, and the Paying Agent shall authenticate and deliver a new Note or Notes of any authorized denomination or denominations requested by the registered owner or by a person legally empowered to do so, equal in the aggregate to the unmatured principal amount of the Note surrendered and bearing interest at the same rate and maturing on the same date.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The information in this section concerning certain provisions of Articles XIII A, XIII B, XIII C and XIII D of the State constitution, Propositions 98 and 111 and certain other law is provided as supplementary information only, to outline the principal constitutional and statutory laws under which the operating revenue and finances of K-12 school districts in the State are determined. For specific financial information on the District, see “GENERAL AND FINANCIAL DISTRICT INFORMATION” herein.

Article XIII A - Limit on Property Tax

Article XIII A of the State constitution (the “Constitution”) limits, subject to certain exceptions, the amount of *ad valorem* taxes on real property to 1% of “full cash value” as determined by the county assessor. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. 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 XIII A requires a vote of two-thirds of those voting in an election to impose *ad valorem* taxes, and, except to pay debt service on certain voter approved indebtedness, prohibits the imposition of any additional *ad valorem*, sales or transaction taxes on real property. Article XIII A does permit *ad valorem* taxes to be levied in excess of the basic 1% tax limitation as required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, (b) on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on any bonded indebtedness approved by fifty-five percent of the votes cast by the voters of a school or community college district for the construction, reconstruction, rehabilitation or replacement of, including furnishing and equipping of, or the acquisition or lease of real property for, school facilities, provided that certain accountability and other requirements are satisfied. In addition, Article XIII A 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, while prohibiting the imposition by the State Legislature of any new *ad valorem*, sales or transaction taxes on real property.

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. 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 each county in the State and distributed according to a formula among taxing agencies within that county. The formula apportions the tax roughly in proportion to the relative shares of taxes last levied prior to 1989.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency claims, if any, on tax increment and subject to changes in organization, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

Article XIII B - Appropriations Limit

Article XIII B of the Constitution, approved by voters in 1979 and subsequently amended by Propositions 98 and 111, 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, for transfers in the financial responsibility for providing services and for certain declared emergencies (the “Gann limit”). As amended, Article XIII B 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 of the school district from the preceding fiscal year.

The appropriations of an entity of local government subject to Article XIII B 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. For school districts, Article XIII B constrains appropriations from State and local tax sources, but not federal aid or non-tax income, such as revenues from cafeteria sales or adult education fees.

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

Article XIII B 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 fiscal years. If a school district receives any proceeds of taxes in excess of its appropriations limit, it may increase its appropriations limit to equal that amount by taking the appropriations limit from the State.

Article XIII B also includes a requirement that fifty percent 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 Constitution. See **“Propositions 98 and 111”** below.

Article XIII B does not impact the ability of the County to levy and collect the property tax or pay debt service on District general obligation bonds.

Propositions 98 and 111 - State Funding for School Districts

On November 8, 1988 the voters approved Proposition 98, an initiative constitutional amendment and statute called “The Classroom Instructional Improvement and Accountability Act” (“Proposition 98”). In addition to adding certain provisions to the Education Code, Proposition 98 also amended Article XIII B and Section 8 of Article XVI of the Constitution and added Section 8.5 of Article XVI to the Constitution, the effects of which are to establish a minimum level of State funding for school districts, to allocate to school districts, within limits, State revenues in excess of the State's appropriations limit and to exempt such excess funds from school district appropriations limits.

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

Article XIII B, as amended by both Proposition 98 and Proposition 111, is discussed above under **“Article XIII B.”**

The provisions of Sections 8 and 8.5 of Article XVI, as added to or amended by Propositions 98 and 111, may be summarized as follows:

- (a) *State Funding of Schools (Section 8).* Monies to be applied by the State for the support of school districts must be at a level equal to the greater of the following “tests”:
 - (i) The amount which, as a percentage of the State general fund revenues which may be appropriated pursuant to Article XIII B, equals the percentage of general fund revenues appropriated for school districts in fiscal year 1986/87;
 - (ii) The amount actually appropriated to school districts in the prior fiscal year from general fund proceeds and from allocated local proceeds of taxes (excluding any excess state revenues allocated pursuant to Section 8.5), adjusted for changes in enrollment and for the change in the cost of living (operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita general fund revenues plus one-half of one percent);
 - (iii) The amount actually appropriated to school districts in the prior fiscal year from general fund proceeds and from allocated local proceeds of taxes (excluding any excess State revenues allocated pursuant to Section 8.5) adjusted for changes in enrollment and for the change in per capita general fund revenues, and, in addition, an amount equal to one-half of one percent times the prior year appropriations (excluding any excess State revenues) adjusted for changes in enrollment (operative only in a fiscal year in which the percentage growth in California per capita personal income is greater than the percentage growth in per capita general fund revenues plus one-half of one percent).

If the third test is used in any year the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when the general fund revenue growth exceeds personal income growth.

The State legislature by a two-thirds vote of both houses, with the Governor's concurrence, may suspend for one year the minimum funding provisions for school districts as provided for in Section 8.

- (b) *Allocations to the State School Fund (Section 8.5).* In addition to the amounts applied to school districts under the tests discussed above, the State Controller is directed to allocate available excess State revenues (pursuant to Article XIII B) to the State School Fund. However, no such allocation is required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditures per student of the 10 states with the highest annual expenditures per student and the average class size equals or is less than the average class size of the 10 states with the lowest class size.

Such allocations do not constitute appropriations subject to Article XIII B limitations and are to be made in an equal amount per enrollment.

Propositions 57 and 58 - California Economic Recovery Bond Act and State Budget Requirements

On March 2, 2004, State voters passed Proposition 57, the *California Economic Recovery Bond Act*, authorizing the issuance by the State of up to \$15 billion of Economic Recovery Bonds to finance the State's negative general fund balance as of June 30, 2004 and other general fund obligations undertaken prior to June 30, 2004. The State has issued the full \$15 billion Economic Recovery Bonds under this authorization. In the same election State voters passed Proposition 58, the Balanced Budget Amendment, requiring the State to adopt and maintain a balanced budget, establish a reserve and restrict future long-term deficit-related borrowing.

Proposition 1A - Limit On ERAF Shifts To School Districts

Since fiscal year 1992/93 the State has satisfied a portion of its Proposition 98 obligations for revenue limit funding of school districts by shifting part of the 1% local *ad valorem* property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through an Educational Revenue Augmentation Fund (ERAF) established in each county. At the November 2004 election, State voters approved Proposition 1A, limiting the amount and frequency of such ERAF shifts of property tax revenue from other taxing agencies to school districts.

Under Proposition 1A, beginning in fiscal year 2008/09, the State may divert no more than eight percent of local property tax revenues for State purposes (including, but not limited to, funding K-12 education) only if: (a) the Governor declares such action to be necessary due to a State fiscal emergency; (b) two-thirds of both houses of the Legislature approve the action; (c) the amount diverted is required by statute to be repaid within three years; (d) the State does not owe to local agencies any repayment for past property tax or Vehicle License Fee diversions; and (e) such property tax diversions do not occur in more than two of any ten consecutive fiscal years. Because ERAF shifts are capped and limited in frequency, the State has to rely more heavily on State general fund moneys for Proposition 98 funding of school districts.

ERAF and SERAF Payments

As a part of its Revised 2009/10 Budget legislation, the State enacted ABX4 - 26, which shifted \$1.7 billion in 2009/10 and \$350 million in 2010/11 out of city and county redevelopment agencies into "Supplemental Education Revenue Augmentation Funds" ("SERAF") in each county for payment only to school districts and county offices of education wholly or partially within redevelopment agency project areas and used only to serve students living within project areas or in housing supported by redevelopment funds. SERAF are deemed by the State to be property tax revenue of the receiving school district or county office of education that reduces dollar for dollar the State's requirement to fund the school district or county office

of education revenue limit entitlement under Proposition 98; it alters only the mix of property tax revenue and State appropriations, not the total amount of revenue limit funding received by a school district.

The *California Redevelopment Association*, an association of California redevelopment agencies, and others, filed a law suit to overturn ABX4 - 26 as a violation of the State constitutional requirement that redevelopment agency tax increment be used for redevelopment purposes. On May 4, 2010, the Sacramento Superior Court found in favor of the State and other defendants, upholding ABX4 - 26. The State had enacted a somewhat similar taking of redevelopment agency tax increment for ERAF, without requiring any relationship with a redevelopment project area for receipt of funds, in the 2008/09 State budget that was overturned by the same Sacramento Superior Court on April 30, 2009. The central argument in that decision was that taking redevelopment agency tax increment to balance the State budget was not a redevelopment purpose under State redevelopment law. The State dropped its appeal of that decision on September 28, 2009, making that decision final. In response, the State enacted ABX4 - 26. In the May 4, 2010 decision, among other things, the Superior Court found that the ABX4 - 26 restriction on SERAF disbursements to only school districts and county offices of education located wholly or partially within a redevelopment project area and used only to serve students living within a project area or in housing supported by redevelopment funds means SERAF disbursements are for redevelopment purposes, regardless of whatever other purposes may be met; the fact that the State enacted this legislation in order to help balance the State budget was found to be immaterial to the constitutionality of ABX4 - 26. The *California Redevelopment Association* is appealing this decision. Whether this appeal will be successful is unknown. Going forward, the constitutional provisions enacted by Proposition 22 (see below), purport to prohibit ERAF, SERAF or other takings from redevelopment and other local agencies by the State.

ERAF and SERAF payments by redevelopment agencies were and are subordinate to pledges of tax increment revenue for payment of their tax allocation bonds, though penalties were imposed on redevelopment agencies and, under certain circumstances, on their related city or county for non-payment.

Proposition 22 - Further Limit on State Use and Shifts of Local Government Funds

Proposition 22, *The Local Taxpayer, Public Safety, and Transportation Protection Act*, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (a) to use State fuel tax revenues to pay debt service on state transportation bonds; (b) to borrow or change the distribution of state fuel tax revenues; (c) to direct redevelopment agency property taxes to any other local government; (d) to temporarily shift property taxes from cities, counties, and special districts to schools; (e) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the State Legislative Analyst's Office ("LAO"; the LAO is a fiscal and policy advisory organization overseen by the Joint Legislative Budget Committee of the State legislature, funded by the State legislature) 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 will be approximately \$1 billion in fiscal year 2010/11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

Articles XIIIIC and XIIID - Right to Vote on Taxes, Assessments, Fees and Charges

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

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

Voter approved special taxes (including those levied pursuant to the Mello-Roos Community Facilities Act), “parcel taxes” and assessments levied pursuant to the Landscape and Lighting District Act of 1972 (among other assessments), that are not pledged to the payment of bonds, may be subject to reduction or repeal by voter initiative under the provisions of Article XIIIIC.

Article XI IID deals with assessments and property-related fees and charges. Article XI IID explicitly provides that nothing in Article XIIIIC or XI IID shall be construed to affect laws existing prior to enactment of Articles XIIIIC and XI IID relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by a school district. By its terms, Article XI IID does not apply to *ad valorem* property tax of the type levied to pay debt service on the District’s general obligation bonds.

The interpretation and application of Article XIIIIC and Article XI IID will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Future Initiatives

Articles XIII A, XIII B, XIIIIC and XI IID and Propositions 98, 111 and 1A 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 school districts’ revenues or ability to expend revenues.

AD VALOREM PROPERTY TAXATION

*The information in this section describes how ad valorem property taxes in general are assessed and levied. For specific information on the property tax base, tax levies and collections in the District, see “**DISTRICT TAX BASE INFORMATION**” herein.*

County Tax Services

School districts and other public agencies with property tax levies in the State all use the services of their county for the assessment of property values (except for certain utility and other classes of property that are assessed by the State Board of Equalization; see “**-State-Assessed Utility Property**” herein) and collection of property taxes and property assessments. All property taxes and assessments on property due all taxing agencies in each county generally are included on the same unified tax bill issued by the county to property owners for payment in two installments each year, based on the same county administered tax rolls, whether general purpose property tax or specific *ad valorem* property tax for payment of general obligation bonds. In addition, for school district general obligation bonds, the county, not the school district, determines and levies each year’s tax in an amount necessary to provide for payment of the school district’s general obligation bond debt service. Property taxes collected are apportioned by each county according to purpose and taxing agency as prescribed by State law to that county and all school districts, special districts, cities and other agencies within that county with property tax levies. The amounts apportioned specifically for payment of school district general obligation bonds are retained by the county, and used to make the debt service payments on those bonds on behalf of the school district.

Assessed Valuation

All non-exempt property is assessed using full cash value as defined by Article XIII A of the California Constitution (the “Constitution”). State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, provided that the owner files and qualifies for such exemption. The State is required to reimburse local agencies for the value of taxes on the exempt \$7,000. State law also provides exemptions from *ad valorem* property taxation for certain classes of property based on ownership or use, such as household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories and real property used for religious, non-profit hospital, scientific and charitable purposes; the State does not reimburse local agencies for any tax not levied due to these exemptions. State and federal government property also is not taxed, nor is local government property located within the jurisdiction of that local government.

For assessment and collection purposes, property is classified as either “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 other property having a tax lien on real property which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all other taxable property. Unsecured property is assessed on the “unsecured roll.” Pursuant to State law, every tax levied by a county that becomes a lien on secured property has priority over all present and future private liens arising on the secured property, regardless of the time of the creation of the other liens. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on other property owned by the taxpayer. Valuation of secured property and a statutory tax lien is established as of January 1 prior to the tax year (the tax year is from July 1 through June 30) of the related tax levy, and the secured and unsecured tax rolls are certified on or before July 1 of the tax year by the County Assessor. New property and improvements are assessed and added to a “supplemental” roll during the year acquired or when improvements are completed, and such property is taxed at the secured or unsecured rate then in effect, as appropriate, for

the remaining portion of that year. The next year and thereafter such assets are assessed on the regular tax rolls.

Future growth in assessed valuation allowed under Article XIII A is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of “base” revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

See “**DISTRICT TAX BASE INFORMATION**” herein for a history of assessed valuation and a list of the largest secured tax payers for the current tax year within the District.

State-Assessed Utility Property

The Constitution provides that the State Board of Equalization (the “SBE”) rather than counties assess certain property owned or used by regulated utilities. Such property is grouped and assessed by the SBE as “going concern” operating units, which may cross local tax jurisdiction boundaries, rather than as individual parcels of real or personal property separately assessed. Such utility property is known as “unitary property.” The SBE assesses property at “fair market value,” determined by various methods and formulae depending on the nature of the property, except that certain railroad property is assessed at a specified percentage of the fair market value determined by the SBE, in conformity with federal law. The SBE assesses values as of January 1 prior to the tax year of the related tax levy. Property tax on SBE-assessed property is then levied and collected by each county in the same manner as county assessed property, but at special county-wide tax rates, and distributed to each taxing agency within that county, subject to certain adjustments, according to the approximate percentage allocated to each taxing agency in the prior year.

Ongoing changes in the California electric utility industry structure and in the way in which components of that industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may cause property that had been assessed by the SBE to be assessed locally instead. A change in property status from assessment by the SBE to assessment locally or the reverse may result in a change in property tax revenue received by local agencies and an adjustment in *ad valorem* tax rates and debt capacity for any local agency general obligation bonds.

Tax Levies, Collections and Delinquencies

Secured property tax rates are set annually by the first business day of September for the levy of property taxes in that tax year. The levy is payable in two equal installments due November 1 and February 1, and payments become delinquent if not postmarked or paid by end of the business day on December 10 and April 10, respectively. Taxes on unsecured property (personal property and leasehold interests) are levied at the preceding fiscal year's secured tax rate and have a due date set by each county effectively no earlier than July 1 and no later than July 31 of each year. Taxes on unsecured property become delinquent if not postmarked or paid by end of business day on August 31, or if added to the unsecured roll after July 31, become delinquent at the end of the month succeeding the month of enrollment.

A 10% penalty attaches to any delinquent payment for secured roll taxes, plus a charge of \$10 if unpaid after April 10. In addition, property on the secured roll for which taxes are delinquent becomes tax-defaulted if not paid by June 30 of the same fiscal year. Such property may thereafter be redeemed by payment of (a) the delinquent taxes, (b) the 10% penalty, (c) the \$10 charge, (d) an additional penalty of 1.5% per month (18% annualized rate) from July 1 to the time of redemption and (e) a redemption fee of \$15 per parcel, \$5 of which goes to the State (collectively, the “Redemption Amount”). Properties may be redeemed under an installment plan of paying the Redemption Amount in five equal installments over a period of four

years. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax defaulted. If taxes are unpaid five years after the property becomes tax defaulted or, if an installment plan is in place, then at the end of the installment plan, the County can initiate a “power to sell” procedure for the County Tax Collector to sell the property at auction. Alternatively, in certain instances the County may institute a superior court action to foreclose the lien on the property; if the lawsuit is successful, the property may be sold at a judicial foreclosure sale.

A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and after the last day of the second month after the 10% penalty attaches, an additional penalty of 1.5% per month begins to accrue and a lien is recorded against the assessee. The taxing authority may collect delinquent unsecured personal property taxes by: (a) a civil action against the taxpayer; (b) filing a certificate of delinquency in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; and (c) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Supplemental roll taxes are due on the date the bill is mailed. If the tax bill is mailed within the months of July through October, the first installment shall become delinquent at 5 p.m., or the end of the business day, whichever is later, on December 10 of the same year and the second installment shall become delinquent at 5 p.m., or the end of the business day, whichever is later, on April 10 of the next year; if the bill is mailed within the months of November through June, the first installment shall become delinquent at 5 p.m., or the end of the business day, whichever is later, on the last day of the month following the month in which the bill is mailed and the second installment shall become delinquent at 5 p.m., or the end of the business day, whichever is later, on the last day of the fourth calendar month following the date the first installment is delinquent. A 10% penalty attaches to any delinquent payment for supplemental roll taxes.

All tax due dates and delinquency dates become the next business day if they fall on a day that is not a business day.

Teeter Plan

Under the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code, each participating local agency levying secured property taxes, including school districts, receives from its county the amount of tax defaulted, uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains for its own use the delinquent payments, penalties and interest as collected, that would have been due the local agency. The Teeter Plan, once adopted by a county, remains in effect unless the county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year, the board of supervisors receives a petition for its discontinuance from two-thirds of the participating local taxing agencies in the county. A board of supervisors may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in the county when delinquencies for taxes levied by that agency exceed 3%.

The Teeter Plan applies to the 1% general purpose property tax levy. Whether or not the Teeter Plan also is applied to other tax levies for local agencies, such as the tax levy for general obligation bonds of a local agency, varies by county. The County does apply the Teeter Plan to secured tax levy collections for bonds. See **“DISTRICT TAX BASE INFORMATION — Secured Tax Charges and Delinquencies”** herein for a history of property tax collections and delinquencies in the District.

GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

The information in this section concerning funding procedures of K-12 school districts in the State is provided as supplementary information only. For specific financial information on the District, see “DISTRICT INFORMATION” herein.

State Funding of School Districts

Annual State apportionments of basic and equalization aid to K-12 school districts for general purposes are made according to a revenue limit per unit of average daily attendance (“A.D.A.”). If a district’s total revenue limit exceeds its property tax revenue, its annual State apportionments, subject to certain adjustments, amount to the difference between the revenue limit and a district’s actual property tax receipts (after any redevelopment agency tax increment or other deductions or “shifts” that may be in effect under State law). A.D.A. is determined by school districts twice a year, in December (“First Period A.D.A.”) and April (“Second Period A.D.A.”).

The calculation of the amount of State apportionment a school district is entitled to receive each year is summarized as follows: first, the prior year Statewide revenue limit per A.D.A. is recalculated with certain adjustments for equalization and other factors; second, this adjusted prior year Statewide revenue limit per A.D.A. is inflated according to formulas based on the implicit price deflator for government goods and services and the Statewide average revenue limit per A.D.A. for each type of A.D.A., yielding the school district’s current year “component” revenue limits per A.D.A.; third, the current year component revenue limits per A.D.A. are applied to the school district’s A.D.A. for either the current or prior year, as the district elects; fourth, revenue limit adjustments known as “add-ons” are calculated for each school district if the school district qualifies for such add-ons (for example, add-ons to adjust for small school district size and providing meals for needy pupils, among others); and fifth, local property tax revenues are deducted from the total revenue limit calculated for each district to arrive at the amount of State apportionment each school district is entitled to for the current year.

The State revenue limit is calculated three times a year for each school district on the basis of projections submitted by the district on or about December 10, based on First Period A.D.A., and April 15 and June 30, both based on Second Period A.D.A. A.D.A. calculations are based on actual attendance and do not include excused absences. Revenue limit calculations are made by each school district, reviewed by the County Office of Education and submitted to the State Department of Education. The State Department of Education reviews the calculations for accuracy, determines the amount of State apportionment owed to each school district and notifies the State Controller to distribute the apportionments. The first calculation is performed for the First Principal Apportionment in February, the second calculation for the Second Principal Apportionment in June, and the final calculation for the end of the fiscal year Annual Principal Apportionment, in essence a correction that is made in October of the next fiscal year.

See “DISTRICT INFORMATION” herein for the District’s specific annual revenue limit per A.D.A.

Basic Aid Districts

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

State Budget

The State budget approval process begins with the release to the State legislature by January 10th of the Governor's proposed budget for the following fiscal year. State fiscal years begin July 1st. In May, the Governor submits a revision of the proposed budget that reflects updated estimates of revenues and expenditures. After a series of public hearings and other steps in the legislative process, the budget must be approved by two-thirds vote in each house of the State legislature and submitted to the Governor. The Governor may reduce or eliminate any appropriation by line-item veto. Although the budget is required by the Constitution to be approved no later than June 15th, it often has not been approved until later.

While the Constitution in large part dictates the formulae for determining the allocation of State revenues to the K-12 education portion of the State budget pursuant to Propositions 98 and 111 and other provisions (see **“CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUE AND APPROPRIATIONS”** herein), in the State budget process the Governor and State legislature still have, and exercise, significant leeway in deciding whether and by how much to exceed or reduce such allocation in the actual funding of K-12 school districts, and to decide what funds will be general purpose or restricted purpose.

2010/11 Budget

On January 8, 2010 the Governor published his proposed budget for 2010/11, on May 14, 2010 released his *May Revision 2010-11* and on October 8, 2010 signed the *2010 Budget Act* (the “2010/11 Budget”). Without the corrective action of the 2010/11 Budget, the State general fund would have been short an estimated \$19.274 billion. The 2010/11 Budget addressed this with proposed expenditure reductions of \$8.388 billion, requested federal funding of \$5.403 billion, and anticipated other revenues of \$5.483 billion. Proposition 98 education funding is largely unchanged by the 2010/11 Budget from the original January 2010/11 budget proposal, with non-education areas of government taking the new cuts and schools having increased “deferrals” in the State’s payments of their revenue limit apportionments.

For the State’s general fund, the 2010/11 Budget reported for 2009/10 prior year resources available of (\$5.375) billion and projects revenues and transfers-in of \$86.920 billion, for a total of \$81.545 billion in total resources available; and for 2010/11 projects prior year resources available of (\$4.804) billion and revenues and transfers-in of \$94.230 billion, for a total of \$89.426 billion in total resources available. General fund expenditures are projected to be \$86.349 billion for 2009/10 and \$86.552 billion for 2010/11, with general fund ending balances of (\$4.804) billion and \$2.874 billion, respectively. The positive ending balance outcome of the 2010/11 Budget is predicated on the Legislature’s timely adoption of the Governor’s fiscal proposals and successful requests for \$5.403 billion from federal sources that the Governor’s office believes should be due the State; it is not known to what extent this expectation will be met.

For K-14 education, the 2010/11 Budget reports Proposition 98 funding for 2008/09 at \$49.1 billion, projects \$49.9 billion for 2009/10 and projects \$48.4 billion for 2010/11, with the State general fund portion of this funding at \$34.1 billion for 2008/09, \$35.8 billion for 2009/10 and \$35.0 billion for 2010/11. The difference from total Proposition 98 funding is funded from local property tax revenue projected for each school district and, to a minor extent, from certain other sources. Individual school district parcel tax revenue, if any, is in addition to revenue limit income. For 2009/10, the estimated State-wide average revenue limits per A.D.A., with a deficit factor of 18.355% and one-time further deduction of \$252.99, are \$5,763.43 for elementary, \$5,763.59 for high and \$4,981.27 for unified school districts. For 2010/11, the estimated State-wide average revenue limits per A.D.A., with a deficit factor of 18.355% and a further deduction equal to 3.85% of the “undeficit” revenue limit is \$4,751.72 for elementary, \$5,710.15 for high and \$4,967.99 for unified school districts.

2011/12 Budget

On January 10, 2011, the Governor published his proposed budget for 2011/12, on May 10, 2011 released his *2011-12 Governor's Budget May Revision* (the "May Revision") and on June 29, 2011 signed into law the *Budget Act of 2011*; together, the "2011/12 Budget". The 2011/12 Budget addresses an otherwise projected \$26.6 billion budget gap by the end of 2011/12 with a program of \$15.0 billion in expenditure reductions, projected revenue increases from an improved economy of \$8.3 billion and tax and other revenue producing measures of \$3.8 billion, raising \$27.2 billion and leaving the State with a reserve of \$543 million. As of December 15, 2011, should the State Director of Finance determine that projected revenue will fall short of 2011/12 Budget estimates by more than \$1 billion, an additional \$601 million in "Tier 1" cuts will go into effect beginning January 1, 2012; if such shortfall is more than \$2 billion, up to an additional \$1.860 billion in "Tier 2" cuts will go into effect as of February 1, 2012. The Tier 1 cuts do not affect K-12 schools. The Tier 2 cuts will be entirely Proposition 98 funding cuts for schools, up to \$1,540 billion of which will be accomplished by reducing the school year by up to seven days. School districts, however, will have to continue to pay personnel costs for those seven days unless their labor agreements allow, or can be negotiated to allow, to pay correspondingly less, neither of which generally is likely to be the case. The *Budget Act of 2011* prohibits school districts from "budgeting" for 2011/12 on the basis of assuming Tier 2 cuts (though apparently may budget less for "other reasons" than a Tier 2 cut in State apportionment per A.D.A.).

Included as a trailer bill to the *Budget Act of 2011* is an act ("ABX1 26") disestablishing redevelopment agencies as of October 1, 2011, so that what is now redevelopment agency tax revenue not required for continuing pass-through agreement payments, tax allocation bond payments and other "enforceable obligation" payments, will flow through to local taxing agencies, including school districts, as normal property tax revenue. Another trailer bill ("ABX1 27") grants the alternative to cities and counties to reinstate their redevelopment agencies and their tax increment revenue as under redevelopment law prior to ABX1 26, provided that the city or county that formed the redevelopment agency agrees to make sizable payments every year that will be deposited into ERAF (ERAF money in turn received by school districts reduces Proposition 98 revenue limit funding of such schools from the State general fund dollar for dollar), or flow through to local taxing agencies, including school districts, as normal property tax revenue. In either situation, 43.3 percent of such previous tax increment revenue that flows through as property tax revenue received by K-12 schools will reduce Proposition 98 revenue limit funding from the State general fund dollar for dollar, and 56.7 percent will accrue to school districts without reducing Proposition 98 revenue limit funding. The 2011/12 Budget assumes that the State will gain an aggregate reduction in State general fund funding requirements of \$1.7 billion in 2011/12 and at least \$400 million annually thereafter from these redevelopment agency bills. The *California Redevelopment Association* and *League of California Cities* have filed suit with the State Supreme Court to overturn both of these bills as unconstitutional taking and diverting of redevelopment agency tax increment revenue, contrary to State constitutional provisions adopted through Proposition 22. The State Supreme Court has agreed to hear the suit and rule by January 15, 2012, and has stayed the State from collecting the \$1.7 billion assumed in the 2011/12 Budget until it has ruled. See **"CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS - Proposition 22 - Further Limit on State Use and Shifts of Local Government Funds"** herein.

For the State's general fund, the 2011/12 Budget reported for 2010/11 prior year resources available of (\$4,507) billion and projects revenues and transfers-in of \$94.781 billion, for a total of \$90.274 billion in total resources available; and for 2011/12 projects prior year resources available of (\$1.206) billion and revenues and transfers-in of \$88.456 billion, for a total of \$87.250 billion in total resources available. General fund expenditures are projected to be \$91.480 billion for 2010/11 and \$85.937 billion for 2011/12, with general fund ending balances of (\$1,206) billion and \$1.313 billion, respectively.

In his *July 2010 Summary Analysis*, the State Controller reported that the State's general fund negative cash balance, which was at (\$11.908 billion) at the beginning of 2009/10, had lessened to (\$9.922 billion) as of June 30, 2010. In his *August 2011 Summary Analysis*, the State Controller reported that the State's general fund negative cash balance as of July 31, 2011 stood at (\$11.088 billion), \$344 million below the 2011/12 Budget estimate for July 31, 2011.

For K-14 education, the 2011/12 Budget reports Proposition 98 funding for 2009/10 at \$49.9 billion, for 2010/11 at \$49.8 billion and for 2011/12 projects \$48.7 billion, with the State general fund portion of this funding at \$35.3 billion for 2009/10, \$35.3 billion for 2010/11 and \$32.9 billion for 2011/12. The difference from total Proposition 98 funding is funded from local property tax revenue projected for each school district and, to a minor extent, from certain other sources. Individual school district parcel tax revenue, if any, is in addition to revenue limit income. For 2010/11, the estimated State-wide average revenue limits per A.D.A., with a deficit factor of 17.963% are \$5,012.46 for elementary, \$6,021.52 for high and \$5,243.81 for unified school districts. For 2011/12, the estimated State-wide average revenue limits per A.D.A., with a deficit factor of 19.754% is \$5,012.97 for elementary, \$6,021.66 for high and \$5,244.08 for unified school districts. The 2011/12 Budget indicates that if voters do not approve the Governor's proposed tax continuation measure, an additional aggregate of \$2 billion in K-12 expenditures will need to be cut in 2011/12.

State Apportionment Deferrals:

Deferrals in payment of State revenue limit apportionments for K-12 schools of one to five months were in effect for the majority of the months of 2010/11 and are scheduled for throughout 2011/12. Depending on actual cash flow conditions at the time, the State Controller, Treasurer and Director of Finance may either accelerate or delay the deferrals up to 30 days, or reduce the amounts deferred. Certain school districts that can demonstrate hardship will not be subject to these deferrals. Payment deferrals or otherwise receiving payments from the State later than originally expected is not new to school districts.

State Funding of School Construction

The State makes funding for school facility construction and modernization available to K-12 districts throughout the State through the Office of Public School Construction ("OPSC") and the State Allocation Board ("SAB"), from proceeds of State general obligation bonds authorized and issued for this purpose (the "State Facility Program"). Such bonds were authorized in the amount of \$13.05 billion, \$11.40 billion of which were for K-12 school facilities and \$1.65 billion of which were for higher education facilities, on November 5, 2002 under Proposition 47, passed by 58.9% of the State-wide vote. An additional bond measure for education capital projects was approved on March 2, 2004 under Proposition 55, passed by 50.6% of the State-wide vote, in an authorization amount of \$12.3 billion, \$10.0 billion of which is for K-12 school facilities and \$2.3 billion of which is for higher education facilities. A State general obligation bond measure that includes \$7.329 billion for construction, modernization and related purposes for K-12 school districts was approved by a majority of voters in the November 7, 2006 State-wide election.

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

State Retirement Programs

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

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

County Office of Education

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

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

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

School District Budget Process

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

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may

be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed. Under either procedure, the school board must revise its adopted budget within 45 days after the Governor signs the State budget act to reflect any changes in budgeted revenues or expenditures made necessary by the adoption of the State's budget.

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

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

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

Temporary Inter-fund Borrowing

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

Accounting Practices

The accounting policies of California school districts conform to generally accepted accounting principles, as modified in accordance with policies and procedures of the California School Accounting Manual. This manual, pursuant to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. See also “**Notes to Financial Statements - Note 1**” in “**APPENDIX A**” herein for further discussion of applicable accounting policies.

County Investment Pool

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

Each county treasurer is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 *et seq.* In addition, each county treasurer is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. A copy of the County investment policy and periodic reports on the County investment pool are available from the County Treasurer-Tax Collector, Sonoma County, 585 Fiscal Drive, Suite 100F, Santa Rosa, CA 95403-2871, telephone (707) 527-3230, or viewed directly on the County Treasurer-Tax Collector’s website at www.sonoma-county.org/tax. It is not intended that such information be incorporated into this Official Statement by such references. Certain information concerning the County’s pooled investment portfolio as of March 31, 2009 is included herein in “**APPENDIX D - SUMMARY OF SONOMA COUNTY INVESTMENT PORTFOLIO.**”

THE DISTRICT

Introduction

The District includes approximately 35 square miles in Sonoma County and it is one of four elementary school districts providing educational services to the residents of the west side of the City. The District operates 7 elementary schools (grades K-6). The estimated population living within the District is approximately 30,700.

The 2011/12 pupil-teacher ratios are projected to be as follows:

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT	
Pupil - Teacher Ratios	
<u>Grade</u>	<u>Ratio</u>
K - 3	22 to 1
4 through 6	28 to 1

Source: The District.

The District is governed by a Board of Education consisting of five members. Members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent. Steve Bolman became Interim Superintendent of the District on June 20, 2011.

Combined Operations

Under the provisions enacted by Assembly Bill 1475 in 1982, Article 1.5 of Chapter 2 of Part 21 of Division 3 of Title 2 of the California Education Code provides that separate school districts with a common board of education, common administration and employees represented by common bargaining units may conduct operations and financial reporting on a combined basis. The District and the Petaluma Joint Union High School District (the "High School District"; together, the "Districts") meet these requirements and conduct operations and financial reporting to the State and in their annual audited financial statements on a combined basis.

Each district remains a legally separate school district and issues its own separate bonds and notes, enters into its own leases (though the Districts may, and have on occasion, enter into joint lease financings), receives its own property tax revenue from its own tax base and receives its own revenue limit and other funding from the State, but otherwise generally conducts education operations and financial reporting on a combined basis, functionally essentially equivalent to a unified school district.

The Districts' internal accounting procedure is to record separately, by district, any revenue designated as to district by the source of that revenue and direct expenses internally identified as to location, and to record as common any revenue and expenses not so designated or identified. Cash is commingled in common bank accounts and investments. At year end, fund balances are subject to transfer between the Districts; a fund balance in either of the Districts is used as necessary to balance the corresponding fund in the other by action of the Districts' Board of Education.

The High School District provides educational services to the residents of the City, the surrounding area of the County and a small portion of Marin County, encompassing an area of approximately 275 square miles with an estimated population of approximately 62,000. The High School District has two middle schools (grades 7 - 8), two high schools (grades 9 - 12), one continuation high school, two Necessary Small Continuation High Schools (one at each high school), one Community Day School (30 students grades 7-9) and one adult school. The District is one of six feeder elementary school districts to the High School District. To the public, the Districts generally operate under the common name of "Petaluma City Schools".

Average Daily Attendance and Revenue Limit

The following table reflects the District's historical average daily attendance ("A.D.A.") for the last four years and a projection for 2011/12.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT	
Average Daily Attendance Second Period Report	
<u>Academic Year</u>	<u>Average Daily Attendance</u>
2006/07	1,924
2007/08	1,979
2008/09	2,002
2009/10	2,006
2010/11	2,090
2011/12	2,148 ^(a)

^(a) Estimated.

Source: The District

The District is not a Basic Aid District. The Districts' annual revenue limit per A.D.A. after application of 17.963% deficit factor was \$4,979.84 for 2010/11, and is projected to be \$4,979.84 after application of 19.754% deficit factor per A.D.A. for 2011/12. See **"GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION — State Funding of Education"** herein for an explanation of revenue limit funding.

Labor Relations

The District employs 120 full-time equivalent certificated and 80 full-time equivalent classified employees, who are represented by two formal bargaining organizations. Management and confidential employees are not represented by any formal labor organization, and serve both Districts.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT Formal Bargaining Organizations

<u>Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Petaluma Federation of Teachers	150	June 30, 2012
California School Employees Association	102	June 30, 2013

Source: The District.

Retirement Programs

The District contribution to STRS for fiscal year 2010/11 was \$693,791 and in fiscal year 2011/12 is estimated to be \$685,755. The District contribution to PERS for fiscal year 2010/11 was \$317,669 and in fiscal year 2011/12 is estimated to be \$317,220. See **“GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION — Retirement Programs”** herein for further information on STRS and PERS.

Other Post-Employment Benefits

The employee benefits of the Districts do not include any post-employment health care benefits. However, from time to time the Districts have provided post-employment health care benefits as an inducement to taking early retirement, generally at times when the Districts need to reduce staffing levels. Currently there are approximately 100 retirees who have a post-employment health benefit that in each case is capped at a fixed dollar amount per month and ends ten years after retirement or age 65, whichever occurs first. Because there are no post-employment health benefits for current employees, and the benefits for those retirees that have them are known and calculable amounts, no actuarial study is required by the Districts' auditors. The Districts currently designate sufficient amounts in their general fund ending balance to fund all future post-employment benefits. Retiree health care benefit expense for 2010/11 was \$153,868. As of June 30, 2010, the Districts' future retiree health care benefit expense is as follows:

**PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Combined Districts Post-Employment Health Care Benefits Expense**

<u>Year Ending June 30,</u>	<u>Expense</u>
2011	\$153,868
2012	109,428
2013	71,822
2014	39,160
2015-2017	<u>95,958</u>
Total	<u>\$470,236</u>

Comparative Financial Statements and Estimated Budget

The following table reflects the District's general fund revenues, expenditures and fund balances from fiscal year 2007/08 through fiscal year 2011/12 without the High School District. Under GASB 34, line item data presented in audited financial statements no longer is comparable with line item data presented in the operating and accounting systems used by California school districts as directed by the State Department of Education, including the annual *Unaudited Actuals* financial reports, interim reports and budgets prepared by the District and reported to the County Office, or with audited financial statements prior to 2003/04. For comparability on the same basis in the following table, all data is organized as in, and is based upon, the Districts' *Unaudited Actuals* financial reports to the County Office for the years 2007/08 through 2009/10, respectively. The 2010/11 and 2011/12 projected numbers are organized in the same manner and are based upon the Districts' *2011/12 Adopted Budget* and subsequent District staff projections. Year-end general fund balance is comprised of reserved and unreserved funds, including the amount required by the State for a "reserve for economic uncertainty". See "**APPENDIX A**" for the Districts' basic financial statements, management's discussion and analysis, independent auditor's letter and certain supplementary information for the year ended June 30, 2010, prepared according to GASB 34, and for further detail on the composition of the June 30, 2010 ending balance.

The District's *Interim Reports* for 2010/11 are certified "positive" and its *2011-2012 Adopted Budget* was approved without exception by the County Office.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
General Fund
Revenues, Expenditures and Fund Balances

	<u>2007/08^(a)</u>	<u>2008/09^(a)</u>	<u>2009/10^(a)</u>	<u>Projected 2010/11^(c)</u>	<u>Estimated Budget 2011/12^(c)</u>
REVENUE:					
Revenue Limit Sources:					
State Aid	\$3,445,190	\$3,312,957	\$2,118,836	\$3,493,792	\$3,958,684
Property Taxes	<u>7,953,630</u>	<u>8,001,106</u>	<u>7,965,411</u>	<u>7,543,430</u>	<u>7,411,892</u>
Revenue Limit Sources Subtotal	11,398,820	11,314,063	10,084,247	11,037,222	11,370,576
Federal Revenue	1,097,359	1,872,768	2,341,031	2,629,753	1,471,459
Other State Revenue	3,536,440	3,378,543	3,304,045	2,901,375	3,035,294
Other Local Revenue	<u>2,302,254</u>	<u>2,275,644</u>	<u>2,170,033</u>	<u>2,340,150</u>	<u>1,653,688</u>
TOTAL REVENUE	18,334,873	18,841,018	17,899,356	18,908,500	17,531,017
EXPENDITURES					
Certificated Salaries	8,981,228	9,014,805	8,516,780	8,807,845	8,931,073
Classified Salaries	2,507,754	3,083,785	2,780,326	2,962,823	2,545,264
Employee Benefits	3,423,890	3,867,034	3,615,724	3,705,867	3,934,675
Books and Supplies	831,297	523,234	470,194	911,022	551,880
Services and Other Operating Expenditures	1,999,554	2,122,764	2,216,013	3,028,015	2,200,147
Capital Outlay	22,653	2,980	3,302	2,613	0
Other	<u>392,758</u>	<u>66,815</u>	<u>(41,315)</u>	<u>15,795</u>	<u>613,034</u>
TOTAL EXPENDITURES	18,159,134	18,681,417	17,561,024	19,433,980	18,776,073
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	175,739	159,601	338,332	(525,480)	(1,245,056)
PRIOR YEAR ADJUSTMENT	0	1	(40,233)	0	0
FUND BALANCE, JULY 1	<u>2,699,774</u>	<u>2,875,513</u>	<u>3,035,115</u>	<u>3,333,214</u>	<u>2,807,734</u>
FUND BALANCE, JUNE 30	<u><u>\$2,875,513</u></u>	<u><u>\$3,035,115</u></u>	<u><u>\$3,333,214</u></u>	<u><u>\$2,807,734</u></u>	<u><u>\$1,562,678</u></u>

^(a) Based on respective *Unaudited Actual Reports* data.

^(b) Based on *2011-2012 Adopted Budget* as of June 29, 2011 and subsequent District staff projections.

Other Funds of the Districts

Under the combined operating rules of the Districts, balances in like funds of the Districts may be balanced between Districts by Board action (see “**Combined Operations**” herein). The Districts also maintain certain funds that are restricted in purpose, but may be accessed on a temporary basis by Board action for general fund use. The main such funds potentially available, with Board action, for general fund uses of the District are as follows:

<u>Fund</u>	<u>June 30, 2010, Balance^(a)</u>	<u>June 30, 2011, Balance^(b)</u>	<u>June 30, 2012, Balance^(b)</u>
High School District General Fund	\$7,986,702	\$7,127,103	\$5,493,708
Combined Deferred Maintenance Fund	799,312	577,255	766,609
Combined Cafeteria Fund	122,223	125,000	125,000
Combined Adult Education Fund	215,029	108,372	197,107
Combined Building Fund	2,540,755	377,362	274,436
Combined Capital Facilities Fund	159,798	209,679	495,647

^(a) Unaudited

^(b) Estimated

Source: The District

Audit

The Districts’ Basic Financial Statements, with Management’s Discussion and Analysis, Independent Auditor’s Letter and Certain Supplementary Information for Year Ended June 30, 2010 are included in **APPENDIX A**, herein. The District is required to present its annual audit at a public meeting no later than January 31st of the following year. The District considers its audited financial statements to be documents of public record. The District has not requested its auditors to review this Official Statement, nor have they done so.

2011/12 Budget Assumptions

The 2011/12 budget numbers shown herein in the comparative financial table above and the 2011/12 cash flows that follow are both based on District *2011-2012 Adopted Budget* report and subsequent staff projections.

The largest part of school district general fund revenue is received from revenue limit sources. Each school district calculates its own revenue limit per unit of average daily attendance (“A.D.A.”) according to State formula. For a non Basic Aid District, the revenue limit defines the fixed amount of general purpose revenue a school district may receive from the combination of local property taxes (the district’s share of the basic one percent levy under Proposition XIII collected within the boundaries of the district) and State aid (an amount equal to the difference between the revenue limit and the amount of local property taxes received by the district). Changes in revenue limit income received from year to year is generally based on the cost of living adjustment (“COLA”) provided by the State and the year to year growth in A.D.A.

For 2011/12, the District projects that it will receive \$11,370,576 in revenue limit income, or approximately 64.9% of its general fund revenue. This amount represents an increase of approximately 3.0% from the \$11,037,222 that it projects for 2010/11. This increase reflects no COLA, an 19.754% revenue limit

deficit, an increase in the revenue limit per A.D.A. used in revenue limit calculations for 2012/11 from 2010/11 and an increase of 25 in A. D. A. for 2011/12.

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

For 2011/12, the District projects that it will expend \$15,411,012 in salaries and benefits, or approximately 82.1% of its general fund expenditures. This amount represents a decrease of approximately 0.4% from the \$15,476,535 that it projects for 2010/11. This decrease reflects no change in overall staffing, normal step and column increases for certificated and classified employees and an early retirement program that has replaced some senior teachers with new teachers.

Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts have followed an uneven pattern, primarily because property and parcel tax installment payment dates are in December and April. Exhibit I on the next page shows fiscal year 2009/10 actual net cash receipts and disbursements. Exhibit II on the next page shows cash receipts and disbursements projected for fiscal year 2011/12, when the Notes will be outstanding. The 2010/11 monthly receipts and disbursements take the amount of expected receipt and payment of the Notes into consideration.

District: Petaluma City (Elementary) School District

**EXHIBIT I
2010/2011 ACTUAL CASH FLOW (June Projected)
GENERAL FUND**

	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
BEGINNING BALANCE	\$1,705,661	\$2,080,673	\$1,047,343	\$519,779	(\$205,888)	\$4,932,879	\$8,921,039	\$5,751,657	\$3,865,343	\$3,249,731	\$3,414,536	\$1,164,968	\$1,705,661
RECEIPTS:													
PROPERTY TAXES	13,514	22,409	31,320	20,880	20,880	3,998,317	58,374	26,188	57,902	2,899,160	17,269	518,503	7,684,717
STATE AID	309,381	462,505	378,073	256,241	263,445	657,752	346,223	34,798	99,831	456,087	58,695	0	3,323,030
OTHER RECEIPTS	455,452	355,845	671,327	344,158	1,128,848	1,187,031	644,721	456,802	812,010	1,177,778	306,371	635,639	8,175,982
NOTE PROCEEDS	0	0	0	0	5,624,528	0	0	0	0	0	0	0	5,624,528
TOTAL RECEIPTS	778,348	840,759	1,080,720	621,279	7,037,701	5,843,100	1,049,319	517,788	969,742	4,533,025	382,335	1,154,142	24,808,256
DISBURSEMENTS:													
SALARIES/BENEFITS	384,865	1,620,467	1,313,377	1,142,212	1,439,126	1,520,709	1,156,257	2,211,873	1,284,417	1,407,309	1,775,344	416,810	15,672,765
OTHER DISBURSEMENTS	18,470	253,622	294,907	204,733	459,809	334,230	262,444	192,228	300,938	160,911	805,692	470,034	3,758,019
NOTE PAYMENT PLEDGE	0	0	0	0	0	0	2,800,000	0	0	2,800,000	50,867	0	5,650,867
TOTAL DISBURSEMENTS	403,335	1,874,089	1,608,284	1,346,945	1,898,934	1,854,940	4,218,701	2,404,101	1,585,355	4,368,220	2,631,903	886,844	25,081,651
ENDING BALANCE	<u>\$2,080,673</u>	<u>\$1,047,343</u>	<u>\$519,779</u>	<u>(\$205,888)</u>	<u>\$4,932,879</u>	<u>\$8,921,039</u>	<u>\$5,751,657</u>	<u>\$3,865,343</u>	<u>\$3,249,731</u>	<u>\$3,414,536</u>	<u>\$1,164,968</u>	<u>\$1,432,265</u>	<u>\$1,432,265</u>

**EXHIBIT II
2011/2012 PROJECTED CASH FLOW
GENERAL FUND**

	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
BEGINNING BALANCE	\$1,432,265	\$1,586,057	\$949,287	\$7,788,156	\$6,625,958	\$5,797,706	\$8,314,640	\$5,691,400	\$4,550,825	\$3,595,615	\$1,592,832	\$646,918	\$1,432,265
RECEIPTS:													
PROPERTY TAXES	1	167,011	35,211	22,306	22,496	3,132,220	1,086,175	(0)	178,389	2,518,147	14,346	689,559	7,865,862
STATE AID	354,082	470,812	746,194	0	361,486	361,486	1,016,178	20,083	0	184,760	60,248	0	3,575,329
OTHER RECEIPTS	632,037	303,864	157,933	576,814	419,543	868,298	647,984	371,483	554,168	625,296	511,947	991,073	6,660,441
NOTE PROCEEDS	0	0	7,450,000	0	0	0	0	0	0	0	0	0	7,450,000
TOTAL RECEIPTS	986,120	941,688	8,389,338	599,120	803,526	4,362,004	2,750,338	391,565	732,558	3,328,202	586,541	1,680,633	25,551,633
DISBURSEMENTS:													
SALARIES/BENEFITS	513,667	1,326,844	1,309,989	1,430,581	1,277,634	1,428,712	1,409,471	1,282,290	1,357,938	1,370,554	1,305,601	1,397,732	15,411,012
OTHER DISBURSEMENTS	318,662	251,613	240,480	330,737	354,144	416,358	264,107	249,850	329,829	260,432	127,365	385,444	3,529,022
NOTE PAYMENT PLEDGE	0	0	0	0	0	0	3,700,000	0	0	3,700,000	99,489	0	7,499,489
TOTAL DISBURSEMENTS	832,328	1,578,457	1,550,469	1,761,318	1,631,778	1,845,070	5,373,578	1,532,140	1,687,768	5,330,986	1,532,455	1,783,176	26,439,523
ENDING BALANCE	<u>\$1,586,057</u>	<u>\$949,287</u>	<u>\$7,788,156</u>	<u>\$6,625,958</u>	<u>\$5,797,706</u>	<u>\$8,314,640</u>	<u>\$5,691,400</u>	<u>\$4,550,825</u>	<u>\$3,595,615</u>	<u>\$1,592,832</u>	<u>\$646,918</u>	<u>\$544,375</u>	<u>\$544,375</u>

Note Net Coverage Ratio

Projected Unrestricted Moneys available as of June 1, 2012 in the District's General Fund for payment of the Notes on June 1, 2012, and the Note Net Coverage Ratio, are shown below; see also "THE NOTES — Security and Sources of Payment" herein.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
Projected Unrestricted Moneys and Note Net Coverage Ratio*
Fiscal Year 2011/12

<u>Source</u>	<u>Amount</u>
Cash Balance, July 1, 2011	\$1,432,265
Property Tax	7,176,303
State Aid	3,575,329
Other Receipts	5,669,368
Proceeds of the Notes	<u>7,450,000</u>
TOTAL UNRESTRICTED MONEYS	25,303,265
DISBURSEMENTS	<u>(17,156,859)</u>
NET AVAILABLE FOR NOTE PAYMENT	<u>\$8,146,406</u>
 PRINCIPAL PLUS INTEREST NEEDED	 \$7,499,489
 ESTIMATED NOTES COVERAGE RATIO	 1.09 to 1

Source: Petaluma City (Elementary) School District.

District Debt

Short Term Obligations

The District has no outstanding short-term obligations. The District issued \$5,600,000 2010 Tax and Revenue Anticipation Notes on November 28, 2010 that matured and were paid on July 1, 2011, from general fund revenues set aside prior to June 30, 2011.

*Subject to change.

General Obligation Bonds

As of June 30, 2011 and September 1, 2011, the principal or denominational amounts of District general obligation bonds outstanding, all payable from *ad valorem* property taxes levied and collected within the District by the County, will be as follows:

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
Outstanding General Obligation Bonds
As of June 30, 2011 and September 1, 2011

<u>Issue Date</u>	<u>Series</u>	<u>Final Maturity Date</u>	<u>Original Principal</u>	<u>Outstanding June 30, 2011</u>	<u>Outstanding Sept. 1, 2011</u>
August 22, 2002	General Obligation Bonds, Election of 1991, Series I	August 1, 2027	\$3,500,000	\$2,825,000	\$2,710,000
May 8, 2003	2003 General Obligation Refunding Bonds	August 1, 2021	5,895,000	3,930,000	3,610,000
November 20, 2003	2003 General Obligation Refunding Bonds, Series B	August 1, 2017	4,560,000	2,700,000	2,375,000
April 29, 2004	General Obligation Bonds, Election of 1991, Series J	August 1, 2028	2,700,000	2,255,000	2,170,000
May 6, 2008	2008 General Obligation Refunding Bonds	August 1, 2024	7,965,000	<u>6,620,000</u>	<u>5,990,000</u>
				<u>\$18,330,000</u>	<u>\$16,855,000</u>

As of June 30, 2011, the remaining debt service on District general obligation bonds outstanding, all payable from *ad valorem* property taxes levied and collected within the District by the County, will be as follows:

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
Outstanding General Obligation Bonds Remaining Debt Service
As of June 30, 2011

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011/12	\$1,475,000	\$675,649	\$2,150,649
2012/13	1,525,000	626,613	2,151,613
2013/14	1,580,000	574,185	2,154,185
2014/15	1,660,000	517,850	2,177,850
2015/16	1,710,000	456,735	2,166,735
2016/17 - 2020/21	6,610,000	1,399,438	8,009,438
2021/22 - 2025/26	2,810,000	494,964	3,304,964
2027/28 - 2028/29	<u>960,000</u>	<u>58,440</u>	<u>1,018,440</u>
	<u>\$18,330,000</u>	<u>\$4,803,874</u>	<u>\$23,133,874</u>

Capital Leases

The Districts have variously jointly or individually entered into certain equipment financing leases. The combined future minimum payments of all lease obligations of the Districts, all payable from the general funds of the Districts, as of June 30, 2010 were:

**PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
PETALUMA JOINT UNION HIGH SCHOOL DISTRICT
Combined Lease Obligations**

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2011	\$160,808
2012	112,431
2013	37,398
2014	35,642
2015	<u>26,860</u>
Total Payments	373,139
Less Amount Representing Interest	<u>(197,682)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$175,457</u></u>

Availability of Documents

Additional public documents will be made available upon request through the Business Office of the District. Such public documents include periodic financial reports such as interim reports, approved budget and audited financial statements. See **“INTRODUCTION — Other Information”** herein for contact information.

DISTRICT TAX BASE INFORMATION

*This section presents certain information concerning the property tax base in the District. For general information on how ad valorem property tax is assessed, levied and collected, see **“AD VALOREM PROPERTY TAXATION”** herein.*

Assessed Valuation

The following table represents the five-year history of assessed valuation in the District. For more information regarding how property is assessed in the State, see **“AD VALOREM PROPERTY TAXATION — Assessed Valuation”** herein.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
Assessed Valuation

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Gross Assessed Value</u>
2007/08	\$4,076,242,637	\$0	\$398,880,974	\$4,475,123,611
2008/09	4,230,153,908	0	360,747,850	4,590,901,758
2009/10	4,264,063,723	0	297,816,275	4,561,879,998
2010/11	4,160,130,124	0	273,655,036	4,433,785,160
2011/12	4,072,479,434	0	207,477,002	4,279,956,436

Source: California Municipal Statistics, Inc.

The *ad valorem* property tax to pay debt service on the District's bonds is levied on total assessed value of all taxable property within the District before deducting any redevelopment agency tax increment. The District's general fund property tax revenue is a percentage of the County-wide 1% general purpose tax rate levied on total assessed value of all taxable property within the District after deducting any redevelopment agency tax increment. Under pass-through agreements with the Petaluma Community Development Commission, the Districts receive a pass-through of a small portion of this redevelopment agency tax increment every year. The amount of tax-increment due to the District for 2010/11 is \$302,868, \$46,527 of which is counted by the State as part of District property tax revenue for purposes of calculating revenue limit apportionment. The District has budgeted the same amounts for 2011/12.

Secured Tax Charges and Delinquencies

The following table reflects the historical secured tax levy and year-end delinquencies for the County; the County does not provide this information by school district.

SONOMA COUNTY
Secured Tax Charges and Delinquencies

<u>Fiscal Year</u>	<u>Secured Tax Charge^(a)</u>	<u>Amount Delinquent June 30</u>	<u>Percent Delinquent June 30</u>
2004/05	\$601,962,333.00	\$ 9,443,845.00	1.57%
2005/06	657,672,054.00	15,703,214.00	2.39
2006/07		Data not available for this year	
2007/08	778,175,721.00	32,534,375.00	4.18
2008/09	789,294,606.00	31,213,654.00	3.95
2009/10	658,144,060.00	19,865,054.00	3.02

^(a) These amounts represent all taxes collected by the County within the Elementary District's boundaries.

Source: California Municipal Statistics, Inc.

Under the Teeter Plan, the County funds the District its full tax levy allocation rather than funding only actual collections (levy less delinquencies). In exchange, the County receives the interest and penalties that accrue on delinquent payments when the late taxes finally are collected. The County does include the

secured, but not the unsecured, *ad valorem* tax levy for the District's general obligation bonds under the Teeter Plan. See “**AD VALOREM PROPERTY TAXATION — Teeter Plan**” herein.

Tax Rates

The following is a summary of tax rates for a representative tax rate area, TRA 003-000. See also “**AD VALOREM PROPERTY TAXATION**” herein.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT Summary of Tax Rates TRA 003-000					
	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>
County-wide Rate ^(a)	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Warm Springs Dam	0.007000	0.007000	0.007000	0.007000	0.007000
Petaluma City (Elementary) School District Bonds	0.048000	0.048000	0.045500	0.043500	0.043500
Petaluma Joint Union High School District Bonds	0.020000	0.020000	0.030500	0.030500	0.030500
Sonoma Community College District Bonds	<u>0.025000</u>	<u>0.025000</u>	<u>0.025000</u>	<u>0.025000</u>	<u>0.021000</u>
Total Tax Rates	<u>1.100000%</u>	<u>1.100000%</u>	<u>1.108000%</u>	<u>1.106000%</u>	<u>1.102000%</u>

^(a) Maximum rate for purposes other than paying debt service in accordance with Article XIII A of the State Constitution.

Source: Sonoma County Auditor/Controller

Largest Taxpayers

The twenty largest taxpayers in the District, as shown on the 2011/12 secured tax roll, and the amounts of their assessed valuations for all taxing jurisdictions within the District, are shown below.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT			
Largest Taxpayers			
<u>Name</u>	<u>Primary Land Use</u>	<u>2011/12 Assessed Valuation</u>	<u>Percent of Total^(a)</u>
GW G&I VI Petaluma LP	Apartments	\$52,394,015	1.29%
CRP Holdings A-1 LLC	Office Building	34,399,940	0.84
Redwood Gateway LLC	Shopping Center	27,047,811	0.66
Novak Property LLC	Shopping Center	26,306,607	0.65
Washington Square Associates	Shopping Center	23,349,751	0.57
Syers Properties I LP	Shopping Center	23,230,771	0.57
RNM Lakeville LP	Light Industrial	22,904,342	0.56
Chelsea GCA Realty Partnership	Shopping Center	22,718,663	0.56
Regency Petaluma LLC	Commercial	22,099,714	0.54
Redwood Business Center 1 & 2 LLC	Office Building	20,963,872	0.51
Quarry Heights LLC	Undeveloped	20,762,002	0.51
1400 & 1420 McDowell Boulevard Holdings	Office Building	20,005,362	0.49
Inland American Stephens Southpoint Venture	Industrial	18,415,448	0.45
Merlone Geier Partners LP	Undeveloped	17,589,987	0.43
Golden Eagle Delaware LLC	Shopping Center	17,066,636	0.42
Petaluma Waterfront Apartments LLC	Apartments	15,006,400	0.37
Petaluma Theatre Square LLC	Commercial	14,106,601	0.35
Encina Investment Group – Petaluma Town Center	Movie Theater	12,986,435	0.32
Landing Delaware 1 LLC	Commercial	12,704,152	0.31
MKD Great Petaluma Mill LLC	Commercial	<u>11,534,001</u>	<u>0.28</u>
TOTAL		<u>\$435,592,510</u>	<u>10.70%</u>

^(a) 2011/12 Local Secured Assessed Valuation: \$4,072,479,434.

Source: California Municipal Statistics, Inc.

Statement of Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and dated as of September 1, 2011. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The second column shows the portion of each overlapping entity's debt assignable to property within the boundaries of the District, and the third column shows the amount of that portion of the overlapping entity's existing debt. The total amount of debt for each overlapping entity is not given.

The Debt Report also shows, at the top, the gross assessed valuation, less any redevelopment agency tax increment and the resulting net assessed valuation after deducting redevelopment agency tax increment.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
Statement of Direct and Overlapping Debt

2010/11 Assessed Valuation:	\$4,433,785,160	(includes aircraft valuations)
Redevelopment Incremental Valuation:	<u>(1,266,526,868)</u>	
Adjusted Assessed Valuation:	<u>\$3,167,258,292</u>	

	Percent Applicable	Debt as of September 1, 2011
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Sonoma County Joint Community College District	5.252%	\$10,379,421
Petaluma City Joint Union High School District	37.764	11,335,197
Petaluma City (Elementary) School District	100	16,855,000^(a)
City of Petaluma 1915 Act Bonds	100	2,985,000
California Statewide Communities Development Authority Assessment District City of Petaluma Quarry Heights		
City of Petaluma Quarry Heights	100	<u>5,885,475</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		47,440,093
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Sonoma County General Fund Obligations	5.311	2,160,698
Sonoma County Pension Obligations	5.311	27,375,815
Sonoma County Office of Education Certificates of Participation	5.311	120,560
Sonoma County Joint Community College District General Fund Obligations	5.252	103,727
Petaluma Joint Union High School District Certificates of Participation	37.764	2,720,896
City of Petaluma Certificates of Participation	40.782	<u>2,063,569</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		<u>34,545,265</u>
COMBINED TOTAL DEBT		<u><u>\$81,985,358^(b)</u></u>

^(a) Excludes tax and revenue anticipation notes to be sold.

^(b) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
Excludes accreted values of capital appreciation bonds.

Ratios to 2010/11 Assessed Valuation:

Direct Debt (\$16,855,000)	0.38%
Total Direct and Overlapping Tax and Assessment Debt	1.07%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt	2.59%
---------------------	-------

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

ECONOMIC PROFILE

Introduction

The County, one of California's 27 original counties, is located approximately 40 miles north of San Francisco, the northernmost of the nine greater San Francisco Bay Area counties. Bordered on the north and east by Mendocino, Lake, and Napa Counties and to the west and south by the Pacific Ocean, Marin County, and San Pablo Bay, the County encompasses 1,598 square miles.

Geographically, the County is divided almost equally into mountainous regions, rolling hills, and valley land. Three narrow valleys, separated by mountains, run northwest to southeast. Elevations range from sea level to 4,262 feet at Mt. St. Helena, where Sonoma, Napa, and Lake Counties converge.

Commercial transportation is varied in the County. The Petaluma River is capable of handling river freight from San Pablo Bay to the City. A main railroad line with numerous spurs provides rail transportation, including to the City. The Sonoma County Airport, located just outside the northwest sector of the City of Santa Rosa, north of the City along US Highway 101, handles commercial and passenger air traffic. In addition, four highways dissect the County; the major freeway is US Highway 101 which runs from Marin and San Francisco Counties and beyond in the south to Mendocino County and beyond in the north. The City and the District are located on both sides of US Highway 101.

Population

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

CITY OF PETALUMA AND SONOMA COUNTY Population		
<u>Year</u>	<u>City of Petaluma</u>	<u>Sonoma County</u>
1980	33,384	299,681
1990	43,166	388,222
2000	54,548	458,614
2001	55,451	464,764
2002	55,788	469,069
2003	55,891	471,644
2004	56,157	474,993
2005	56,632	477,697
2006	56,608	478,222
2007	56,743	479,668
2008	57,187	488,297
2009	57,739	487,259
2010	58,319	487,125

Source: The 1980, 1990 and 2000 totals are U.S. Census figures. The figures for the years 2001 through 2010 are based upon adjusted January 1 estimates provided by the State.

Employment

The following table summarizes historical employment and unemployment in the Santa Rosa-Petaluma Metropolitan Statistical Area, which includes the County.

SANTA ROSA-PETALUMA METROPOLITAN STATISTICAL AREA Civilian Labor Force, Employment and Unemployment Annual Averages					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Civilian Labor Force ^(a)					
Employment	245,300	247,700	246,300	224,700	227,000
Unemployment	<u>10,200</u>	<u>11,200</u>	<u>14,900</u>	<u>28,300</u>	<u>26,600</u>
Total	<u>255,500</u>	<u>258,900</u>	<u>261,200</u>	<u>252,900</u>	<u>253,600</u>
Unemployment Rate ^(b)	4.00%	4.30%	5.70%	11.20%	10.50%

^(a) Based on place of residence. Based on a March 2010 benchmark.
^(b) The unemployment rate is calculated using unrounded data.

Source: California Employment Development Department, Labor Market Information Division.

The following table summarizes the historical numbers of workers in the Santa Rosa-Petaluma Metropolitan Statistical Area, which includes the County, by industry.

SANTA ROSA-PETALUMA METROPOLITAN STATISTICAL AREA Estimated Number of Wage and Salary Workers by Industry^(a) (in thousands)					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Agricultural	4,600	4,700	4,400	4,500	4,600
Natural Resources and Mining	200	300	100	100	100
Construction	14,500	14,000	11,600	8,900	9,200
Manufacturing	22,600	21,500	21,200	19,300	19,500
Trade, Transportation and Utilities	37,100	37,900	34,500	32,800	32,400
Information	3,000	3,000	2,700	2,600	2,500
Financial Activities	9,600	8,900	8,100	7,600	7,600
Professional and Business Services	22,300	23,900	22,000	19,800	22,100
Educational and Health Services	23,300	24,200	24,300	24,000	24,600
Leisure and Hospitality	20,700	20,900	20,100	19,700	20,100
Other Services	6,500	6,300	6,200	6,000	5,900
Government	<u>31,000</u>	<u>31,200</u>	<u>31,300</u>	<u>28,100</u>	<u>27,500</u>
Total All Industries	<u>195,400</u>	<u>196,800</u>	<u>186,500</u>	<u>173,400</u>	<u>176,100</u>

^(a) The industry employment data are now based upon the North American Industry Classification System (NAICS). Newly released data are **not** comparable to the data based on the Standard Industrial Classification (SIC). Items may not add to totals due to independent rounding. March 2010 Benchmark.

Source: California Employment Development Department, Labor Market Information Division.

Major Employers

The following table summarizes the major employers in the City:

CITY OF PETALUMA	
Major Employers	
<u>Company</u>	<u>Employees</u>
Petaluma School District	1,415
Petaluma Valley Hospital	557
United States Postal Service	520
Petaluma Poultry Processors	400
Santa Rosa Junior College	300
City of Petaluma	287
Old Adobe Union School District	229
Calix Networks Inc.	225
Clover Stornetta Farms	220
Safeway Stores	200

Source: City of Petaluma, Comprehensive Annual Financial Report for the Year Ended June 30, 2009.

The following table summarizes the major employers in Sonoma County.

SONOMA COUNTY	
Major Employers	
<u>Employer</u>	<u>Employees</u>
Kaiser Permanente	2,400
Saint Joseph Health Care system	1,781
Sutter Medical Center	1,097
Safeway, Inc.	1,082
Agilent Technologies	1,050
Medtronic Cardio Vascular	1,000
Amy's Kitchen	900
River Rock Casino	660
Wal-Mart Stores, Inc.	650
Kendall Jackson Wine Estates	650

Source: City of Petaluma, Comprehensive Annual Financial Report for the Year Ended June 30, 2009.

Construction Activity

The following table summarizes historical residential building permit valuation for the City and the County.

CITY OF PETALUMA and SONOMA COUNTY Privately-Owned Residential Building Permits (Dollars in Thousands)				
Year ^(a)	City of Petaluma		Sonoma County	
	Units ^(b)	Construction Cost	Units ^(b)	Construction Cost
2006	130	50,604	1,912	403,507
2007	113	28,010	971	291,961
2008	13	4,380	563	152,236
2009	30	9,779	383	108,892
2010	7	1,893	312	87,520

^(a) As of January 1.

^(b) Does not include alterations and additions.

Source: U.S. Bureau of the Census.

Commercial Activity

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

CITY OF PETALUMA AND SONOMA COUNTY Taxable Transactions (\$ in Thousands)				
Year	City of Petaluma		Sonoma County	
	Outlets	Taxable Transactions	Outlets	Taxable Transactions
2005	2,237	1,016,393	17,620	7,622,099
2006	2,233	1,064,296	17,612	7,894,595
2007	3,234	1,054,042	17,638	7,877,195
2008	2,221	977,480	17,764	7,369,109
2009	2,096	796,033	10,645	4,413,001

Source: State Board of Equalization.

LEGAL MATTERS

Tax Matters

In the opinion of Note Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, 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, and the Notes are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the “Code”) such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution’s interest expense allocable to interest payable on the Notes.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes.

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

Purchasers should be aware that the Internal Revenue Service has issued Notice 94-84 which may have federal income tax consequences with respect to the Notes. This Notice provides generally that, in the case of short-term tax-exempt obligations (such as the Notes), the Service is studying whether interest payable at maturity on the obligations should, or should not, be included in stated redemption price at maturity, for purposes of the rule that original issue discount represents the excess of stated redemption price at maturity over issue price.

Notice 94-84 states that until the Internal Revenue Service provides further guidance, taxpayers may treat stated interest on certain short-term obligations, such as the Notes, either as includible in stated redemption price at maturity or as not included in stated redemption price at maturity. A taxpayer, however, must treat stated interest payable at maturity on all short-term tax-exempt bonds in a consistent manner. A short-term tax-exempt bond is defined as a tax-exempt bond with a term that is not more than 1 year from the date of issue.

Purchasers of the Notes are cautioned that the opinion of Bond Counsel does not identify the amount of interest that is excluded from gross income for federal income tax purposes.

Purchasers of the Notes should consult their tax advisors regarding effects of Notice 94-84 upon individual tax circumstances.

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

Legality for Investment in California

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

No Litigation

No litigation is pending or threatened against the District concerning the validity of the Notes of the District and a certificate of the District to that effect will be available at the time of original delivery of the Notes. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to collect or receive the Pledged Revenues, or contesting its ability to pay the principal of and interest on the Notes.

There may be one or more lawsuits and claims pending against the District. The aggregate amount of the uninsured liabilities of the District, and the timing of any anticipated payments of judgments which may result from suits and claims will not materially affect the finances of the District or impair its ability to repay the Notes. A certificate of the District to this effect will be available at the time of original delivery of the Notes.

Legal Opinion

The opinion of Note Counsel approving the validity of the Notes and stating that, in the opinion of Note Counsel, interest on the Notes is excluded from gross income for federal income tax purposes and is exempt from personal income taxation by the State will be provided free of charge to the purchasers at the time of the original delivery of the Notes. See **“APPENDIX B - FORM OF LEGAL OPINION”**.

MISCELLANEOUS

Ratings

Standard and Poor's Ratings Service has assigned its municipal note rating of **“SP - 1+”** to the Notes. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency at the following address: Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, NY 10041.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that a rating assigned will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect of the market price of the Notes.

Financial Advisor

The District has entered into an agreement with the Financial Advisor, a division of Zions First National Bank (“Zions”), whereunder the Financial Advisor provides financial advisory services to the District with respect to preparation and sale of the Notes. The Financial Advisor has read and participated in the drafting of certain portions of this Official Statement and has supervised the completion and editing thereof. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the District, with respect to accuracy and completeness of disclosure of such information, and the Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement.

Underwriting

Pursuant to the terms of a public bid dated September __, 2011, _____, as Underwriter, has agreed to purchase the Notes from the County on behalf of the District at the purchase price of \$ _____. The Underwriter has represented to the District that the Notes were reoffered to the public at the yield set forth on the cover page of this Official Statement, at an aggregate reoffering price of \$ _____. The Underwriter will be obligated to take and pay for all of the Notes, if any Note is purchased.

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of its Notes to provide notices of the occurrence of certain enumerated events. The notices of significant events will be filed by the District in readable PDF or other acceptable electronic form with the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board (“EMMA”). The specific nature of the information to be contained in the notices of material events is set forth in **APPENDIX C — Form of Continuing Disclosure Certificate**. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). The District has not failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Additional Information

The purpose of this Official Statement is to furnish information in connection with the sale of the Notes. Quotations from and summaries and explanations of the Notes, the Resolution , and the constitutional provisions, statutes, and other documents contained herein do not purport to be complete, and reference is hereby made to said Notes, Resolution, constitutional provisions, statutes, and other documents for full and complete statements of their provisions.

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

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT

By _____
Interim Superintendent

APPENDIX A

**BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010, WITH
MANAGEMENT'S DISCUSSION AND ANALYSIS, INDEPENDENT AUDITOR'S LETTER
AND CERTAIN SUPPLEMENTARY INFORMATION FOR
PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT**

**PETALUMA
CITY SCHOOLS**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2010**

FINANCIAL SECTION



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Petaluma City Schools
Petaluma, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Petaluma City Schools, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 15, 2010

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

This section of Petaluma City Schools (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

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

The *Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities 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 Petaluma City Schools. This includes the Petaluma City Elementary School District, the Petaluma Joint Union High School District and the Mary Collins at Cherry Valley Charter School.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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

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

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

Governmental Activities - Most of the District's services are reported 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.

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's Downtown Project is included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$51.4 million for the fiscal year ended June 30, 2010. Of this amount, \$11 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Table 1

	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 28,489,959	\$ 27,756,059	\$ 18,655	\$ 20,748	\$ 28,508,614	\$ 27,776,807
Capital assets	105,797,389	103,204,808	35,524	41,207	105,832,913	103,246,015
Total Assets	134,287,348	130,960,867	54,179	61,955	134,341,527	131,022,822
Current liabilities	8,660,134	8,163,021	-	222	8,660,134	8,163,243
Long-term debt	74,225,359	68,464,596	-	-	74,225,359	68,464,596
Total Liabilities	82,885,493	76,627,617	-	222	82,885,493	76,627,839
Net assets						
Invested in capital assets, net of related debt	31,188,954	36,844,993	35,524	41,207	31,224,478	36,886,200
Restricted	9,271,520	9,324,632	-	-	9,271,520	9,324,632
Unrestricted	10,941,381	8,163,625	18,655	20,526	10,960,036	8,184,151
Total Net Assets	\$ 51,401,855	\$ 54,333,250	\$ 54,179	\$ 61,733	\$ 51,456,034	\$ 54,394,983

The \$11 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our non-capital liabilities (compensated absences as an example); we would have \$11 million left.

Changes in Net Assets

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

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 817,825	\$ 1,507,414	\$ 6,275	\$ 8,245	\$ 824,100	\$ 1,515,659
Operating grants and contributions	14,095,745	16,652,742	-	-	14,095,745	16,652,742
Capital grants and contributions	1,095,810	28,869	-	-	1,095,810	28,869
General revenues:						
Federal and state aid	24,163,582	24,488,443	-	-	24,163,582	24,488,443
Property taxes	32,934,160	33,107,914	-	-	32,934,160	33,107,914
Other general revenues	5,325,442	4,739,012	158	402	5,325,600	4,739,414
Total Revenues	78,432,564	80,524,394	6,433	8,647	78,438,997	80,533,041
Expenses						
Instruction-related	53,519,295	57,163,220	-	-	53,519,295	57,163,220
Student support services	11,047,641	11,592,149	-	-	11,047,641	11,592,149
Administration	3,137,653	2,868,334	-	-	3,137,653	2,868,334
Maintenance and operations	6,607,972	6,971,881	-	-	6,607,972	6,971,881
Other	7,112,920	4,338,109	13,987	16,911	7,126,907	4,355,020
Total Expenses	81,425,481	82,933,693	13,987	16,911	81,439,468	82,950,604
Change in Net Assets	\$ (2,992,917)	\$ (2,409,299)	\$ (7,554)	\$ (8,264)	\$ (3,000,471)	\$ (2,417,563)

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$81.4 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$32.9 million because the cost was paid by those who benefited from the programs (\$.82 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$15.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$24 million in Federal and state aid, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions: instruction, pupil services, school administration, maintenance and operation, and other as well as each program's *net* cost (total cost less revenues generated by the activities). 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.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Table 3

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction	\$ 53,519,295	\$ 57,163,220	\$ 42,674,841	\$ 45,434,833
Pupil services	11,047,641	11,592,149	6,130,272	5,892,607
School administration	3,137,653	2,868,334	3,021,485	2,600,951
Maintenance and operations	6,607,972	6,971,881	6,561,074	6,574,284
Other	7,112,920	4,338,109	7,028,429	4,241,993
Totals	\$ 81,425,481	\$ 82,933,693	\$ 65,416,101	\$ 64,744,668

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$22.8 million, which is an increase of \$0.48 million from last year (Table 4).

Table 4

	Fund Balance	
	June 30, 2010	June 30, 2009
General	\$ 11,319,917	\$ 10,811,736
Adult Education	215,029	516,314
Building	2,540,755	3,032,253
Bond Interest and Redemption	5,241,992	5,043,405
Cafeteria	122,223	111,031
Deferred Maintenance	799,312	566,078
Capital Facilities	159,798	27,397
County Schools Facilities	806,344	47,167
Capital Projects - Special Reserve	1,552,782	2,118,927
Totals	\$ 22,758,152	\$ 22,274,308

The primary reasons for these increases/decreases are:

- 1) Our General Fund is our principal operating fund. The fund balance in the General Fund increased by approximately \$.51 million to \$11.3 million. This increase is due to a one time reduction of special education encroachment.
- 2) The Bond, Interest and Redemption fund increased by \$.2 million to \$5.2 million due to decreasing interest expense.
- 3) Our other funds including the Adult Fund, Cafeteria Fund, Deferred Maintenance Fund, Building, Capital Facilities, County School Facilities Fund, and Special Reserve for Capital Outlay decreased by \$.22 million in the aggregate. This deficit spending was due to budget cuts.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 30, 2010. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 51.

Actual expenditures were \$2.9 million (excluding on behalf payments) below final budget and \$280,000 (excluding on behalf payments) over original budget due to mid-year spending freezes that occurred and unexpended grants/donations. In addition, the District budgeted \$3million and received \$2 million of the Federal American Recovery and Reinvestment Act (ARRA) and State Fiscal Stabilization Funds (SFSF) contributing to the \$5.2 million as well as local grants and donations received throughout the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$105.8 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of just under \$2.6 million, or 2.5 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Land	\$ 4,266,886	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886	\$ 4,266,886
Buildings and improvements	139,333,891	131,337,570	-	-	139,333,891	131,337,570
Furniture and Equipment	6,059,445	5,902,155	56,833	56,833	6,116,278	5,958,988
Construction in progress	7,748,522	8,736,245	-	-	7,748,522	8,736,245
Totals	157,408,744	150,242,856	56,833	56,833	157,465,577	150,299,689
Less Accumulated Depreciation	(51,611,356)	(47,038,048)	(21,309)	(15,626)	(51,632,665)	(47,053,674)
Capital Assets, net	\$ 105,797,388	\$ 103,204,808	\$ 35,524	\$ 41,207	\$ 105,832,912	\$ 103,246,015

This year's primary net increase of \$2.6 million included completion of the Art Building at Petaluma High School and the Library and Drama Buildings at Casa Grande High School. Additionally, the work in progress includes the following major projects: 1) Solar Installation projects at Casa Grande High School and Petaluma High School, 2) Modernization of Petaluma Junior High School's Administration and Library Buildings, and 3) Modernization at Mary Collins at Cherry Valley Charter School.

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

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Long-Term Obligations

At the end of this year, the District had \$78 million in long term obligations outstanding versus \$72 million last year, an increase of 8.5 percent. The debt consisted of:

Table 6

	Totals	
	2010	2009
General obligation bonds (financed with property taxes)	\$ 65,412,981	\$ 62,686,446
Bond premiums, net of amortization	272,501	28,537
Certifications of participation	7,760,000	7,815,000
Accrued vacation	400,128	367,135
Capitalized lease obligations	3,739,233	414,387
Other post employment benefits	454,023	646,486
Totals	\$ 78,038,866	\$ 71,957,991

The State limits the amount of general obligation debt that District's can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily-imposed limit.

We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-10 ARE NOTED BELOW:

The major projects completed during 2009-10 were Petaluma High School Phase D Art Building and Casa Grande High School Phase G Library and Drama Buildings. Projects still in progress are mentioned above and are anticipated to be completed during 2010-11.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2010-11 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

- 1) Revenue limit income decrease due to negative .39 percent COLA and \$191 and \$231 elementary and secondary cuts per ADA (respectively).
- 2) Developer fee collections are based on approximate new housing units to be constructed.
- 3) Federal income is estimated to have minimal change. Any Federal stimulus funds are accounted for on a cash basis only.
- 4) State income will remain flat.

PETALUMA CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	22:1	1,477
Grades four through six	28:1	1,037
Grades seven through eight	25.78:1	1,734
Grades nine through twelve	27.67:1	3,492

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District Office, Petaluma City Schools, 200 Douglas Street, Petaluma, California, 94952.

PETALUMA CITY SCHOOLS

STATEMENT OF NET ASSETS JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 17,204,297	\$ 17,987	\$ 17,222,284
Receivables	9,843,239	668	9,843,907
Deferred charges	1,370,677	-	1,370,677
Stores inventories	71,746	-	71,746
Capital assets not depreciated	12,015,409	-	12,015,409
Capital assets, net of accumulated depreciation	93,781,980	35,524	93,817,504
Total Assets	134,287,348	54,179	134,341,527
LIABILITIES			
Accounts payable	2,739,762	-	2,739,762
Interest payable	783,261	-	783,261
Deferred revenue	1,323,604	-	1,323,604
Current portion of long-term obligations	3,813,507	-	3,813,507
Noncurrent portion of long-term obligations	74,225,359	-	74,225,359
Total Liabilities	82,885,493	-	82,885,493
NET ASSETS			
Invested in capital assets, net of related debt	31,188,954	35,524	31,224,478
Restricted for:			
Debt service	6,025,253	-	6,025,253
Capital projects	966,142	-	966,142
Educational programs	1,072,669	-	1,072,669
Other activities	1,136,564	-	1,136,564
Self-insurance	70,892	-	70,892
Unrestricted	10,941,381	18,655	10,960,036
Total Net Assets	\$ 51,401,855	\$ 54,179	\$ 51,456,034

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

PETALUMA CITY SCHOOLS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$45,936,471	\$ 1,891	\$ 8,677,086	\$ 1,095,810
Instruction-related activities:				
Supervision of instruction	1,741,807	-	910,595	-
Instructional library, media, and technology	959,371	-	15,868	-
School site administration	4,881,646	-	143,204	-
Pupil services:				
Home-to-school transportation	3,017,455	30,761	1,407,336	-
Food services	1,940,383	773,822	1,101,441	-
All other pupil services	6,089,803	333	1,603,676	-
General administration:				
All other general administration	3,137,653	-	116,168	-
Plant services	6,607,972	3,107	43,791	-
Ancillary services	378,947	-	-	-
Community services	386,234	-	-	-
Enterprise services	133,044	-	-	-
Interest on long-term debt	6,164,084	-	-	-
Other outgo	50,611	7,911	76,580	-
Total Governmental-Type Activities	81,425,481	817,825	14,095,745	1,095,810
Business-Type Activities				
Enterprise services	13,987	6,275	-	-
Total Business-Type Activities	\$ 13,987	\$ 6,275	\$ -	\$ -
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ (36,161,684)	\$ -	\$ (36,161,684)
(831,212)	-	(831,212)
(943,503)	-	(943,503)
(4,738,442)	-	(4,738,442)
(1,579,358)	-	(1,579,358)
(65,120)	-	(65,120)
(4,485,794)	-	(4,485,794)
(3,021,485)	-	(3,021,485)
(6,561,074)	-	(6,561,074)
(378,947)	-	(378,947)
(386,234)	-	(386,234)
(133,044)	-	(133,044)
(6,164,084)	-	(6,164,084)
33,880	-	33,880
(65,416,101)	-	(65,416,101)
-	(7,712)	(7,712)
-	(7,712)	(7,712)
25,614,733	-	25,614,733
5,448,554	-	5,448,554
1,870,873	-	1,870,873
24,163,582	-	24,163,582
152,038	158	152,196
5,173,404	-	5,173,404
62,423,184	158	62,423,342
(2,992,917)	(7,554)	(3,000,471)
54,394,772	61,733	54,456,505
\$ 51,401,855	\$ 54,179	\$ 51,456,034

PETALUMA CITY SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2010

	General Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 5,814,588	\$ 5,241,992	\$ 5,936,545	\$ 16,993,125
Receivables	9,320,528	-	504,901	9,825,429
Due from other funds	513,895	-	328,306	842,201
Stores inventories	50,252	-	21,494	71,746
Total Assets	\$ 15,699,263	\$ 5,241,992	\$ 6,791,246	\$ 27,732,501
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,335,616	\$ -	\$ 473,057	\$ 2,808,673
Due to other funds	720,689	-	121,383	842,072
Deferred revenue	1,323,041	-	563	1,323,604
Total Liabilities	4,379,346	-	595,003	4,974,349
Fund Balances:				
Reserved for:				
Legally restricted balances	1,072,669	-	-	1,072,669
Other reservations	70,252	-	21,944	92,196
Unreserved:				
Designated	2,468,304	-	-	2,468,304
Undesignated, reported in:				
General Fund	7,708,692	-	-	7,708,692
Special revenue funds	-	-	1,114,620	1,114,620
Debt service funds	-	5,241,992	-	5,241,992
Capital projects funds	-	-	5,059,679	5,059,679
Total Fund Balance	11,319,917	5,241,992	6,196,243	22,758,152
Total Liabilities and Fund Balances	\$ 15,699,263	\$ 5,241,992	\$ 6,791,246	\$ 27,732,501

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

PETALUMA CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

Total Fund Balance - Governmental Funds		\$ 22,758,152
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 157,408,745	
Accumulated depreciation is	<u>(51,611,356)</u>	
Net Capital Assets		105,797,389
Expenditures relating to issuance of debt were recognized on modified accrual basis, but are recorded as deferred charges on the accrual basis and amortized over the life of the bonds.		1,370,677
In governmental funds, long term receivables for special education mandate settlements are recognized in the year amounts are received, however it is recognized in governmental-wide financial statements in the year earned.		226,871
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(783,260)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		70,892
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	\$ 65,412,981	
Certificates of participation	7,760,000	
Capital leases payable	3,739,233	
Other post employment benefits	454,023	
Bond premiums, net of amortization	272,501	
Compensated absences (vacations)	<u>400,128</u>	
Total Long-Term Liabilities		<u>(78,038,866)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 51,401,855</u></u>

PETALUMA CITY SCHOOLS

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 41,564,114	\$ -	\$ -	\$ 41,564,114
Federal sources	6,945,480	-	1,050,224	7,995,704
Other state sources	12,964,656	51,919	1,583,330	14,599,905
Other local sources	7,017,276	5,428,512	1,870,542	14,316,330
Total Revenues	68,491,526	5,480,431	4,504,096	78,476,053
EXPENDITURES				
Current				
Instruction	42,798,356	-	922,966	43,721,322
Instruction-related activities:				
Supervision of instruction	1,645,338	-	-	1,645,338
Instructional library, media and technology	730,420	-	-	730,420
School site administration	4,277,418	-	264,963	4,542,381
Pupil services:				
Home-to-school transportation	2,679,819	-	-	2,679,819
Food services	9,995	-	1,861,999	1,871,994
All other pupil services	5,753,748	-	-	5,753,748
General administration:				
All other general administration	2,827,024	-	18,982	2,846,006
Plant services	5,288,161	-	1,011,391	6,299,552
Facility acquisition and construction	-	-	7,064,049	7,064,049
Ancillary services	332,259	-	-	332,259
Community services	353,504	-	-	353,504
Other outgo	50,611	-	-	50,611
Enterprise services	133,044	-	-	133,044
Debt service				
Principal	174,400	11,989,614	5,573,912	17,737,926
Interest and other	11,674	2,659,708	2,630,809	5,302,191
Total Expenditures	67,065,771	14,649,322	19,349,071	101,064,164
Excess (Deficiency) of				
Revenues Over Expenditures	1,425,755	(9,168,891)	(14,844,975)	(22,588,111)
Other Financing Sources (Uses):				
Transfers in	-	-	917,574	917,574
Other financing source - refunding bond	-	9,367,478	5,804,254	15,171,732
Other financing sources	-	-	7,900,223	7,900,223
Transfers out	(917,574)	-	-	(917,574)
Net Financing Sources (Uses)	(917,574)	9,367,478	14,622,051	23,071,955
NET CHANGE IN FUND BALANCES	508,181	198,587	(222,924)	483,844
Fund Balance - Beginning	10,811,736	5,043,405	6,419,167	22,274,308
Fund Balance - Ending	\$ 11,319,917	\$ 5,241,992	\$ 6,196,243	\$ 22,758,152

PETALUMA CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balances - Governmental Funds	\$	483,844
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	\$ (4,582,020)	
Capital outlays	<u>7,184,557</u>	
Net Expense Adjustment		2,602,537
Gain (loss) on Disposal		9,956
Special education mandate settlement received in current fiscal year was accrued in 2001-02 in the governmental funds, therefore it is excluded in the statement of activities.		(33,033)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		(3,503,157)
Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a prepaid expense and amortized on the statement of net assets over the life of the bonds.		(13,059)
In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		(32,994)
Proceeds received from issuance of debt are a revenue in the governmental funds, but increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		(19,273,791)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		9,744,614
Payment of principal on certificates of participation is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		7,815,000
Payment of principal on capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		178,312
Post employment benefits are an expenditure in the governmental funds, but are included in long-term liabilities in the statement of net assets.		192,463
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(1,164,756)
An internal service fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		1,147
Change in Net Assets of Governmental Activities	\$	<u>(2,992,917)</u>

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Business Type Activities Enterprise Fund Downtown Project Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 17,987	\$ 73,019
Receivables	668	2,442
Total Current Assets	18,655	75,461
Noncurrent Assets		
Furniture and equipment (net)	35,524	-
Total Assets	\$ 54,179	\$ 75,461
LIABILITIES		
Current Liabilities		
Accounts payable	\$ -	\$ 4,440
Due to other funds	-	129
Total Current Liabilities	-	4,569
NET ASSETS		
Unrestricted	54,179	70,892
Total Net Assets	\$ 54,179	\$ 75,461

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

PETALUMA CITY SCHOOLS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Business Type Activities Enterprise Funds Downtown Project Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	\$ 6,275	\$ 42,295
Total Operating Revenues	<u>6,275</u>	<u>42,295</u>
OPERATING EXPENSES		
Supplies and materials	6,620	-
Other operating cost	1,684	41,651
Total Operating Expenses	<u>13,987</u>	<u>41,651</u>
Operating Income (loss)	<u>(7,712)</u>	<u>644</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	158	503
Total Nonoperating Revenues (Expenses)	<u>158</u>	<u>503</u>
Change in Net Assets	<u>(7,554)</u>	<u>1,147</u>
Total Net Assets - Beginning	<u>61,733</u>	<u>69,745</u>
Total Net Assets - Ending	<u>\$ 54,179</u>	<u>\$ 70,892</u>

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

PETALUMA CITY SCHOOLS

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds Downtown Project Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 10,437	\$ 50,087
Cash payments to suppliers for goods and services	(7,117)	-
Cash payments for other operating expenses	(1,684)	(40,382)
Net Cash Provided for Operating Activities	1,636	9,705
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	158	503
Net Cash Provided from Investing Activities	158	503
Net Increase in Cash and Cash Equivalents	1,794	10,208
Cash and Cash Equivalents - Beginning	16,193	62,811
Cash and Cash Equivalents - Ending	\$ 17,987	\$ 73,019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (7,712)	\$ 644
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,683	-
Changes in assets and liabilities:		
(Increase) Decrease receivables	4,162	(1,437)
(Increase) Decrease Due from other fund	-	9,229
Increase (Decrease) Accounts payable	(497)	1,140
Increase (Decrease) Due to other fund	-	129
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,636	\$ 9,705

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

PETALUMA CITY SCHOOLS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 111,608	\$ 348,633
Total Assets	<u>\$ 111,608</u>	<u>\$ 348,633</u>
LIABILITIES		
Due to student groups	\$ -	\$ 348,633
Total Liabilities	<u>-</u>	<u>\$ 348,633</u>
NET ASSETS		
Unreserved	111,608	
Total Net Assets	<u>\$ 111,608</u>	

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

PETALUMA CITY SCHOOLS

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

		Scholarship Trust
ADDITIONS		
Interest		4,912
Total Additions		<u>\$ 4,912</u>
DEDUCTIONS		
Other expenditures		4,000
Total Deductions		<u>\$ 4,000</u>
Change in Net Assets		912
Net Assets - Beginning		<u>110,696</u>
Net Assets - Ending		<u><u>\$ 111,608</u></u>

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

These financial statements report the combined financial activities of the Petaluma City Elementary School District and the Petaluma Joint Union High School District. The districts share a common governing board, administration, and staff as permitted under California Education Code Section 35110. These two entities are referred to collectively as Petaluma City Schools, and for purposes of these financial statement notes will be referred to collectively as the District.

The Petaluma City Schools organized in 1857 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-12 as mandated by the State and/or Federal agencies. The District operates six elementary, two middle, two high schools, an adult school, a community day school, three continuation schools, and one independent study site.

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

Other Related Entities

Charter School The District has approved Charters for Live Oak Charter School and the Mary Collins School at Cherry Valley Charter School pursuant to Education Code Section 47605. The Mary Collins Charter School is operated by the District, and its financial activities are presented in the General Fund. The Live Oak Charter School is responsible for managing, budgeting, and accounting for its activities in accordance with U.S. generally accepted accounting principles and not considered a component unit of the District. The District receives revenue on behalf of the Live Oak Charter School which it passes on to the Charter.

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 three broad fund categories: governmental, proprietary, and fiduciary.

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of major governmental capital facilities and buildings.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

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

County School Facilities Fund The County School Facilities Fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

Special Reserve Fund The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the Enterprise Downtown Project Fund of the District.

Internal Service Fund Internal service funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates a self insurance program that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private purpose trust funds, and agency funds.

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

Basis of Accounting - Measurement Focus

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

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

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

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Special Reserve Capital Outlay Fund represent cash and cash equivalents held at Zion Bank required by the Certificate of Participation debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the Certificates of Participation.

Stores Inventories

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 40 years; site improvements, 15 years; equipment, 5 to 10 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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$9.3 million of restricted net assets, of which \$8.0 is restricted by enabling legislation.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to the City of Petaluma for benches and trash receptacles. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Interfund Activity

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

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

Estimates

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

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

Budgetary Data

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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 Sonoma bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 16,993,125
Business-type activities	17,987
Proprietary activities	73,019
Fiduciary funds	460,241
Total Deposits and Investments	<u><u>\$ 17,544,372</u></u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 362,459
Cash in revolving	20,450
Investments	17,161,463
Total Deposits and Investments	<u><u>\$ 17,544,372</u></u>

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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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

General Authorizations

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

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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

Investment Type	Fair Value	Weighted Average Maturity in Days
Certificates of Deposit	\$ 99,782	229 days
U.S. Agencies	326,844	32 days
County Pool	16,734,837	486 days
Total	<u>\$ 17,161,463</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Certificates of Deposit	\$ 99,782	¹	\$ -	\$ -	\$ -
U.S. Agencies	326,844	AAA	326,844	-	-
County Pool	16,734,837	n/a	-	-	16,734,837
Total	<u>\$17,161,463</u>		<u>\$ 326,844</u>	<u>\$ -</u>	<u>\$16,734,837</u>

¹ The certificates of deposit account is maintained at Bank of America, and is insured up to \$250,000, by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, none of the District's bank balance of \$495,195 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Dreyfus Treasury Cash Management of \$326,844 the District has a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Internal Service Fund
Federal Government					
Categorical aid	\$ 2,794,486	\$ 223,374	\$ 3,017,860	\$ -	\$ -
State Government					-
Apportionment	3,151,649	-	3,151,649	-	-
Categorical aid	1,172,324	24,256	1,196,580	-	-
Lottery	485,175	-	485,175	-	-
Other State	1,424	118,715	120,139	-	-
Other Local Sources	1,715,470	138,556	1,854,026	668	2,442
Total	<u>\$ 9,320,528</u>	<u>\$ 504,901</u>	<u>\$ 9,825,429</u>	<u>\$ 668</u>	<u>\$ 2,442</u>

Additional long term receivables include \$14,363 for a special education settlement with payments expected to be received in 2010-2011.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,266,886	\$ -	\$ -	\$ 4,266,886
Construction in Progress	8,736,245	6,255,148	7,242,870	7,748,523
Total Capital Assets Not Being Depreciated	13,003,131	6,255,148	7,242,870	12,015,409
Capital Assets Being Depreciated:				
Land Improvements	6,493,370	414,520	-	6,907,890
Buildings and Improvements	124,844,200	7,581,801	-	132,426,001
Furniture and Equipment	5,902,155	175,958	18,668	6,059,445
Total Capital Assets Being Depreciated	137,239,725	8,172,279	18,668	145,393,336
Total Capital Assets	150,242,856	14,427,427	7,261,538	157,408,745
Less Accumulated Depreciation:				
Land Improvements	4,419,583	293,847	-	4,713,430
Buildings and Improvements	38,441,647	3,914,359	-	42,356,006
Furniture and Equipment	4,176,818	373,814	8,712	4,541,920
Total Accumulated Depreciation	47,038,048	4,582,020	8,712	51,611,356
Governmental Activities Capital Assets, Net	\$ 103,204,808	\$ 9,845,407	\$ 7,252,826	\$ 105,797,389
Business-Type Activities				
Furniture and Equipment	\$ 56,833	\$ -	\$ -	\$ 56,833
Less Accumulated Depreciation	15,626	5,683	-	21,309
Business-Type Activities Capital Assets, Net	\$ 41,207	\$ (5,683)	\$ -	\$ 35,524

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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

Governmental Activities

Instruction	\$ 2,443,622
Supervision of instruction	96,469
Instructional library, media, and technology	228,951
School site administration	311,201
Home-to-school transportation	342,132
Food services	65,477
All other pupil services	341,515
Ancillary services	46,688
Community services	32,730
All other general administration	280,968
Plant services	392,267
Total Depreciation Expenses Governmental Activities	<u>4,582,020</u>

Business-Type Activities

Downtown Enterprise	5,683
Total Depreciation Expenses All Activities	<u>\$ 4,587,703</u>

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 transaction are executed. Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ 392,383	\$ 328,306	\$ 720,689
Non-Major Governmental funds	121,383	-	121,383
Proprietary funds	129	-	129
Total	<u>\$ 513,895</u>	<u>\$ 328,306</u>	<u>\$ 842,201</u>

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

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From	
	General Fund	Total
Non-Major Governmental funds	\$ 917,574	\$ 917,574

The General Fund transferred to the Adult Education Fund for apportionment.

\$ 639,174

The General Fund transferred to the Deferred Maintenance Fund for District match.

278,400

Total

\$ 917,574

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

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total	Internal Service Fund
Vendor payables	\$ 1,590,297	\$ 464,587	\$ 2,054,884	\$ 4,440
State apportionment	722,813	-	722,813	-
Salaries and benefits	22,506	8,470	30,976	-
Total	\$ 2,335,616	\$ 473,057	\$ 2,808,673	\$ 4,440

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds
Federal financial assistance	\$ 1,250,069	\$ -
State categorical aid	72,972	563
Total	\$ 1,323,041	\$ 563

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On November 17, 2009, the District issued \$5,300,000 Tax and Revenue Anticipation Notes bearing interest at 1.25 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on November 23, 2010. By May, 2010, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$5,300,000 and related accrued interest and cash held in trust are not included in these financial statements.

Issue Date	Rate	Maturity Date	Outstanding July 1, 2009	Additions	Payments	Outstanding June 30, 2010
July 3, 2008	1.700%	July 3, 2009	\$3,370,000	\$ -	\$ 3,370,000	\$ -
November 17, 2009	1.250%	November 23, 2010	-	5,300,000	-	5,300,000
			<u>\$3,370,000</u>	<u>\$5,300,000</u>	<u>\$ 3,370,000</u>	<u>\$ 5,300,000</u>

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, 2009	Additions	Accretions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 62,686,446	\$ 11,513,791	\$ 957,358	\$ 9,744,614	\$ 65,412,981	\$ 3,048,298
Premiums (discounts), net of amortization	28,537	272,478	-	28,514	272,501	28,514
Certificates of participation	7,815,000	7,760,000	-	7,815,000	7,760,000	275,000
Accumulated vacation	367,134	32,994	-	-	400,128	-
Capital leases	414,387	3,503,158	-	178,312	3,739,233	304,867
Other post employment benefits	646,486	-	-	192,463	454,023	156,828
	<u>\$ 71,957,990</u>	<u>\$ 23,082,421</u>	<u>\$ 957,358</u>	<u>\$ 17,958,903</u>	<u>\$ 78,038,866</u>	<u>\$ 3,813,507</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The Special Reserve – Capital Outlay Fund makes payments for the Certificates of Participation and the General Fund makes payments for the majority of the capital leases. The accrued vacation and other post employment benefits will be paid by the fund for which the employee worked.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Additions/ Accretions	Redeemed	Bonds Outstanding June 30, 2010
Elementary								
1991 I	07/01/02	8/1/2027	1.70-5.00	\$ 3,500,000	\$ 3,040,000	\$ -	\$ 105,000	\$ 2,935,000
1991 J	04/06/04	8/1/2028	4.00-8.00	\$ 2,700,000	2,420,000	-	80,000	2,340,000
2003 Refunding	04/17/03	8/1/2021	2.75-4.30	\$ 5,895,000	4,540,000	-	300,000	4,240,000
2003 Series B								
Refunding	10/29/03	8/1/2017	3.00-4.00	\$ 4,560,000	3,295,000	-	290,000	3,005,000
2008 Refunding	04/15/08	8/1/2024	2.00-3.80	\$ 7,965,000	7,825,000	-	590,000	7,235,000
High School								
1992 C	07/01/95	8/1/2021	4.50-6.20	\$ 10,623,276	2,132,635	134,283	-	2,266,918
1995 Refunding	11/09/95	8/1/2018	4.65-5.80	\$ 8,972,019	14,455,364	700,224	494,614	14,660,974
2002 Refunding	07/01/02	8/1/2020	2.00-4.75	\$ 11,943,021	10,183,447	122,852	7,425,000	2,881,299
2005 Refunding	07/13/05	8/1/2024	3.125-7.00	\$ 14,825,000	14,795,000	-	460,000	14,335,000
1992 G	06/09/10	08/01/25	2.00-4.25	\$ 2,418,791	-	2,418,790	-	2,418,790
2010 Refunding	05/12/10	08/01/20	2.00-4.00	\$ 9,095,000	-	9,095,000	-	9,095,000
					<u>\$ 62,686,446</u>	<u>\$ 12,471,149</u>	<u>\$ 9,744,614</u>	<u>\$ 65,412,981</u>

Debt Service Requirements to Maturity

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Accretion	Total
2011	\$ 3,048,298	\$ 1,645,438	\$ 646,702	\$ 5,340,438
2012	2,983,550	1,529,162	805,241	5,317,953
2013	3,089,211	1,638,486	950,789	5,678,486
2014	3,188,838	1,719,917	1,116,162	6,024,917
2015	3,240,699	1,610,479	1,374,301	6,225,479
2016-2020	18,242,133	6,294,848	8,322,867	32,859,848
2021-2025	20,274,989	1,611,183	5,925,011	27,811,183
2026-2030	1,330,000	113,380	-	1,443,380
Total	<u>55,397,718</u>	<u>\$ 16,162,893</u>	<u>\$ 19,141,073</u>	<u>\$ 90,701,684</u>
Accretions to date	<u>10,015,263</u>			
	<u>\$ 65,412,981</u>			

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Certificates of Participation

In February 2010, the District issued certificates of participation in the amount of \$7,760,000 with a variable interest rates ranging from 0.18 percent to 0.45 percent to refund the 2005 certificates of participations. As of June 30, 2010, the principal balance outstanding was \$7,760,000. The certificates mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 275,000	\$ 99,328	\$ 374,328
2012	280,000	95,808	375,808
2013	290,000	92,224	382,224
2014	300,000	88,512	388,512
2015	305,000	84,672	389,672
2016-2020	1,675,000	80,768	1,755,768
2021-2025	1,930,000	340,800	2,270,800
2026-2030	2,220,000	223,936	2,443,936
2031-2035	485,000	89,472	574,472
Total	<u>\$ 7,760,000</u>	<u>\$ 1,195,520</u>	<u>\$ 8,955,520</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$400,128.

Capital Leases

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

	Buses	Buildings and Equipment	Total
Balance, July 1, 2009	\$ 307,654	\$ 133,493	\$ 441,147
Additions	-	5,286,307	5,286,307
Payments	180,213	11,050	191,263
Balance, July 1, 2010	<u>\$ 127,441</u>	<u>\$ 5,408,750</u>	<u>\$ 5,536,191</u>

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 546,070
2012	482,975
2013	404,130
2014	398,407
2015	385,498
2016-2020	1,725,193
2021-2025	1,593,918
Total	5,536,191
Less: Amount Representing Interest	1,796,958
Present Value of Minimum Lease Payments	\$ 3,739,233

Other Post Employment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65. For the year ended June 30, 2010, approximately 100 employees were eligible to receive benefits. Future estimated payments required under the plan are as follows:

Year	Other Post-employment Benefits
2011	\$ 156,828
2012	109,428
2013	71,822
2014	39,160
2015	32,693
2016-2018	44,092
	\$ 454,023

Defeasance of Debt Obligations

The District has defeased the 1991 and 1998 bond issues by creating a separate irrevocable trust fund. New debt was issued in the prior years and the proceeds have been used to purchase U. S. government securities and placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's Long-Term Obligations

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 10 - FUND BALANCES

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved				
Revolving cash	\$ 20,000	\$ -	\$ 450	\$ 20,450
Stores inventory	50,252	-	21,494	71,746
Restricted programs	1,072,669	-	-	1,072,669
Total Reserved	1,142,921	-	21,944	1,164,865
Unreserved				
Designated				
Economic uncertainties	1,998,069	-	-	1,998,069
Other designation	470,235	-	-	470,235
Total Designated	2,468,304	-	-	2,468,304
Undesignated	7,708,692	5,241,992	6,174,299	19,124,983
Total Unreserved	10,176,996	5,241,992	6,174,299	21,593,287
Total	\$11,319,917	\$ 5,241,992	\$ 6,196,243	\$22,758,152

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

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Petaluma City Schools. The Plan provides medical insurance benefits to eligible retirees and their spouses. Eligible employees are those who retired from the District before 2004 upon attaining age 55 with at least 10 years of service. Benefits are paid by the District until the retiree reaches the age of 65 and are capped at negotiated amounts. As of June 30, 2010, membership of the Plan consists of 53 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and no 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 Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009-10, the District contributed \$192,463 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums).

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Funded Status and Funding Progress

The District uses the Alternative Measurement Method for valuations of the ongoing plan and the measurement methods 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 investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

Valuation 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 methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010, valuation measurement, the alternative measure method was used. Healthcare cost trend rates ranged from current actual amounts up to the agreed upon caps. Mortality estimates were not included as the District pays the healthcare benefits only to age 65. The UAAL was fully amortized and no phase in is being applied. There were no assets set aside to fund future amounts.

NOTE 12 – 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, 2010, the District contracted with Redwood Empire Schools Insurance Group (RESIG), for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010, the District participated in the Redwood Empire Schools Insurance Group (RESIG) JPA, an insurance purchasing pool. The intent of the RESIG JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the RESIG JPA. Participation in the RESIG JPA is limited to districts that can meet the RESIG JPA's selection criteria.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Employee Dental Benefits

The District has contracted through Redwood Empire Schools Insurance Group (RESIG) JPA, an insurance purchasing pool for dental benefits for their employees. Premiums are calculated at the beginning of each year and are paid monthly by the participating District.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 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, 2010, 2009, and 2008, were \$2,480,023, \$2,651,108, and \$2,647,620, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. 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.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709 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, 2010, 2009, and 2008, were \$1,057,428, \$1,108,460, and \$1,062,286, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

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

The District also has a 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The 403(b) plan is available for salary deferrals, however, no District contributions are made.

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 \$1,381,052 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010.

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Petaluma Junior High School & Penngrove Elementary - Roofing Projects	\$ 204,290	Sep-10
Mary Collins at Cherry Valley Charter School - Modernization, Final Phase	468,108	Dec-10
Petaluma Junior High School - Admin. Modernization & Library	231,936	Jul-10
Petaluma Joint Union High School District Solar Project	5,360,463	Feb-11
Petaluma High School Agriculture Science Lab Modernization	103,500	Sep-10
	<u>\$ 6,368,297</u>	

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

The District is a member of the Redwood Empire Schools Insurance Group, and the Schools Excess Liability Fund public entity risk pools and the School Project for Utility Rate Reduction joint powers authority (JPA). The District pays an annual premium to the applicable entities for its workers' compensation, property and liability coverage, dental coverage, and for direct purchase of gas, electricity, and other utility services. The relationships between the District, the pools, and the JPA are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2010, the District made payments of \$2,003,662 and \$153,972 to Redwood Empire Schools Insurance Group, and School Project for Utility Rate Reduction, respectively for workers compensation, property and liability coverage, dental insurance and direct purchase of gas, electricity and other utility services.

NOTE 16 - SUBSEQUENT EVENTS

Tax Revenue and Anticipation Notes

The District issued \$5,600,000 of Tax and Revenue Anticipation Notes dated November 23, 2010. The notes mature on November 23, 2011, and yield a .74 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent in January and April 2011, until 100 percent of principal and interest due is on account in May, 2011.

PETALUMA CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 17 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

***REQUIRED SUPPLEMENTARY
INFORMATION***

PETALUMA CITY SCHOOLS

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources	\$ 41,571,328	\$ 41,578,767	41,564,114	\$ (14,653)
Federal sources	3,902,629	8,120,220	6,945,480	(1,174,740)
Other State sources	9,145,891	9,701,345	12,964,656	3,263,311
Other local sources	7,574,414	7,483,220	7,017,276	(465,944)
Total Revenues ¹	62,194,262	66,883,552	68,491,526	1,607,974
EXPENDITURES				
Current				
Certificated salaries	30,364,601	30,293,676	30,074,211	219,465
Classified salaries	10,320,073	10,352,286	10,242,966	109,320
Employee benefits	12,870,540	13,136,635	13,083,109	53,526
Books and supplies	1,881,518	3,205,432	2,062,317	1,143,115
Services and operating expenditures	9,727,038	11,347,904	11,349,839	(1,935)
Other outgo	224,994	270,685	225,635	45,050
Capital outlay	15,000	26,814	27,694	(880)
Total Expenditures ¹	65,403,764	68,633,432	67,065,771	1,567,661
Excess (Deficiency) of Revenues Over Expenditures	(3,209,502)	(1,749,880)	1,425,755	3,175,635
Other Financing Sources (Uses)				
Transfers in	-	33,756	-	(33,756)
Transfers out	(337,550)	(337,550)	(917,574)	(580,024)
Net Financing Sources (Uses)	(337,550)	(303,794)	(917,574)	(613,780)
NET CHANGE IN FUND BALANCES	(3,547,052)	(2,053,674)	508,181	2,561,855
Fund Balance - Beginning	10,811,736	10,811,736	10,811,736	-
Fund Balance - Ending	\$ 7,264,684	\$ 8,758,062	\$ 11,319,917	\$ 2,561,855

¹ On behalf payments of \$1,381,052 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

PETALUMA CITY SCHOOLS

SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2010

Schedule of Funding Progress						
Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2009	\$ -	\$ 646,486	\$ 646,486	\$ -	\$ -	0%
June 30, 2010	-	454,023	454,023	-	-	0%

SUPPLEMENTARY INFORMATION

PETALUMA CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010**

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):			
Adult Education:			
Adult Basic Education & ESL	84.002A	14508	\$ 39,564
Adult Secondary Education	84.002	13978	4,975
English Literacy & Civics	84.002A	14109	25,825
NCLB: Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	547,253
NCLB: Title I, Part A, Program Improvement District Intervention	84.377	14971	26,986
NCLB: Title I, ARRA, Part A, Basic Grants Low income and Neglected	84.389	15005	111,443
Title II - Part D, Enhancing Education Through Technology	84.318	14334	9,094
NCLB: ARRA Title II, Part D, Enhancing Education Through Technology	84.386A	15019	9,970
Title II - Part A, Improving Teacher Quality	84.367	14341	134,306
Title II - Part A, Administrator Training	84.367	14344	7,297
Title III - Immigrant Education Program	84.365	14346	16,131
Title III - Limited English Proficiency	84.365	10084	132,350
Title V - Part A, Innovative Education Strategies	84.298A	14354	3,741
Title X - McKinney-Vento Homeless Assistance	84.196	14332	14,823
Title X - ARRA McKinney-Vento Homeless Assistance	84.387	15007	12,118
Title IV - Part A, Drug Free Schools and Communities	84.186	14347	20,441
ARRA: State Fiscal Stabilization Fund	84.394	25008	3,869,932
Special Education - Cluster			
IDEA, Local Assistance	84.027	13379	1,586,063
IDEA, ARRA Local Assistance	84.391	15003	1,132,037
IDEA, Preschool Staff Development	84.173A	13431	2,453
IDEA, Preschool Local Entitlement	84.027A	13682	152,089
IDEA, ARRA: Preschool Local Entitlement	84.391	15002	33,999
IDEA, Federal Preschool	84.173	13430	109,897
IDEA, ARRA: Federal Preschool	84.392	15000	77,216
Vocational Educational Grants	84.048	13924	47,644
Elementary & Secondary School Counseling Demonstration	84.215E	NA	452,799
Carol White PE Grant	84.215F	NA	107,756
Traditional Teaching American History Project	84.215X	NA	246,725
Smaller Learning Communities Grant	84.215L	NA	230,240
Total U.S. Department of Education			<u>9,165,164</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster			
National School Lunch	10.555	13396	\$ 732,774
Basic School Breakfast Program	10.553	13525	897
Especially Needy Breakfast	10.553	13526	246,189
Fresh Fruit & Vegetable	10.582	14968	11,737
FMV Commodities	10.555	¹	98,252
Total U.S. Department of Agriculture			<u>1,089,850</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICE:			
Medical Administrative Activities	93.778	10060	\$ 18,083
			<u>18,083</u>
Total Expenditures of Federal Awards			<u>\$10,273,097</u>

¹ Not included in financial statements, disclosure only

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

ORGANIZATION

The Petaluma City Schools was established 1857 under the laws of the State of California. The District operates six elementary schools, two middle, a community day school, two high schools, three continuation schools, one independent study site serving grades K-12, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

	<u>OFFICE</u>	<u>TERM EXPIRES</u>
<u>MEMBER</u>		
Christina Kauk	President	2010
Mary Schafer	Clerk	2012
Carolyn Tennyson	Member	2014
Troy Sanderson	Member	2012
Michael Baddeley	Member	2014

ADMINISTRATION

Greta Viguie, EdD	Superintendent
Steve Bowman	Deputy Superintendent, Business and Administration

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2010

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	293.78	294.21
First through third	862.28	864.67
Fourth through sixth	811.91	812.41
Seventh and eighth	1,564.50	1,563.28
Home and hospital	0.15	0.44
Special education	38.02	37.51
Total Elementary	3,570.64	3,572.52
SECONDARY		
Regular classes	3,066.21	3,039.79
Continuation education	146.40	146.93
Home and hospital	14.03	15.65
Special education	91.68	92.32
Community day school	15.73	15.84
Total Secondary	3,334.05	3,310.53
Total K-12	6,904.69	6,883.05

	Classroom Based	Non-Classroom Based	P2 Total	Annual Total
CHARTER SCHOOL				
Kindergarten	42.78	0.22	43.00	43.08
First through third	132.59	0.30	132.89	132.94
Fourth through sixth	131.07	0.14	131.21	131.13
Seventh and eighth	42.50	0.03	42.53	43.26
Total	348.94	0.69	349.63	350.41

The above schedule includes ADA for Petaluma Elementary School District, Petaluma High School District and Mary Collins School at Cherry Valley (charter school).

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-83	Reduced	1986-87	Reduced	2009-10	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	31,500	30,625	36,000	35,000	36,000	180	N/A	In Compliance
Grades 1 - 3	42,000	40,833	50,400	49,000				
Grade 1					50,445	180	N/A	In Compliance
Grade 2					50,445	180	N/A	In Compliance
Grade 3					54,058	180	N/A	In Compliance
Grades 4 - 6	49,875	48,490	54,000	52,500				
Grade 4					54,058	180	N/A	In Compliance
Grade 5					54,058	180	N/A	In Compliance
Grade 6					54,058	180	N/A	In Compliance
Grades 7 - 8	49,875	48,490	54,000	52,500				
Grade 7					54,014	180	N/A	In Compliance
Grade 8					54,014	180	N/A	In Compliance
Grades 9 - 12	56,525	54,955	64,800	63,000				
Grade 9					66,470	180	N/A	In Compliance
Grade 10					66,609	180	N/A	In Compliance
Grade 11					66,470	180	N/A	In Compliance
Grade 12					66,470	180	N/A	In Compliance

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Summarized below are the reconciliations between the Unaudited Actual Financial Report, and the audited financial statements:

	Special Reserve Capital Outlay Fund	Downtown Enterprise Fund
FUND BALANCE		
Balance, June 30, 2010, Unaudited Actuals	\$ 1,565,660	\$ 18,655
Decrease in:		
Accounts receivable	(12,878)	-
Capital assets	-	56,833
Accumulated depreciation	-	(21,309)
Balance, June 30, 2010, Audited Financial Statement	<u>\$ 1,552,782</u>	<u>\$ 54,179</u>

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

FORM ASSET	
Balance, June 30, 2010, Unaudited Actuals	\$ 99,715,970
Increase (Decrease) in:	
Work in progress	6,464,163
Land improvements	595,704
Buildings	7,581,801
Equipment	445,586
(Increase) Decrease in:	
Accumulated depreciation - land improvements	(612,024)
Accumulated depreciation - buildings	(7,667,199)
Accumulated depreciation - equipment	(726,612)
Balance, June 30, 2010, Audited Financial Statement, Governmental Funds	<u>\$105,797,389</u>

FORM DEBT	
Total Liabilities, June 30, 2010, Unaudited Actuals	\$ 70,957,287
Increase in:	
General obligation bonds	3,216,281
Certificates of participation	175,000
Capital leases	3,385,464
Compensated absences	32,993
Premiums, net of amortization	272,501
Decrease in:	
OPEB benefits	(660)
Total Liabilities, June 30, 2010, Audited Financial Statement	<u>\$ 78,038,866</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) 2011 ¹	2010	2009	2008
GENERAL FUND				
Revenues	\$ 62,082,273	\$ 68,491,526	\$ 70,162,428	\$ 70,375,158
Total Revenues and Other Sources	62,082,273	68,491,526	70,162,428	70,375,158
Expenditures	63,299,157	67,065,771	71,265,329	68,154,026
Other uses and transfers out	337,550	917,574	455,898	404,707
Total Expenditures and Other Uses	63,636,707	67,983,345	71,721,227	68,558,733
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,554,434)	\$ 508,181	\$ (1,558,799)	\$ 1,816,425
ENDING FUND BALANCE	\$ 9,765,483	\$ 11,319,917	\$ 10,811,736	\$ 12,370,535
AVAILABLE RESERVES ²	\$ 9,378,864	\$ 9,706,762	\$ 8,687,866	\$ 8,497,278
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	14.74%	14.57%	12.39%	12.67%
LONG-TERM DEBT	\$ 74,225,359	\$ 78,038,866	\$ 71,957,990	\$ 74,369,611
K-12 AVERAGE DAILY ATTENDANCE AT P-2	6,800	6,905	7,055	7,087

The General Fund balance has increased by \$1,050,618 over the past two years. The fiscal year 2010-2011 budget projects a decrease of \$1,554,434 (14 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in one of the past three years and anticipates incurring an operating deficit again during the 2010-2011 fiscal year due to State budget cuts and lack of funded COLA. Total long-term obligations have increased by \$3,669,225 over the past two years.

Average daily attendance has decreased by 182 over the past two years. An additional decrease of 105 is anticipated during fiscal year 2010-2011.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund

³ On-behalf payments of \$1,381,052, \$1,583,441, and \$1,476,548 have been excluded from the revenues and expenditures.

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2010

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Live Oak Charter	No
Mary Collins School at Cherry Valley	Yes

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

PARCEL TAX – BALANCE SHEET JUNE 30, 2010

ASSETS	Elementary	High School
Cash and investments	\$ 325,909	\$ 490,727
Accounts receivable	-	7
Total Assets	<u>\$ 325,909</u>	<u>\$ 490,734</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	<u>\$ 4,896</u>	<u>\$ 9,758</u>
FUND EQUITY		
Fund balances		
Undesignated	<u>321,013</u>	<u>480,977</u>
Total Fund Equity	<u>321,013</u>	<u>480,977</u>
Total Liabilities and Fund Equity	<u>\$ 325,909</u>	<u>\$ 490,734</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

PARCEL TAX – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

	Elementary	High School
REVENUES		
Parcel tax revenue	\$ 730,511	\$ 1,140,361
EXPENDITURES		
Current Expenditures		
Certificated salaries	473,792	445,214
Classified salaries	133,109	107,031
Benefits	193,204	164,074
Books and supplies	21,692	213,119
Services and operating expenditures	7,901	64,242
Total Expenditures	829,697	993,680
EXCESS OF REVENUES OVER EXPENDITURES	(99,186)	146,682
FUND BALANCE, Beginning of Year	420,199	334,294
FUND BALANCE, End of Year	\$ 321,013	\$ 480,976

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

PARCEL TAX – FINANCIAL SUMMARY FOR THE YEAR ENDED JUNE 30, 2010

Expenditures	Elementary	High School
Certificated salaries	\$ 473,792	\$ 445,214
Classified salaries	133,109	107,031
Benefits	193,204	164,074
Books and supplies	21,692	213,119
Services and operating expenses	7,901	64,242
Total expenditures	<u>\$ 829,697</u>	<u>\$ 993,680</u>

	Elementary	High School
Parcel taxes collected	\$ 730,511	\$ 1,140,361
Total expenditures and commitments	<u>829,697</u>	<u>993,680</u>
Amount available from current year collections	<u>\$ (99,186)</u>	<u>\$ 146,682</u>

See accompanying note to supplementary information.

PETALUMA CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
ASSETS				
Deposits and investments	\$ 183,894	\$ 19,876	\$ 539,769	\$2,594,034
Receivables	208,002	168,394	-	-
Due from other funds	57,747	1,008	269,551	-
Stores inventories	-	21,494	-	-
Total Assets	\$ 449,643	\$ 210,772	\$ 809,320	\$2,594,034
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 185,335	\$ 17,910	\$ 8,543	\$ 53,279
Due to other funds	49,279	70,639	1,465	-
Deferred revenue	-	-	-	-
Total Liabilities	234,614	88,549	10,008	53,279
Fund Balances:				
Reserved for:				
Other reservations	300	21,644	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	214,729	100,579	799,312	-
Capital projects funds	-	-	-	2,540,755
Total Fund Balance	215,029	122,223	799,312	2,540,755
Total Liabilities and Fund Balances	\$ 449,643	\$ 210,772	\$ 809,320	\$2,594,034

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non Major Governmental Funds
\$ 151,737	\$ 999,577	\$ 1,447,658	\$ 5,936,545
8,901	-	119,604	504,901
-	-	-	328,306
-	-	-	21,494
<u>\$ 160,638</u>	<u>\$ 999,577</u>	<u>\$ 1,567,262</u>	<u>\$ 6,791,246</u>
\$ 840	\$ 193,233	\$ 13,917	\$ 473,057
-	-	-	121,383
-	-	563	563
<u>840</u>	<u>193,233</u>	<u>14,480</u>	<u>595,003</u>
-	-	-	21,944
-	-	-	1,114,620
159,798	806,344	1,552,782	5,059,679
<u>159,798</u>	<u>806,344</u>	<u>1,552,782</u>	<u>6,196,243</u>
<u>\$ 160,638</u>	<u>\$ 999,577</u>	<u>\$ 1,567,262</u>	<u>\$ 6,791,246</u>

PETALUMA CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
REVENUES				
Federal sources	\$ 70,363	\$ 979,861	\$ -	\$ -
Other state sources	95,016	116,294	278,400	-
Other local sources	99,202	786,465	490,126	16,053
Total Revenues	264,581	1,882,620	768,526	16,053
EXPENDITURES				
Current				
Instruction	922,966	-	-	-
Instruction-related activities:				
School site administration	264,963	-	-	-
Pupil services:				
Food services	-	1,861,999	-	-
General administration:				
All other general administration	-	-	-	-
Plant services	17,111	4,081	813,692	8,833
Facility acquisition and construction	-	-	-	6,302,972
Debt service				
Principal	-	3,912	-	-
Interest and other	-	1,436	-	-
Total Expenditures	1,205,040	1,871,428	813,692	6,311,805
Excess (Deficiency) of Revenues Over Expenditures	(940,459)	11,192	(45,166)	(6,295,752)
Other Financing Sources (Uses):				
Transfers in	639,174	-	278,400	-
Other financing sources refunding bond	-	-	-	5,804,254
Other financing sources	-	-	-	-
Net Financing Sources (Uses)	639,174	-	278,400	5,804,254
NET CHANGE IN FUND BALANCES	(301,285)	11,192	233,234	(491,498)
Fund Balance - Beginning	516,314	111,031	566,078	3,032,253
Fund Balance - Ending	\$ 215,029	\$ 122,223	\$ 799,312	\$ 2,540,755

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 1,050,224
-	1,093,620	-	1,583,330
345,650	2,190	130,856	1,870,542
<u>345,650</u>	<u>1,095,810</u>	<u>130,856</u>	<u>4,504,096</u>
-	-	-	922,966
-	-	-	264,963
-	-	-	1,861,999
18,982	-	-	18,982
45,517	-	122,157	1,011,391
148,750	336,633	275,694	7,064,049
-	-	5,570,000	5,573,912
-	-	2,629,373	2,630,809
<u>213,249</u>	<u>336,633</u>	<u>8,597,224</u>	<u>19,349,071</u>
<u>132,401</u>	<u>759,177</u>	<u>(8,466,368)</u>	<u>(14,844,975)</u>
-	-	-	917,574
-	-	-	5,804,254
-	-	7,900,223	7,900,223
-	-	7,900,223	14,622,051
<u>132,401</u>	<u>759,177</u>	<u>(566,145)</u>	<u>(222,924)</u>
<u>27,397</u>	<u>47,167</u>	<u>2,118,927</u>	<u>6,419,167</u>
<u>\$ 159,798</u>	<u>\$ 806,344</u>	<u>\$ 1,552,782</u>	<u>\$ 6,196,243</u>

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA	
	Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 7,995,704
Commodities	10.555	98,252
ARRA State Stabilization Fund	84.394	2,179,141
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,273,097</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201. Senate Bill 2 of the 2009-2010 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal years 2009-2010 through 2012-2013.

PETALUMA CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION (CONTINUED) **JUNE 30, 2010**

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

Parcel Tax – Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balance, and Financial Summary

These statements provide information regarding the receipt and use of funds related to the Measure C and Measure K parcel taxes, and the Maintaining Excellence in Jr. High and High Schools Act of 2007 Tax.

The Measure C and Measure K parcel tax measures were approved by the voters on November 2, 2004 for the Petaluma Elementary School District and the Petaluma High School District, respectively. On May 8 2007, revisions to the measures, known as the Maintaining Excellence in Jr. High and High Schools Act of 2007 Tax, were approved by the voters. These revisions retained the same purposes and other terms of the measures but extending the time frame from four years to indefinite.

The Elementary School parcel tax is used for the following: keeping libraries open; continuing to provide reading specialists; continuing smaller class sizes, music and art programs; computer and technology programs; providing necessary educational programs and materials; and attracting and retaining qualified teachers.

The High School parcel tax is used for the following: keeping libraries open; continuing smaller class sizes; computer and technology programs; music and fine art programs; and attracting and retaining qualified teachers.

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

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

APPENDIX B

FORM OF LEGAL OPINION

APPENDIX B
FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees
Petaluma City (Elementary) School District
200 Douglas Street
Petaluma, CA 94952-2575

OPINION: \$7,400,000* Petaluma City (Elementary) School District (Sonoma County, California)
2011 Tax and Revenue Anticipation Notes

Members of the Board of Trustees:

We have acted as bond counsel to the Petaluma City (Elementary) School District (the "District") in connection with the issuance by the Board of Supervisors of Sonoma County (the "Board") of \$7,400,000* principal amount of Petaluma City (Elementary) School District (Sonoma County, California) 2011 Tax and Revenue Anticipation Notes, dated September 28, 2011 (the "Notes"), pursuant to Article 7.6 (commencing with section 53850), Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, a resolution adopted by the Board of Trustees of the District on August 16, 2011 (the "District Resolution"), and a resolution adopted by the Board on August 23, 2011 (the "Board Resolution" and, collectively, the "Resolutions"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

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

3. The Notes have been duly authorized, issued and delivered by the Board and are valid and binding general obligations of the District enforceable in accordance with their terms.

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

*Preliminary, subject to change.

the Notes. It is also our opinion that the Notes are “qualified tax exempt obligations” under section 265(b)(3) of the Code.

5. Interest on the Notes is exempt from personal income taxation imposed by the State of California.

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

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

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

Respectfully submitted,

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT (the "District") in connection with the issuance by the Board of Supervisors of Sonoma County (the "Board") in the name of the District of \$7,400,000* Petaluma City (Elementary) School District (Sonoma County, California) 2011 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the Board of Trustees of the District on August 16, 2011, and a resolution adopted by the Board on August 23, 2011 (collectively, the "Resolution"). The District covenants and agrees as follows:

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

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

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

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

"*Listed Events*" shall mean any of the events listed in Section 3 of this Disclosure Certificate.

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

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

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

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and Beneficial Owners of the Notes and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 3. Reporting of Listed Events.

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

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.

- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

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

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

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

Section 4. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

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

Section 6. Dissemination Agent.

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

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, Holders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Notes, or the type of business conducted;

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

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Note holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Note holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Note holders or Beneficial Owners.

Section 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Note holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure

Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Note holders and Beneficial Owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: [Closing Date]

PETALUMA CITY (ELEMENTARY) SCHOOL
DISTRICT

By _____
Authorized Officer

APPENDIX D

SONOMA COUNTY INVESTMENT POOL

COUNTY OF SONOMA

STATEMENT OF INVESTMENT POLICY

Under the authority delegated to the County Treasurer by the Board of Supervisors to invest and reinvest all of the funds in the County Treasury and, in accordance with the California Government Code, the following sets forth the investment policy of the County of Sonoma:

1. POLICY STATEMENT

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of the Sonoma County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code Section 53601, et. seq., Section 53635, et. seq., and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of investment objectives.

2. STANDARDS OF CARE

The County Treasurer is the Trustee of the Pooled Investment Fund and, therefore, a fiduciary subject to the prudent investor standard. The County Treasurer, employees involved in the investment process and the members of the Treasury Oversight Committee (Oversight Committee) shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in the Policy.

3. INVESTMENT OBJECTIVES

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance:

- [a] **SAFETY OF CAPITAL** - The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
- [b] **LIQUIDITY** - As a second objective, the Pooled Investment Fund should remain sufficiently flexible to ensure the County Treasurer meets all operating requirements, which may be reasonably anticipated in any depositor's fund.

- [c] **MAXIMUM RATE OF RETURN** - As the third objective, the Pooled Investment Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein.

4. IMPLEMENTATION

In order to provide direction to those responsible for management of the Pooled Investment Fund, the County Treasurer has established this Policy and presented it to the Treasury Oversight Committee and the Board of Supervisors, and has provided the report to the legislative body of local agencies that participate in the Pooled Investment Fund.

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

5. PARTICIPANTS

- [a] **STATUTORY PARTICIPANTS** - General Participants are those government agencies within the County of Sonoma for which the Sonoma County Treasurer is statutorily designated as the Custodian of Funds.
- [b] **VOLUNTARY PARTICIPANTS** - Other local agencies, such as Special Districts and Cities for which the Treasurer is not the statutory designated Custodian of Funds, may participate in the Pooled Investment Fund. Such participation is subject to the consent of the County Treasurer and must be in accordance with the California Code Section 53684, et seq. The agency must approve in writing the Sonoma County Pooled Investment Fund as an authorized investment and accept the County of Sonoma Investment Policy.

6. AUTHORIZED PERSONS

The Sonoma County Board of Supervisors, by resolution, has delegated investment responsibility for the Sonoma County Investment Program to the Auditor-Controller/Treasurer-Tax Collector. Daily management responsibility of the investment program has been assigned to the Assistant Treasurer. The Treasury Manager or the Revenue and Debt Manager are also authorized to initiate investment transactions.

All investment decisions shall be made with care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting as a trustee in a like capacity and familiarity would use in the conduct of funds of a like character, and with like aims, to safeguard the principal and maintain the liquidity needs of depositors.

7. *AUTHORIZED INVESTMENTS*

Authorized investments shall match the general categories established by the California Government Code Sections 53601, et. seq. and 53635, et. seq. Authorized investments shall also include, in accordance with California Government Code Section 16429.1, investments into the State Local Agency Investment Fund (LAIF). No investment shall be made in any security with a maturity greater than five years, unless the Board of Supervisors has granted express authority to make that investment. As the California Government Code is amended, this Policy shall likewise become amended.

8. *PROHIBITED INVESTMENTS*

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

9. *INVESTMENT CRITERIA*

Investment Type	Maximum Maturity	Maximum % of Pool	Rating
U.S Treasury and Agency Securities (§53601 (b & f))	5 years	100	N/A
Bonds and Notes issued by local agencies (§53601 (e))	5 years	100	N/A
Registered State Warrants and Municipal Notes and Bonds (§53601 (c, d & e))	5 years	100	N/A
Bankers' Acceptances (See Section 10) (§53601 (g))	180 days	40	N/A
Commercial Paper (See Section 11) (§53601 (h) and (§53635 (a))	270 days	40	A-1/F-1/P-1
Negotiable Certificates of Deposit (§53601 (i))	5 years	30	N/A
Repurchase Agreements (See Section 12) (§53601 (j))	1 year	100	N/A
Reverse Repurchase Agreements and Securities Lending Agreements (See Section 12) (§53601 (j))	92 days	20	N/A
Medium Term Corporate Notes (§53601 (k))	5 years	30	A
Mutual Funds & Money Market Mutual Funds (§53601 (l))	N/A	20	Aaa & AAAM or Section 13
Collateralized Mortgage Obligations (§53601 (m))	5 years	20	AA
Joint Powers Agreement (See Section 14) (§53601 (p))	N/A	20	N/A
Local Agency Investment Fund (LAIF) (§16429.1)	N/A	As limited by LAIF	N/A
Investment Trust of California (CalTRUST) (§6509.7)	N/A	As limited by CalTRUST	N/A
Collateralized Time Deposits (§53650 et seq.)	5 years	N/A	N/A

10. ***BANKERS' ACCEPTANCE***

No more than 30 percent of the agency's surplus funds may be invested in the Bankers' Acceptances of any one commercial bank pursuant to this section.

11. COMMERCIAL PAPER

All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's Corporation, a "P-1" rating by Moody's Investor Service, or a "F-1" rating by Fitch Financial Services issued by corporations operating within the United States, and having total assets in excess of five hundred million dollars (500,000,000.00). As used in this policy, "corporation" includes a limited liability company.

No more than 10% of the total assets of the investments held by a local agency may be invested in any one issuer's Commercial Paper.

12. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS / SECURITIES LENDING AGREEMENTS

Under California Government Code Section 53601, Paragraph (i) and Section 53635, the County Treasurer may enter into repurchase agreements and reverse repurchase agreements / securities lending agreements. The maximum maturity of repurchase agreements shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of reverse repurchase agreements / securities lending agreements may not be invested beyond the expiration of the agreement. The reverse repurchase agreements / securities lending agreements must be "matched to maturity."

13. MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS

A Mutual Fund managed by an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by Government Code Section 53601, subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and with assets under management in excess of five hundred million dollars (\$500,000,000.00).

No more than 10% of the agency's funds may be invested in any one Mutual Fund.

14. JOINT POWERS AGREEMENT

With approval of the Board of Supervisors, the Treasurer is allowed to enter into a Joint Powers Agreement with governments whose policies are consistent with or more restrictive than Sonoma County's Statement of Investment Policy.

15. COLLATERAL

Repurchase agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy, with a market value of 102%. Use of mortgage-backed securities for collateral is not permitted. For purposes of investing the daily excess bank balance, the collateral provided by the County's depository bank can include mortgage-backed securities valued at 100%.

16. CRITERIA FOR THE SELECTION OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS

All transactions initiated on behalf of the Pooled Investment Fund and Sonoma County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York, financial institutions that directly issue their own securities which have been placed on the Approved List of Broker/Dealers and Financial Institutions or broker/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed . All brokers/dealers and financial institutions must have a strong industry reputation and open lines of credit with other dealers. Further, these firms must have an investment grade rating from at least one national rating service, if applicable.

Broker/dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer and financial institution authorized to do business with Sonoma County shall, at least annually, supply the County Treasurer with financial statements.

17. WITHDRAWAL REQUESTS

[a] **STATUTORY PARTICIPANTS** - The County Treasurer will honor all requests to

withdraw funds for normal cash flow purposes that are approved by the Sonoma County Auditor-Controller at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with California Government Code Section 27136, et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled Investment Fund as of the date of the withdrawal.

- [b] **VOLUNTARY PARTICIPANTS** - For outside participants who utilize Government Code Section 53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal request, with the exception of normal cash flow withdrawals, shall submit the request for withdrawal to the County Treasurer to determine the timing of the payout, in order that the withdrawal will not adversely affect the interests of the other depositors in the County Treasury Investment Fund. Withdrawals will be paid based upon the market value of the Pooled Investment Fund. If the Treasurer deems appropriate, the deposits may be returned at any time.

18. DELIVERY & SAFEKEEPING

Delivery of all securities shall be either to the County Treasurer or to a third party custodian. No securities shall be held in the safekeeping of a broker / dealer unless it is collateral for a reverse repurchase agreement.

19. APPORTIONMENT OF INTEREST & COSTS

Interest shall be apportioned to all pool participants quarterly, based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the Investment Pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. The Treasurer shall deduct from the gross interest earnings those budgeted administrative costs relating to the management of the Treasury, including salaries and other compensation, banking costs, equipment costs, supplies, the cost of information services, audit and any other costs as provided by Section 27013 of the Government Code. The deduction shall be adjusted to actual cost in the fourth quarter of the fiscal year and/or the first quarter of the following fiscal year.

20. REVIEW, MONITORING AND REPORTING OF THE PORTFOLIO

Quarterly, the County Treasurer will provide to the Treasury Oversight Committee, the Board of Supervisors, and to any local agency participant a report on the Pooled Investment Fund. The report

will list the type of investments, name of issuer, maturity date, par amount and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Investment Policy and a statement of the pooled fund's ability to meet the expected expenditure requirements for the next six months.

Annually, the County Treasurer shall provide to the Treasury Oversight Committee a Statement of Investment Policy. Additionally, the County Treasurer will render a copy of the Statement of Investment Policy to the Board of Supervisors and to the legislative body of the local agencies that participate in the Pool.

21. *LIMITS ON HONORARIA, GIFTS AND GRATUITIES*

In accordance with California Government Code Section 27133 (d), et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolios, and members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar 12 month time period from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate state forms.

No individual may receive aggregate gifts, honoraria and gratuities in a calendar twelve (12) month time period in excess of the limits established by the Fair Political Practices Commission (FPPC). Any violation must be reported to the FPPC on an annual basis.

22. *AUDITS*

The Treasury Oversight Committee shall initiate an annual audit to ensure the County's Investment Portfolio is in compliance with its policy and state law.

23. *EXCEPTION TO POLICY*

The County Treasurer, except as prohibited by state law, can make exceptions to the investment purchasing limits when he deems it in the best interest of all of the pool participants. All exceptions will be reported in the quarterly report. Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will become effective immediately.

24. *INVESTMENT OF BOND PROCEEDS*

The County Treasurer shall invest bond proceeds using the standards of the County of Sonoma's Investment Policy. The bond proceeds will be invested in securities permitted by the bond

documents. If the bond documents are silent, the bond proceeds will be invested in securities permitted by the County of Sonoma's Investment Policy.

25. *DISASTER RECOVERY PLAN*

The County Treasurer's Disaster Recovery Plan includes contact information for the Treasury staff and key county personnel, as well as contact information for authorized banks and brokers. Copies of the plan have been distributed to the investment staff: Assistant Treasurer, Treasury Manager, and Revenue and Debt Manager.

In the event we are unable to conduct normal business operations, the investment staff shall interact with one another by home phone, cell phone, or e-mail to decide on an alternate location from which to conduct daily operations. If unable to contact one another, the investment staff shall establish contact with one another through the County Office of Emergency Services.

SONOMA COUNTY POOLED INVESTMENT PROGRAM
For Quarter Ending June 30, 2011

BEGINNING FUND BALANCE (01/01/2011)	\$1,571,281,098
ENDING FUND BALANCE	\$1,552,569,693
AVERAGE DAILY FUND BALANCE	\$1,595,154,586
TOTAL INTEREST EARNED (after fees)	\$2,255,076
INTEREST RATE (after fees)	0.567
INTEREST RATE (before fees)	0.703

TOTAL FUNDS MANAGED BY TREASURY

TOTAL TREASURY BALANCE (including deferred compensation, tobacco endowment, special TRAN investments, active bank accounts and money in transit)	\$1,831,871,641
---	-----------------

SONOMA COUNTY POOLED INVESTMENTS
AS OF 06/30/2011

	BOOK VALUE
CHECKS AND WARRANTS IN TRANSIT	\$5,679,981
CASH IN VAULT	\$96,007
CASH IN BANK	\$40,440,188
TREASURY BILLS AND NOTES	\$541,069,983
BANKERS ACCEPTANCES	\$0
OTHER GOVERNMENTS	\$764,049,684
COMMERCIAL PAPER	\$0
CORPORATE BONDS AND NOTES	\$50,049,730
NEGOTIABLE CERTIFICATES OF DEPOSIT	\$1,000,000
OTHER GOVERNMENT POOLS AND JPA'S	\$55,895,166
MONEY MARKET MUTUAL FUNDS	\$94,288,954
TOTAL	\$1,552,569,693