PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 14, 2011

NEW ISSUE — BOOK-ENTRY ONLY

RATING:
Standard & Poor's: "AA"
(See **"MISCELLANEOUS — Rating"** herein).

*In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See **"TAX MATTERS"** herein.*

$9,060,000*
PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
(Sonoma County, California)
2011 General Obligation Refunding Bonds
(Bank Qualified)

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

The Bonds are issued on behalf of the Petaluma City (Elementary) School District (the "District"), and the Board of Supervisors of Sonoma County is empowered and is obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, upon all property subject to taxation within the District (except certain personal property which is taxable at limited rates), for the payment of interest on, and principal of, the Bonds, all as more fully described herein under **"THE BONDS"** and **"*AD VALOREM* PROPERTY TAXATION."** Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2012. The Bonds, when delivered, will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds as described herein under **"THE BONDS — Book-Entry System."** *The Bonds due on or before August 1, 2019, are not subject to optional redemption; the Bonds due on and after August 1,2020 are subject to optional redemption on or after August 1, 2019 as described herein.*

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

KNN public finance
A Division of Zions First National Bank

MATURITY SCHEDULE
(Base CUSIP No.: _________ -) [(a)]

Maturity	Principal Amount	Interest Rate	Yield	CUSIP Suffix	Maturity	Principal Amount	Interest Rate	Yield	CUSIP Suffix
Feb. 1 2012					Aug. 1 2019				
Aug. 1 2012					Aug. 1 2020				
Aug. 1 2013					Aug. 1 2021				
Aug. 1 2014					Aug. 1 2022				
Aug. 1 2013					Aug. 1 2023				
Aug. 1 2014					Aug. 1 2024				
Aug. 1 2015					Aug. 1 2025				
Aug. 1 2016					Aug. 1 2026				
Aug. 1 2017					Aug. 1 2027				
Aug. 1 2018									

Pursuant to the terms of a public sale on September____, 2011, the Bonds were awarded to___________________., as Underwriter, at a true interest cost of ________%.. The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Quint & Thimmig LLP, Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through The Depository Trust Company in New York, New York, on or about November 1, 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 Date: 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 City, the Authority, the Financial Advisor and the Underwriter are not responsible for the selection or correctness of these CUSIP numbers.*

*Preliminary; subject to change.

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 any offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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

THE PRICES AND OTHER TERMS OF THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER SUCH BONDS ARE RELEASED FOR SALE AND SUCH BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL SUCH BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES FOR SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS 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.

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

Bond Counsel

Quint & Thimmig LLP
San Francisco, California

Paying Agent, Registrar and Transfer Agent

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

TABLE OF CONTENTS

OFFICIAL STATEMENT

$9,060,000*
PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
(Sonoma County, California)
2011 General Obligation Refunding Bonds
(Bank Qualified)

INTRODUCTION

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

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of $_____________,000 principal amount of Petaluma City (Elementary) School District (Sonoma County, California) 2011 General Obligation Refunding Bonds (the "Bonds"), as described more fully herein.

The District

The Petaluma City (Elementary) School District (the "District") provides educational services to the residents of a major portion of the City of Petaluma (the "City") in Sonoma County (the "County"), California (the "State"). More detailed information regarding the area served by the District, the student population of the District, the tax base of the District and the financial position of the District may be found under **"DISTRICT GENERAL AND FINANCIAL INFORMATION"** and **DISTRICT TAX BASE INFORMATION"** herein.

The District and the Petaluma Joint Union High School District (together, the "Districts") are organized and operated under a common Board of Education and administration with combined financial reporting but are legally separate governmental entities, and issue their own, separate issues of bonds. See **"DISTRICT INFORMATION — Combined Operations"** herein.

Sources of Payment for the Bonds

The Bonds are obligations of the District and the Board of Supervisors of the County is empowered and is obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, upon all property subject to taxation within the District (except certain personal property which is taxable at limited rates), as necessary for payment of interest on and principal of the Bonds. See **"SECURITY AND SOURCES OF PAYMENT", "*AD VALOREM* PROPERTY TAXATION"** and **"DISTRICT TAX BASE INFORMATION"** herein.

Purpose of the Bonds

The proceeds of the Bonds will be used to refund all $3,610,000 of the District's outstanding General Obligation Bonds, Election of 1991, Series I (the "Series I Bonds"), all $2,710,000 of the District's outstanding 2003 General Obligation Refunding Bonds (the "Series 2003A Bonds") and all $2,375,000 of the District's outstanding 2003 General Obligation Refunding Bonds, Series B (the "Series 2003B Bonds") and pay the costs of issuing the Bonds. The Series I Bonds, Series 2003A Bonds and the Series 2003B Bonds are, together, the "Prior Bonds" herein. The Series I Bonds were issued originally in the principal amount of $3,500,000, the Series 2003A Bonds originally in the principal amount of $5,895,000 and the Series 2003B Bonds originally in the principal amount of $4,560,000. See **"District Bonds"** below and **"THE BONDS - Purpose of the Bonds"** herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the California Government Code (the "Government Code") and applicable provisions of the California Education Code (the "Education Code"), and a Paying Agent Agreement dated as of November 1, 2011 (the "Paying Agent Agreement") by and between the District and U. S. Bank National Association (the "Paying Agent"), pursuant to a resolution adopted by the Board of Trustees of the District on September 13, 2011. See **"THE BONDS — Authority for Issuance; Purpose"** herein.

Description of the Bonds

The Bonds will be issued as fully registered bonds, without coupons, in denominations of $5,000 each or in any integral multiple thereof, 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 Bonds. So long as DTC, or Cede & Co., as its nominee, is the registered owner of all the Bonds, payments on the Bonds will be made directly to DTC, and 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. The Bonds will pay interest on each February 1 and August 1 each year, commencing on February 1, 2012, calculated on the basis of a 30 day month, 360 day year. See **"THE BONDS"** and **"BOOK-ENTRY SYSTEM"** herein.

Bonds maturing on and after August 1, 2020 may be redeemed prior to maturity at the option of the District beginning on August 1, 2019, as described under **"THE BONDS — Redemption"** herein.

Tax Matters

In the opinion of Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State. See **"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 "**TAX MATTERS**" herein.

District Bonds

The District received authorization at an election held on November 5, 1991, by a vote in excess of two-thirds of the votes cast, to issue $30 million of general obligation bonds (the "Authorization"), and has issued all bonds authorized in ten series, designated Series A through J. In addition, on August 4, 1998 the District issued the Series 1998 Bonds in the amount of $7,530,000, refunding the callable Series A, C and E Bonds; on May 8, 2003 the District issued the Series 2003A Bonds, refunding the callable Series D and Series F Bonds; on November 20, 2003 the District issued the Series 2003B Bonds, refunding the Series B Bonds; and on ay May 6, 2008 the District issued $7,965,000 2008 General Obligation Refunding Bonds (the "Series 2008 Bonds"), refunding the Series G Bonds, Series H Bonds and Series 1998 Bonds. The Series A through J Bonds, the Series 1998 Bonds, Series 2003A Bonds, Series 2003B Bonds and the Series 2008 Bonds all together are the "District Bonds" herein; see **"THE BONDS — Debt Service"** and **"DISTRICT INFORMATION - District Debt"** herein).

Professionals Involved in the Offering

With respect to the Bonds, KNN Public Finance, A Division of Zions First National Bank, Oakland, California, is the District's financial advisor ("Financial Advisor"; see **"MISCELLANEOUS — Financial Advisor"** herein). The Financial Advisor, Bond Counsel and Paying Agent will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Offering and Delivery of the Bonds

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC, New York, New York, on or about November 1, 2011.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide notices of the occurrence of certain enumerated events, if material. See **"MISCELLANEOUS - Continuing Disclosure"** herein.

Copies of documents referred to herein and information concerning the Bonds are available from the Business Office, Petaluma City (Elementary) School District, 2134 Martin Luther King, Jr. Way, Berkeley, California 94704, telephone: (510) 644-8911. The District may impose a charge for copying, mailing and handling.

END OF INTRODUCTION

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, and applicable provisions of the Education Code. The Bonds are authorized by the Resolution and issued pursuant to the Paying Agent Agreement. The Government Code, together with other applicable state law, permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds which were originally approved by such a vote, provided that the total debt service to maturity on the refunding bonds does not exceed the total debt service to maturity on the bonds being refunded, and the final maturity date of the refunding bonds is not later than the final maturity date of the refunded bonds.

Purpose of Issue

Net proceeds of the Bonds will be used to fund payment of: (a) outstanding principal in the amount of $3,610,000.00, plus redemption premium in the amount of $36,100.00 and accrued interest to November 1, 2011 of $34,488.13, for the Series 2003A Bonds; (b) outstanding principal in the amount of $2,710,000.00 plus accrued interest to November 1, 2011 of $32,359.69, for the Series I Bonds; and (c) outstanding principal in the amount of $2,375,000.00 plus accrued interest to November 1, 2011 of $22,038.75, for a total Prior Bonds redemption amount of $8,819,986.56 (the "Redemption Price"), on November 1, 2011 (the "Redemption Date"). Notice of redemption of the Prior Bonds, subject to receipt of net proceeds of the Bonds in the amount of the Redemption Price by The Bank of New York Trust Company, N.A., the paying agent for the Prior Bonds (the "Prior Bonds Paying Agent"), on November 1, 2011, will be sent to the owners thereof by the Prior Bonds Paying Agent on or before September 30, 2011 pursuant to a request of the District.

A portion of the proceeds of the Bonds will be deposited into a "Petaluma City (Elementary) School District (Sonoma County, California) 2011 General Obligation Refunding Bonds Costs of Issuance Fund" (the "Costs of Issuance Fund"), held and administered by the Paying Agent pursuant to the Resolution, and used to pay costs of issuance with respect to the Bonds. Any funds therein not expended on February 1, 2012 will be transferred to the County Treasurer-Tax Collector for deposit in the Interest and Sinking Fund of the District established and maintained by the County (the "Debt Service Fund") for payment of debt service on general obligation bonds of the District, and the Costs of Issuance Fund will be closed.

Estimated Sources and Uses of Funds

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

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

Sources of Funds	
Bond Proceeds	
Original Issue Premium	
Less Underwriter's Discount	
Total Sources	
Uses of Funds	
Redeem Prior Bonds	
Deposit to Cost of Issuance Fund [a]	
Total Uses	

[a] Includes fees for Financial Advisor, Bond Counsel, rating agency, printing and distribution of the Official Statement, Paying Agent and certain miscellaneous costs of issuance.

Security and Sources of Payment

The Board of Supervisors of the County is empowered and is obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, as necessary for payment of interest on and principal of the Bonds, upon all property within the District (except certain personal property which is taxable at limited rates).

The rate for the *ad valorem* tax will be set annually by the County based on the assessed value of taxable property in the District and the debt service requirement on outstanding bonds of the District in each year. Variation in the annual debt service requirement and changes in assessed valuation within the District may cause the annual tax rate for the Bonds to change from year to year. For further information regarding *ad valorem* property taxation in general and within the District in particular, see ***"AD VALOREM*** **PROPERTY TAXATION"** and **"DISTRICT TAX BASE INFORMATION"** herein.

Form and Registration

The Bonds will be issued in fully registered book-entry form only, as current interest bonds without coupons, in denominations of $5,000 principal amount each or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Registered ownership of the Bonds may not be transferred except as described in **"BOOK ENTRY SYSTEM"** herein. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds or any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See **"BOOK-ENTRY SYSTEM"** herein.

Payment of Principal and Interest

The Bonds will be dated the date of their delivery, and bear interest at the rates set forth on the inside cover page hereof, on February 1 and August 1 of each year, commencing on February 1, 2012 (each, an "Interest Payment Date"), until payment of the principal amount thereof, computed using a year of 360 days consisting of twelve 30-day months. Bonds authenticated and registered on any date prior to the close of business on January 15, 2012, will bear interest from the date of their delivery. Bonds authenticated during the period between the 15th day of the calendar month immediately preceding an Interest Payment Date (the "Record Date") and the close of business on that Interest Payment Date will bear interest from that Interest Payment Date. Any other Bond will bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Payment of interest on any Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) will be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof as of the preceding Record Date, such interest to be paid by check or draft mailed to such owner at such owner's address as it appears on such registration books or at such other address as the owner may have filed with the Paying Agent for that purpose on or before the Record Date. The owner of an aggregate principal amount of $1,000,000 or more of Bonds may request in writing to the Paying Agent to be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the applicable Record Date. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer.

Principal will be payable at maturity, as shown on the cover hereof, or upon redemption prior to maturity, upon surrender of Bonds at the principal office of the Paying Agent or at such other location as the Paying Agent shall designate. The interest, principal and premiums, if any, on the Bonds will be payable in lawful money of the United States of America from moneys on deposit in the Interest and Sinking Fund, consisting of *ad valorem* taxes collected and held by the County Treasurer, together with any net premium and accrued interest received upon issuance of the Bonds. So long as all outstanding Bonds are held in book-entry form and registered in the name of a securities depository or its nominee, all payments of principal of, premium, if any, and interest on the Bonds and all notices with respect to such Bonds will be made and given, respectively, to such securities depository or its nominee and not to beneficial owners. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer.

See also **"BOOK-ENTRY SYSTEM"** herein.

Debt Service

Annual debt service obligations on the Bonds and the District Bonds, excluding the Prior Bonds, assuming no optional redemptions are made, are as follows:

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT
General Obligation Bond Debt Service

Fiscal Year Ending June 30,	District Bonds [a]	The Bonds Principal Amount	The Bonds Interest	The Bonds Total	Total Debt Service
2012	$1,824,561.64				
2013	2,151,612.52				
2014	2,154,185.02				
2015	2,177,850.02				
2016	2,166,735.02				
2017	2,176,658.77				
2018	2,005,987.52				
2019	1,534,538.77				
2020	1,230,155.02				
2021	1,062,097.52				
2022	1,074,883.77				
2023	639,442.51				
2024	636,461.25				
2025	529,236.25				
2026	424,940.00				
2027	421,695.00				
2028	417,720.00				
2029	179,025.00				
TOTAL	$22,807,785.60				

[a] District Bonds, excluding debt service of Prior Bonds.

Redemption

Optional Redemption

The Bonds maturing on or before August 1, 2019, are not subject to redemption prior to their respective stated maturity dates. Bonds maturing in each year beginning August 1, 2020, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2019 at a price of 101.0% plus interest accrued to the date of redemption, without premium. Bonds maturing in each year beginning August 1, 2021, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2020 at a price of par, plus interest accrued to the date of redemption, without premium.

Mandatory Sinking Fund Redemption

[Should the Underwriter designate any term bonds, the following will appear for each maturity of term bonds designated:

The $_____________ _______% Term Bonds maturing August 1, 20__ shall be subject to redemption prior to their stated maturity, in part by lot, from mandatory sinking fund payments in the following amounts and on the following dates, at the principal amount thereof on the date fixed for redemption, without premium:

Redemption Date	*Principal Amount*
August 1, 20__	
August 1, 20__	
August 1, 20__	

The principal amount of each mandatory sinking fund payment of any maturity shall be reduced proportionately by the amount of any Bonds of that maturity optionally redeemed prior to the mandatory sinking fund payment date.]

Selection of Bonds for Redemption

If less than all of the Bonds shall be called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District and, in lieu of such direction, in inverse order of their maturity. Within each maturity, the Paying Agent shall select the Bonds for redemption by lot; *provided*, *however*, that the portion of any Bond to be redeemed shall be in the principal amount of five thousand dollars ($5,000) or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by five thousand dollars ($5,000).

Notice of Redemption

The Paying Agent shall give notice of the redemption of the Bonds at the expense of the District. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds including the dated date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Series A Bond to be redeemed, together with interest accrued to said date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Notice of redemption shall be by registered or otherwise secured mail or delivery service, postage prepaid, to the registered owner of the Bonds, or if the registered owner is a syndicate, to the managing member of such syndicate, to a municipal registered securities depository and to a national information service that disseminates securities redemption notices, and by first class mail, postage prepaid, to the District and County and the respective owners of any registered Bonds designated for redemption at their addresses appearing on the Bond Register, in every case at least thirty (30) days, but not more than sixty (60) days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Partial Redemption of Bonds

Upon the surrender of any Bond redeemed in part only, the Paying Agent shall execute and deliver to the registered owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such registered owner, the County, the Paying Agent and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Effect of Redemption

Notice having been given as aforesaid, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside with the County for such purpose, the Bonds to be redeemed shall become due and payable on such date of redemption. If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Bonds shall be held in trust for the account of the registered owners of the Bonds so to be redeemed.

Right to Rescind Notice

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

Defeasance

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

Unclaimed Moneys

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

BOOK-ENTRY SYSTEM

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 Bonds 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 Bonds. The Bonds 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 each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from 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 Bonds 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, bond 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, bond certificates are required to be printed and delivered.

Payment to Holders

The following provisions governing the payment, transfer and exchange of the Bonds apply to holders of the Bonds. 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 Bonds. Only in the event that Bonds are printed and delivered to the Beneficial Owners do these provisions then apply directly to Beneficial Owners as holders of the Bonds.

Principal of the Bonds and any premium upon the redemption thereof prior to the maturity will be payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Paying Agent, or such other location as the Paying Agent may specify. Interest shall be paid by check to the owner of any Bond at the address of such owner shown on the registration books of the Paying Agent, or at such other address the owner of the Bond has filed with the Paying Agent for such purpose on or before the Record Date. Owners of not less than $1,000,000 in principal amount of Bonds may, by written request received by the Paying Agent not later than the Record Date immediately preceding any Interest Payment Date, have interest payments made on the date due by wire transfer to an account maintained in the United States of America in immediately available funds.

Any Bond may be exchanged for Bonds of any authorized denominations of the same maturity and interest rate upon presentation and surrender at the principal corporate trust 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 Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at the principal corporate trust 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 Bond or Bonds 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 Bond surrendered and bearing interest at the same rate and maturing on the same date.

The Paying Agent will not be required to exchange or transfer any Bond during the period from the close of business on the applicable Record Date next preceding any Interest Payment Date or redemption date, to and including such Interest Payment Date or redemption date.

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 XIIIA 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 XIIIA 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.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUE AND APPROPRIATIONS

*The information in this section concerning certain provisions of Articles XIIIA, XIIIB, XIIIC and XIIID 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. The tax for the Bonds was approved in conformity with all applicable constitutional and statutory limitations. For specific financial information on the District, see "**DISTRICT INFORMATION**" herein.*

Article XIIIA - Limit on Property Tax

Article XIIIA 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 XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership 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 XIIIA 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 XIIIA 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 XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues, 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 XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax except to pay voter-approved indebtedness. The 1% property tax is automatically levied by 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 XIIIB - Appropriations Limit

Article XIIIB 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 XIIIB defines:

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

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

The appropriations of an entity of local government subject to Article XIIIB limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues. For school districts, Article XIIIB 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 XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two 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 XIIIB 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 XIIIB 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 XIIIB 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 XIIIB and Sections 8 and 8.5 of Article XVI of the Constitution with respect to appropriations limitations and school funding priority and allocation.

Article XIIIB, as amended by both Proposition 98 and Proposition 111, is discussed above under **"Article XIIIB."**

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 XIIIB, 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 XIIIB) 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 XIIIB 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 XIIIC 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 XIIIC 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 XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the Constitution and special taxes approved by a two-thirds vote under Article XIIIA, 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 XIIIC.

Article XIIIC 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 XIIIC 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 XIIIC.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect laws existing prior to enactment of Articles XIIIC and XIIID 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 XIIID 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 XIIIC and Article XIIID 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 XIIIA, XIIIB, XIIIC and XIIID 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.

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 2010/11Budget 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 f or 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 "undeficited" 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 *September 2011 Summary Analysis*, the State Controller reported that the State's general fund negative cash balance as of August 31, 2011 stood at ($13.877 billion), $991 million below the 2011/12 Budget estimate for August 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 f or 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

Grade	Ratio
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

Academic Year	Average Daily Attendance
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

Organization	Number of Employees	Contract Expiration Date
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

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

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

	2007/08[a]	2008/09[a]	2009/10[a]	Projected 2010/11[c]	Estimated Budget 2011/12[c]
REVENUE:					
Revenue Limit Sources:					
State Aid	$3,445,190	$3,312,957	$2,118,836	$3,493,792	$3,958,684
Property Taxes	7,953,630	8,001,106	7,965,411	7,543,430	7,411,892
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	2,302,254	2,275,644	2,170,033	2,340,150	1,653,688
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	392,758	66,815	(41,315)	15,795	613,034
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	2,699,774	2,875,513	3,035,115	3,333,214	2,807,734
FUND BALANCE, JUNE 30	$2,875,513	$3,035,115	$3,333,214	$2,807,734	$1,562,678

[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:

Fund	June 30, 2010, Balance[a]	June 30, 2011, Balance[b]	June 30, 2012, Balance[b]
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.

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, and expects to issue approximately $7,400,000* Tax and Revenue Anticipation Notes on September 29, 2011 that mature on June 1, 2012, payable from general fund revenues set aside prior to June 1, 2012.

*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

Issue Date	Series	Final Maturity Date	Original Principal	Outstanding June 30, 2011	Outstanding Sept. 1, 2011
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	6,620,000	5,990,000
				$18,330,000	$16,855,000

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

Fiscal Years	Principal	Interest	Total
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	960,000	58,440	1,018,440
	$18,330,000	$4,803,874	$23,133,874

See also **"THE BONDS - Debt Service"**.

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

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

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

Fiscal Year	Local Secured	Utility	Unsecured	Total Gross Assessed Value
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

Fiscal Year	Secured Tax Charge[a]	Amount Delinquent June 30	Percent Delinquent June 30
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

	2006/07	2007/08	2008/09	2009/10	2010/11
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	0.025000	0.025000	0.025000	0.025000	0.021000
Total Tax Rates	1.100000%	1.100000%	1.108000%	1.106000%	1.102000%

(a) Maximum rate for purposes other than paying debt service in accordance with Article XIIIA 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

Name	Primary Land Use	2011/12 Assessed Valuation	Percent of Total[(a)]
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	11,534,001	0.28
TOTAL		$435,592,510	10.70%

(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:	(1,266,526,868)	
Adjusted Assessed Valuation:	$3,167,258,292	

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Percent Applicable	Debt as of September 1, 2011
Sonoma County Joint Community College District	5.252%	$10,379421
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	5,885,475
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		47,440,093
OVERLAPPING GENERAL FUND DEBT:		
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	2,063,569
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		34,545,265
COMBINED TOTAL DEBT		$81,985,358[(b)]

(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

Year	City of Petaluma	Sonoma County
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

	2006	2007	2008	2009	2010
Civilian Labor Force[(a)]					
Employment	245,300	247,700	246,300	224,700	227,000
Unemployment	10,200	11,200	14,900	28,300	26,600
Total	255,500	258,900	261,200	252,900	253,600
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)

	2006	2007	2008	2009	2010
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	31,000	31,200	31,300	28,100	27,500
Total All Industries	195,400	196,800	186,500	173,400	176,100

(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

Company	Employees
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

Employer	Employees
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)

	City of Petaluma		Sonoma County	
Year[(a)]	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)

	City of Petaluma		Sonoma County	
Year	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.

TAX MATTERS

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

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

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

The Internal Revenue Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Bonds.

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

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

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

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

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

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

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

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

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

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

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in **"APPENDIX B—PROPOSED FORMS OF OPINIONS OF BOND COUNSEL—Bonds".**

American Jobs Act of 2011

On September 12, 2011, President Obama submitted to Congress a legislative proposal entitled the "American Jobs Act of 2011" (the "Jobs Act"). If enacted as proposed, the Jobs Act would, among other things, subject interest on all tax-exempt securities (including the Bonds) owned by taxpayers with incomes above certain thresholds to a new federal tax. The Jobs Act would be effective for taxable years beginning on or after January 1, 2013. The proposal has not passed either of the two Houses of Congress and it is not possible to predict whether this proposal will be enacted into law. If enacted into law, such a proposal could adversely affect the value or marketability of any tax-exempt securities (including the Bonds). Prospective purchasers should consult with their own tax advisors regarding the Jobs Act and any other pending or proposed federal income tax legislation.

OTHER LEGAL MATTERS

No Litigation

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

Legality for Investment in California

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

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Bond Counsel. A complete form of the proposed opinion of Bond Counsel is set forth in **APPENDIX B** hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement.

MISCELLANEOUS

Rating

Standard & Poor's has assigned its rating of **"AA"** to the Bonds with a **"stable outlook"**. Such ratings reflect 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, 55 Water Street, 38th Floor, New York, New York 10041.

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

Underwriting

Pursuant to the terms of a public sale held on ____________________, ____________________, as Underwriter (the "Underwriter"), has agreed to purchase the Bonds from the District at the purchase price of $_____________. The Underwriter has represented to the District that the Bonds were reoffered to the public at the prices or yields 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 Bonds, if any Bond is purchased

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than 270 days following the end of the District's fiscal year (the "Annual Report"), commencing with the Annual Report for the 2010/11 Fiscal Year, which is due no later than April 1, 2012 and to provide notices of the occurrence of certain enumerated events, if material. Currently, the District's Fiscal Year ends on June 30 of each year. The Annual Report 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"). Any notices of material events will be filed with EMMA in the same manner as an Annual Report. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below under the caption **"APPENDIX C — Form of Continuing Disclosure Certificate."** These covenants have been made to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Financial Advisor

The District has entered into an agreement with the Financial Advisor, whereunder the Financial Advisor provides financial recommendations and guidance to the District with respect to preparation and sale of the Bonds. 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.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Resolution providing for issuance of the Bonds, and the documents, statutes and constitutional provisions referenced herein, do not purport to be complete, and reference is made to said documents, statutes, and constitutional provisions for full and complete statements of their provisions. This Official Statement has been reviewed and approved by the District.

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT

By______________________________________

Interim Superintendent

APPENDIX A

BASIC FINANCIAL STATEMENTS, WITH MANAGEMENT'S DISCUSSION AND ANALYSIS, INDEPENDENT AUDITOR'S LETTER AND CERTAIN SUPPLEMENTARY INFORMATION FOR YEAR ENDED JUNE 30, 2010 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

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.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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

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

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.

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.

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.

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.

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.

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.

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.

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	Totals 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.

Expenditures are based on the following forecasts:

	Staffing Ratio	Enrollment
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

		Program Revenues		
Functions/Programs	**Expenses**	**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	(51,611,356)	
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)	400,128	
Total Long-Term Liabilities		(78,038,866)
Total Net Assets - Governmental Activities		$ 51,401,855

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	7,184,557	
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		**$ (2,992,917)**

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	6,275	42,295
OPERATING EXPENSES		
Supplies and materials	6,620	-
Other operating cost	1,684	41,651
Total Operating Expenses	13,987	41,651
Operating Income (loss)	(7,712)	644
NONOPERATING REVENUES (EXPENSES)		
Interest income	158	503
Total Nonoperating Revenues (Expenses)	158	503
Change in Net Assets	(7,554)	1,147
Total Net Assets - Beginning	61,733	69,745
Total Net Assets - Ending	$ 54,179	$ 70,892

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	Governmental Activities -
	Downtown Project Fund	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.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

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

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	$ 4,912
DEDUCTIONS	
Other expenditures	4,000
Total Deductions	$ 4,000
Change in Net Assets	912
Net Assets - Beginning	110,696
Net Assets - Ending	$ 111,608

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

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.

Bond Interest and Redemption Fund The Board 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 lA), 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.

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.

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.

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.

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.

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.

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.

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	$ 17,544,372

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	$ 17,544,372

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District 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	$ 17,161,463	

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.

			Rating as of Year End		
Investment Type	Fair Value	Minimum Legal Rating	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	$ 17,161,463		$ 326,844	$ -	$ 16,734,837

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.

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	$ 9,320,528	$ 504,901	$ 9,825,429	$ 668	$ 2,442

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

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

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		4,582,020
Business-Type Activities		
Downtown Enterprise		5,683
Total Depreciation Expenses All Activities	$	4,587,703

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 From		
Due To	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	$ 513,895	$ 328,306	$ 842,201

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.

Operating Transfers

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

	Transfer From	
Transfer To	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

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
			$ 3,370,000	$ 5,300,000	$ 3,370,000	$ 5,300,000

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 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
	$ 71,957,990	$ 23,082,421	$ 957,358	$ 17,958,903	$ 78,038,866	$ 3,813,507

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.

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
					$ 62,686,446	$ 12,471,149	$ 9,744,614	$ 65,412,981

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	55,397,718	$ 16,162,893	$ 19,141,073	$ 90,701,684
Accretions to date	10,015,263			
	$ 65,412,981			

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	$ 7,760,000	$ 1,195,520	$ 8,955,520

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	$ 127,441	$ 5,408,750	$ 5,536,191

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
.

NOTE 10 - FUND BALANCES

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

Reserved	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
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).

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.

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.

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.

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
	$ 6,368,297	

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.

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	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
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 (Use	(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

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			9,165,164

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
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			1,089,850
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICE:			
Medical Administrative Activities	93.778	10060	$ 18,083
			18,083
Total Expenditures of Federal Awards			$10,273,097

[1] Not included in financial statements, disclosure only

See accompanying note to supplementary information.

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

MEMBER	OFFICE	TERM EXPIRES
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.

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

CHARTER SCHOOL	Classroom Based	Non-Classroom Based	P2 Total	Annual Total
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 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2009-10 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
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:

FUND BALANCE	Special Reserve Capital Outlay Fund	Downtown Enterprise Fund
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	$ 1,552,782	$ 54,179

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	$105,797,389

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	$ 78,038,866

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

Name of Charter School	Included in Audit Report
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

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

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	$ 829,697	$ 993,680

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

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
$ 160,638	$ 999,577	$ 1,567,262	$ 6,791,246
$ 840	$ 193,233	$ 13,917	$ 473,057
-	-	-	121,383
-	-	563	563
840	193,233	14,480	595,003
-	-	-	21,944
-	-	-	1,114,620
159,798	806,344	1,552,782	5,059,679
159,798	806,344	1,552,782	6,196,243
$ 160,638	$ 999,577	$ 1,567,262	$ 6,791,246

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
345,650	1,095,810	130,856	4,504,096
-	-	-	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
213,249	336,633	8,597,224	19,349,071
132,401	759,177	(8,466,368)	(14,844,975)
-	-	-	917,574
-	-	-	5,804,254
	-	7,900,223	7,900,223
-	-	7,900,223	14,622,051
132,401	759,177	(566,145)	(222,924)
27,397	47,167	2,118,927	6,419,167
$ 159,798	$ 806,344	$ 1,552,782	$ 6,196,243

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		$ 10,273,097

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.

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

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX B

FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

November 1, 2011

Board of Education of the
Petaluma City (Elementary) School District
200 Douglas Street
Petaluma, California 94952-2575

OPINION: $9,060,000* Petaluma City (Elementary) School District (Sonoma County, California) 2011 General Obligation Refunding Bonds

---

Members of the Board of Education:

We have acted as bond counsel to the Petaluma City (Elementary) School District (the "District") in connection with the issuance by the District of $9,060,000* principal amount of Petaluma City (Elementary) School District (Sonoma County, California) 2011 General Obligation Refunding Bonds (the "Bonds"), pursuant to Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code (the "Act"), a resolution adopted by the Board of Education of the District on September 13, 2011 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

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

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

4. Subject to the District's compliance with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. It is also our opinion that the Bonds are "qualified tax exempt obligations" under section 265(b)(3) of the Code.

---

*Preliminary, subject to change.

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

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

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

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

Respectfully submitted,

Respectfully submitted,

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX C

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 District of its $9,060,000* Petaluma City (Elementary) School District (Sonoma County, California) 2011 General Obligation Refunding Bonds. (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on September 13, 2011 (the "Resolution"). The District covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

Section 3. <u>Provision of Annual Reports</u>.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2010-11 Fiscal Year, which is due not later than March 31, 2012, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may

*Preliminary, subject to change.

be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

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

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

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

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

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

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

(i) Adopted budget of the District for the most recent fiscal year, or a summary thereof;
(ii) Average daily attendance figures for the most recent fiscal year;
(iii) Outstanding indebtedness and obligations of the District as of the end of the most recent fiscal year;
(iv) Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County; and
(v) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

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

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

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

Section 5. Reporting of Listed Events.

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

(1) Principal and interest payment delinquencies.

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

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

(4) Substitution of credit or liquidity providers, or their failure to perform.

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

(8) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

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

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

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

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

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

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

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

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

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

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Paying Agent under the Resolution. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

PETALUMA CITY (ELEMENTARY) SCHOOL DISTRICT

By ______________________________
Superintendent

ACKNOWLEDGED:

KNN PUBLIC FINANCE, as Dissemination Agent

By ______________________________
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Petaluma City (Elementary) School District

Name of Issue: Petaluma City (Elementary) School District (Sonoma County, California) 2011 General Obligation Refunding Bond

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate dated [Closing Date], furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by _____________.

Dated: ______________________

KNN PUBLIC FINANCE, as Dissemination Agent

By ____

Title ______________________________________

cc: Paying Agent