

PRELIMINARY OFFICIAL STATEMENT
Dated May 24, 2012

NEW ISSUE
DTC BOOK-ENTRY ONLY

S&P Underlying Rating: “BBB+”
See “RATING” herein

In the opinion of Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, Bond Counsel, based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “LEGAL MATTERS - Tax Matters” herein.



\$18,070,000*
NATOMAS UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2012 GENERAL OBLIGATION REFUNDING BONDS

DATED: Date of Delivery

DUE: September 1, as shown below

The Natomas Unified School District (Sacramento County, California) 2012 General Obligation Refunding Bonds (the “Bonds”) are issued by the Natomas Unified School District (the “District”) to refund certain outstanding general obligation bonds of the District originally issued for authorized school purposes and to pay costs of issuance of the Bonds. See “PLAN OF REFUNDING” herein.

The Bonds are payable from the proceeds of ad valorem property taxes which the Board of Supervisors of Sacramento County is obligated to levy and collect without limitation as to rate or amount on all taxable property in the District (except for certain personal property which is taxable at limited rates) for the payment of interest, principal and premium, if any, on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein.

The Bonds are being issued as fully registered bonds, without coupons, and when delivered will be registered 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. Individual purchases of the Bonds will be made in book-entry-only form and only in authorized denominations, as described in this Official Statement. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest will be made by Union Bank, N.A., as Paying Agent on the Bonds, to DTC for subsequent disbursement to DTC Participants (defined herein) who will remit such payments to the Beneficial Owners (defined herein) of the Bonds. See “THE BONDS—DTC Book-Entry Only” herein.

Interest on the Bonds is first payable on September 1, 2012, and semiannually thereafter on March 1 and September 1 of each year. The Bonds are subject to redemption prior to maturity. See “THE BONDS—Redemption Provisions.”

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED WILL HAVE THE MEANINGS SET FORTH HEREIN.

MATURITY SCHEDULE

Maturity Date September 1	Principal Amount*	Coupon Interest Rate	Reoffering Yield	Maturity Date September 1	Principal Amount*	Coupon Interest Rate	Reoffering Yield
2012	\$ 255,000	— %	— %	2020	\$1,175,000	— %	— %
2013	695,000	—	—	2021	1,265,000	—	—
2014	745,000	—	—	2022	1,350,000	—	—
2015	795,000	—	—	2023	1,450,000	—	—
2016	860,000	—	—	2024	1,550,000	—	—
2017	925,000	—	—	2025	1,670,000	—	—
2018	1,010,000	—	—	2026	1,790,000	—	—
2019	1,090,000	—	—	2027	1,445,000	—	—

The Bonds are being purchased for reoffering by _____ as Underwriter of the Bonds. The Bonds are offered when, as and if issued by the District and received by the Underwriter, subject to approval as to legality by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, Bond Counsel. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2012.

This Official Statement is dated _____, 2012

* Preliminary; subject to adjustment

THIS OFFICIAL STATEMENT IS SUBMITTED WITH RESPECT TO THE SALE OF THE BONDS REFERRED TO HEREIN AND MAY NOT BE REPRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, IN RELIANCE UPON EXCEPTIONS THEREIN FOR THE ISSUANCE AND SALE OF MUNICIPAL SECURITIES. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAW OF ANY STATE.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL NOR THE SOLICITATION OF AN 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 AN OFFER, SOLICITATION OR SALE.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY 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 REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DISTRICT.

THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE DISTRICT AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS. 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.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "ESTIMATE," "PROJECT," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

CUSIP^{*} Numbers

Maturity Date September 1	CUSIP Number	Maturity Date September 1	CUSIP Number
2012		2020	
2013		2021	
2014		2022	
2015		2023	
2016		2024	
2017		2025	
2018		2026	
2019		2027	

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The District and the Underwriter make no representation as to the accuracy or completeness of such information.

\$18,070,000^{*}
NATOMAS UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2012 GENERAL OBLIGATION REFUNDING BONDS

BOARD OF TRUSTEES

Lisa Kaplan, President
Jules Tran, Vice President
Susan Heredia, Clerk
B. Teri Burns, Member
Bruce Roberts, Member

DISTRICT ADMINISTRATION

Walt Hanline, Ed.D., Interim Superintendent
Douglas Crancer, Chief Financial Officer

1901 Arena Boulevard
Sacramento, California 95834
(916) 567-5400

FINANCIAL ADVISOR

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Sacramento, California 95814-5609
(916) 444-5100

BOND COUNSEL

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Sacramento, California 95814-4417
(916) 321-4500

PAYING AGENT / ESCROW AGENT

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San Francisco, California 94104
(415) 273-2514

VERIFICATION AGENT

AMTEC
90 Avon Meadow Lane, 2nd Floor
Avon, Connecticut 06001
(860) 321-7521

^{*} Preliminary; subject to adjustment

\$18,070,000^{*}
NATOMAS UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2012 GENERAL OBLIGATION REFUNDING BONDS

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^{*} Preliminary; subject to adjustment

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JUNE 30, 2011

APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX C—FORM OF OPINION BOND COUNSEL

APPENDIX D—SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY OF THE POOLED INVESTMENT FUND

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OFFICIAL STATEMENT

\$18,070,000^{*}

NATOMAS UNIFIED SCHOOL DISTRICT (SACRAMENTO COUNTY, CALIFORNIA) 2012 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTORY STATEMENT

The purpose of this Official Statement is to provide certain information concerning the sale and delivery of the Natomas Unified School District (Sacramento County, California) 2012 General Obligation Refunding Bonds (the “Bonds”) in the aggregate principal amount of \$18,070,000^{} being issued to refund certain outstanding general obligation bonds of the Natomas Unified School District (the “District”) as further described herein and to pay costs of issuance of the Bonds.*

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

The District

The District is a political subdivision of the State of California (the “State”) established in 1950 and unified in 1992. The District is located in the northwestern portion of Sacramento County (the “County”) approximately four miles north of the downtown area of Sacramento, the State capital, and provides grades K-12 and adult education. The District operates seven K-6 elementary schools, one K-8 elementary school, one middle school, two high schools, four fiscally dependent charter schools, and one alternative high school. For more complete information concerning the District, see “THE DISTRICT” and “DISTRICT FINANCIAL INFORMATION” herein.

Authority for Issuance

The Bonds are issued under and 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 State Government Code and applicable provisions of the State Education Code, and pursuant to the terms under that certain paying agent agreement dated June 1, 2012 between the District and Union Bank, N.A. (the “Paying Agent Agreement”). The Bonds are authorized to be issued pursuant to that certain resolution adopted by the Board of Trustees of the District (the “Board”) on May 9, 2012 (the “Resolution”). The Government Code 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 not exceed the total debt service to maturity on the bonds being refunded.

Proceeds of the Bonds will be applied (i) to refund certain outstanding general obligation bonds of the District, and (ii) to pay costs of issuance of the Bonds. See “PLAN OF REFUNDING” herein.

^{*} Preliminary; subject to adjustment

Source of Payment for the Bonds

The Board of Supervisors of the County (the "County Board") is empowered and obligated to annually levy and collect *ad valorem* property taxes, without limitation as to rate or amount, on all taxable property in the District (except for certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. When collected, the tax revenues will be deposited by the Sacramento County Director of Finance (the "Director of Finance") in a fund required to be maintained by the County and to be used solely for the payment of bonds of the District (the "Debt Service Fund"). See "SECURITY AND SOURCE OF PAYMENT" herein.

Description of the Bonds

The Bonds will be dated their date of delivery and will be issued as fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC").

The Bonds mature on September 1 in each of the years and in the amounts set forth on the cover page hereof. Interest with respect to the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2012. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. See "THE BONDS" herein.

Continuing Disclosure

The District will covenant for the benefit of holders and Beneficial Owners (as defined herein) to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of certain enumerated events are set forth in "APPENDIX B – FORM OF CONTINUING DISCLOSURE CERTIFICATE." See also "CONTINUING DISCLOSURE" herein.

Professionals Involved

Government Financial Strategies inc., Sacramento, California, has acted as financial advisor with respect to the sale and delivery of the Bonds. See "FINANCIAL ADVISOR" herein. All proceedings in connection with the sale and delivery of the Bonds are subject to the approving legal opinion of Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, bond counsel to the District with respect to the Bonds ("Bond Counsel"). Union Bank, N.A. will act as paying agent with respect to the Bonds (the "Paying Agent"). Bond Counsel and the Paying Agent will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement may be considered current only as of its date which has been made a part of the cover page hereof. The information contained herein is subject to change. A description of the Bonds and the District, together with summaries of certain provisions of the Paying Agent Agreement, the Resolution and other legal documents related to the Bonds, are included in this Official Statement. Such summaries do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to such documents.

Interested parties may obtain copies of the Paying Agent Agreement, the Resolution, audited financial statements, annual budgets, or any other information which is generally made available to the public by contacting the District through the Chief Financial Officer at the address and telephone set forth on page "iii" of this Official Statement, or by contacting Government Financial Strategies inc., the District's financial advisor, at the address and telephone set forth on page "iii" of this Official Statement.

THE BONDS

Authority for Issuance

The Bonds are issued under and pursuant to the Paying Agent Agreement and the State 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 State Government Code and applicable provisions of the State Education Code. The Bonds are authorized pursuant to the Resolution adopted by the Board on October 13, 2011. The Government Code 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.

The bonds to be refunded are as follows:

- The Natomas Unified School District (County of Sacramento, California) General Obligation Bonds, Series 2001, the last bond issue authorized pursuant to the bond election held within the District on April 14, 1992, in an aggregate original principal amount of \$7,170,000 (the “Series 2001 Bonds”), and
- The Natomas Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2002, Series 2003A, the first bond issue authorized pursuant to the bond election held within the District on November 5, 2002, in an aggregate original principal amount of \$15,500,000 (the “Series 2003A Bonds”).

Proceeds of the Bonds will be applied (i) to refund the Series 2001 Bonds and the Series 2003A Bonds, maturing on and after September 1, 2013 inclusive (the “Prior Bonds”), and (ii) to pay costs of issuance of the Bonds. See “PLAN OF REFUNDING” herein.

Form and Registration

The Bonds will be dated their date of delivery and will be issued as fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. The Bonds will be issued in book-entry form only, and will be initially registered in the name of Cede & Co., as nominee of DTC, as the sole owner of the Bonds; hereinafter, “Owner” shall mean the person or entity in whose name any Bond shall be registered. Purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Bonds.

Payment of Principal and Interest

So long as the Bonds are registered in the name of Cede & Co. the District and the Paying Agent shall cooperate with Cede & Co. in effecting payment of the principal of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available (e.g., by wire transfer) on the date they are due.

The Bonds mature on September 1 in each of the years and in the amounts set forth on the cover page hereof. No Bonds shall have principal maturing on more than one date. The principal of the Bonds shall be payable by wire transfer on each principal and mandatory redemption payment date to Cede & Co., so long as Cede & Co. is the sole registered Owner, or if the book-entry system is no longer in use, to the Owner thereof upon surrender thereof in lawful money of the United States of America at the Paying Agent’s Office.

Interest with respect to the Bonds is payable on March 1 and September 1 of each year (each, an “Interest Payment Date”), commencing September 1, 2012. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds shall be payable each year by wire transfer to Cede & Co., or if the book-entry system is no longer in use, by check mailed by first class mail, and by wire transfer upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds who has provided the Paying Agent with wire transfer instructions on or before the 15th day of the month preceding any Interest Payment Date (each a “Record Date”).

Redemption Provisions

Optional Redemption. The Bonds maturing on or before September 1, 2022, are not subject to redemption prior to their respective stated maturity dates. The Bonds maturing on and after September 1, 2023, are subject to redemption prior to their respective

stated maturity dates, at the option of the District (by such maturities as may be specified by the District and by lot within a maturity), from any source of available funds, as a whole or in part on any date on or after September 1, 2022, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption. If less than all the outstanding Bonds are to be redeemed, the District may specify the maturities to be redeemed. If the District does not specify the maturities to be redeemed, then, not more than 45 days prior to the redemption date, the Paying Agent shall select the particular Bonds to be redeemed that have not previously been called for redemption, in minimum denominations of \$5,000, by lot in any manner that the Paying Agent in its sole discretion shall deem appropriate and fair.

Notice of Redemption. Pursuant to the Resolution, notice of any redemption of the Bonds will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date by first class mail to the respective Owners thereof at the addresses appearing on the bond registration books. Provision of such notice to the Electronic Municipal Market Access (EMMA) system shall fulfill the provision requirements summarized in this section. Each notice of redemption will contain:

- the date of such notice,
- the name of the Bonds,
- the date of issue of the Bonds,
- the redemption date,
- the redemption price,
- the dates of maturity of the Bonds to be redeemed;
- (if less than all of the Bonds of any maturity are to be redeemed) the distinctive numbers of the Refunding Bonds of each maturity to be redeemed;
- (in the case of Bonds redeemed in part only) the respective portions of the principal amount of the Bonds of each maturity to be redeemed;
- the CUSIP number, if any, of each maturity of Bonds to be redeemed;
- a statement that such Bonds must be surrendered by the Owners at the Paying Agent's Office, or at such other place or places designated by the Paying Agent; and
- notice that further interest on such Bonds will not accrue after the designated redemption date.
- such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds.

Effect of Redemption. Failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption, nor the cessation of interest on the date fixed for redemption

When notice of redemption has been given substantially as provided for herein, and when the redemption price of the Bonds called for redemption is on deposit with the Paying Agent, the Bonds designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefore.

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 will be rescinded if for any reason on the date fixed for redemption monies are not available in a redemption fund established with the Paying Agent, 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 will be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

DTC Book-Entry Only

The following description includes the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, other payments with respect to the Bonds to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds, notices to Beneficial Owners and other related transactions by and between DTC, the participants, and the Beneficial Owners. However, DTC, the participants, and the

Beneficial Owners should not rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.

DTC, New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds in the aggregate principal amount of such issue, 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive 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 the 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 the 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 the 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 redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the 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 redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 District or 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 District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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

Registration, Transfer and Exchange

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

The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District upon reasonable notice.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Paying Agent Agreement by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Paying Agent.

Whenever any Bond or Bonds shall be surrendered for transfer, the designated District officials shall and the Paying Agent shall authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount and bearing the same rate of interest. The Paying Agent shall require the payment by the Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Bonds may be exchanged at the office of the Paying Agent designated, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. The Paying Agent shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No transfer or exchange of Bonds shall be required to be made by the Paying Agent during the period from the close of business on the Record Date next preceding any Interest Payment.

Defeasance

If at any time the District pays or causes to be paid or there shall otherwise be paid to the Owners of any or all outstanding Bonds all of the principal of, and premium and interest on the Bonds at the times and in the manner provided herein and in the Bonds, or as provided in the following paragraph, or as otherwise provided by law consistent herewith, then such Owners will cease to be entitled to the obligation to levy taxes for payment of the Bonds, and such obligation and all agreements and covenants of the District to such Owners hereunder and under the Bonds will thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal of and interest on the Bonds, but only out of monies on deposit in the Debt Service Fund or otherwise held in trust for such payment.

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

Unclaimed Moneys

Any money held in any fund created pursuant to the Paying Agent Agreement, or held by the Paying Agent in trust, for the payment of the principal of or interest on the Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable upon maturity will be transferred to the Debt Service Fund. Or, if no such bonds of the District are at such time outstanding, the Paying Agent shall transfer said unclaimed monies to the general fund of the District, as provided and permitted by law.

PLAN OF REFUNDING

Application and Investment of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be irrevocably deposited into an escrow fund (the "Escrow Fund") to be created and maintained by Union Bank, N.A. (the "Escrow Agent") under that certain escrow agreement by and between the District and the Escrow Agent dated as of June 1, 2012 (the "Escrow Agreement") in order to refund the Prior Bonds. A portion of such deposit will be invested in non-callable direct obligations of the United States Treasury or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, and the remaining amount will be held in cash, uninvested.

AMTEC, acting as verification agent, will certify in writing that moneys irrevocably deposited and invested in the Escrow Fund, together with earnings thereon, will be sufficient to redeem the Prior Bonds on September 1, 2012 at price of 101% of par, and to pay interest on the Prior Bonds through September 1, 2012. Upon such irrevocable deposit, the Prior Bonds will be deemed paid and no longer outstanding.

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account and used to pay costs associated with the issuance of the Bonds (the "Costs of Issuance Account"). The Paying Agent will pay amounts held in the Costs of Issuance Fund upon written orders of the District. Six months after the closing date of the Bonds, or upon prior written order of the District, the Paying Agent will transfer any remaining amounts in the Costs of Issuance Fund for deposit into the Debt Service Fund of the District.

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Sources and Uses of Funds

Set forth in the following table are the sources and expected uses of proceeds of the sale of the Bonds.

Sources and Uses of Funds Schedule Natomas Unified School District 2012 General Obligation Refunding Bonds

SOURCES OF FUNDS	
Par Amount of Bonds *	\$18,070,000.00
Original Issue Premium / (Discount)	
TOTAL SOURCES OF FUNDS	<hr/>
USES OF FUNDS	
Escrow Fund	
Cost of Issuance Account ¹	
Underwriter's Discount	
TOTAL USES OF FUNDS	<hr/>

¹ The Costs of Issuance Account will be used to pay costs of issuance including fees and expenses of Bond Counsel, the financial advisor, the rating agency, and all other expenses related to the issuance of the Bonds.

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* Preliminary; subject to adjustment

Debt Service Schedule

Scheduled semi-annual debt service payments on the Bonds (without regard to optional redemption prior to maturity) are shown in the following table.

Debt Service Schedule Natomas Unified School District 2012 General Obligation Refunding Bonds

Date	Principal Amount [*]	Interest	Semi-Annual Debt Service	Annual Debt Service
September 1, 2012	\$ 255,000			
March 1, 2013				
September 1, 2013	695,000			
March 1, 2014				
September 1, 2014	745,000			
March 1, 2015				
September 1, 2015	795,000			
March 1, 2016				
September 1, 2016	860,000			
March 1, 2017				
September 1, 2017	925,000			
March 1, 2018				
September 1, 2018	1,010,000			
March 1, 2019				
September 1, 2019	1,090,000			
March 1, 2020				
September 1, 2020	1,175,000			
March 1, 2021				
September 1, 2021	1,265,000			
March 1, 2022				
September 1, 2022	1,350,000			
March 1, 2023				
September 1, 2023	1,450,000			
March 1, 2024				
September 1, 2024	1,550,000			
March 1, 2025				
September 1, 2025	1,670,000			
March 1, 2026				
September 1, 2026	1,790,000			
March 1, 2027				
September 1, 2027	1,445,000			
Total	\$18,070,000			

^{*} Preliminary; subject to adjustment

Combined Debt Service

Upon issuance of the Bonds and the concurrent defeasance of the Prior Bonds, scheduled debt service (without regard to optional redemption) on the District's outstanding general obligation bond debt, including debt service on general obligation bonds from prior elections, will be as shown in the following table. See "DISTRICT FINANCIAL INFORMATION – Long Term Borrowings" for more information on the District's outstanding bonded debt.

Total Outstanding General Obligation Bond Debt Service Natomas Unified School District

Bond Year Ending September 1	Debt Service On Bonds To Remain Outstanding*	Debt Service On 2012 GO Refunding Bonds	Total Debt Service
2012	\$11,868,279	[to come]	
2013	11,387,115		
2014	11,868,590		
2015	12,374,456		
2016	12,919,410		
2017	13,481,896		
2018	12,620,264		
2019	13,063,989		
2020	11,899,979		
2021	12,587,709		
2022	12,504,519		
2023	13,263,456		
2024	14,067,363		
2025	14,937,300		
2026	15,805,750		
2027	16,770,250		
2028	19,036,750		
2029	15,203,250		
2030	16,177,125		
2031	15,949,250		
2032	<u>16,642,500</u>		
Total	\$294,834,173		

* After defeasance of Prior Bonds.

SECURITY AND SOURCE OF PAYMENT

General

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

Property Taxation System

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

Local property taxation is the responsibility of various county officers. For each school district located in a county, the County Assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the County Auditor-Controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the County Board of Supervisors for approval. The Treasurer-Tax Collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the Treasurer-Tax Collector, as *ex officio* treasurer of each school district located in the County, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

In Sacramento County, the Director of Finance is responsible for the offices of the Auditor-Controller, Tax Collector and Treasurer.

Assessed Valuation of Property Within the District

Under Proposition 13, an amendment to the California Constitution adopted in 1978, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Although most taxable property is assessed by the assessor of the county in which the property is located, some special classes of property are assessed by the State Board of Equalization, as described below under the heading "State-Assessed Property." Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property and of similar properties more recently sold. Likewise, changes in ownership of property and reassessment of such property to market value commonly lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES & EXPENDITURES."

Appeals of Assessed Valuation. State law affords an appeal procedure to taxpayers who disagree with the assessed value of their taxable property. Taxpayers may request a reduction in assessment directly from the county assessor, who may grant or refuse the request, and may appeal an assessment directly to the county board of equalization, which rules on appealed assessments whether or not settled by the county assessor. The county assessor is also authorized to reduce the assessed value of any taxable property upon a determination that the market value has declined below the then-current assessment, whether or not appealed by the taxpayer.

The District can make no predictions as to the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding bonds) may be paid. Any refund of paid taxes triggered by a successful assessment appeal will be debited by the respective county treasurer/tax collector against all taxing agencies who received tax revenues, including the District.

State-Assessed Property. Under the Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-

generating property to non-utility companies, as often occurred under electric power deregulation in the State, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

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

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds.

Shown in the following table is the assessed valuation in the District in recent years, including any homeowner's exemption.

Historical Total Secured And Unsecured Assessed Valuation Natomas Unified School District

	<u>Fiscal Year</u>	<u>Total Secured</u>	<u>Total Unsecured</u>	<u>Total</u>	<u>Pct</u>
	<u>Beg July 1</u>	<u>Assessed Values</u>	<u>Assessed Values</u>	<u>Assessed Values</u>	<u>Change</u>
2002	-03	\$3,042,403,787	\$610,800,187	\$3,653,203,974	25.72%
2003	-04	\$3,857,288,217	\$652,786,807	\$4,510,075,024	23.46%
2004	-05	\$4,931,296,226	\$628,762,464	\$5,560,058,690	23.28%
2005	-06	\$6,007,885,112	\$689,238,322	\$6,697,123,434	20.45%
2006	-07	\$7,258,983,315	\$640,617,284	\$7,899,600,599	17.96%
2007	-08	\$8,462,781,176	\$731,905,608	\$9,194,686,784	16.39%
2008	-09	\$8,592,300,393	\$820,523,213	\$9,412,823,606	2.37%
2009	-10	\$7,853,436,294	\$841,903,393	\$8,695,339,687	-7.62%
2010	-11	\$7,254,214,576	\$762,778,799	\$8,016,993,375	-7.80%
2011	-12	\$6,873,865,646	\$707,239,089	\$7,581,104,735	-5.44%

Source: Sacramento County Department of Finance.

There has been significant slowdown in the housing market in the County leading to a reduction in sales prices. As a result, the County Assessor has lowered the assessed value of a number of parcels throughout the District. The County Assessor may further reduce assessed values in future fiscal years.

The District may not issue bonds in excess of 2.5% of the assessed valuation of taxable property within its boundaries. The District's gross bonding capacity is estimated at \$189,527,618, and its net bonding capacity after the issuance of the Bonds is \$6,608,585*.

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* Preliminary; subject to adjustment.

Shown in the following table is a distribution of taxable real property located in the District by principal purpose for which the land is used along with the assessed valuation and number of parcels for each use for fiscal year 2011-12.

Assessed Valuation and Parcels by Land Use Natomas Unified School District

	2011-12 <u>Assessed Valuation</u> ¹	<u>% of Total</u>	Number of <u>Parcels</u>	<u>% of Total</u>
NON-RESIDENTIAL:				
Agricultural/Rural	\$26,357,091	0.38%	90	0.40%
Commercial	550,053,286	8.00	128	0.57
Vacant Commercial	95,584,772	1.39	112	0.50
Office Building	805,685,822	11.72	177	0.79
Industrial	216,505,868	3.15	59	0.26
Vacant Industrial	71,306,136	1.04	68	0.30
Recreational	93,102,158	1.35	22	0.10
Government/Social/Institutional	33,107,669	0.48	18	0.08
Miscellaneous	<u>2,329,687</u>	<u>0.03</u>	<u>182</u>	<u>0.81</u>
SUBTOTAL NON-RESIDENTIAL	\$1,894,032,489	27.55%	856	3.82%
RESIDENTIAL:				
Single Family Residence	\$3,687,657,410	53.65%	16,322	72.96%
Condominium/Townhouse	279,215,085	4.06	2,334	10.43
Mobile Home	3,498,249	0.05	103	0.46
Mobile Home Park	7,052,535	0.10	1	0.0
Hotel/Motel	126,074,191	1.83	12	0.05
2-4 Residential Units	11,574,989	0.17	36	0.16
5+ Residential Units/Apartments	726,412,354	10.57	78	0.35
Vacant Residential	<u>138,348,344</u>	<u>2.01</u>	<u>2,630</u>	<u>11.76</u>
SUBTOTAL RESIDENTIAL	\$4,979,833,157	72.45%	21,516	96.17%
TOTAL	\$6,873,865,646	100.00%	22,372	100.00%

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

Largest Taxpayers in District

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and ability or willingness to pay property taxes.

The 20 largest taxpayers in the District own property that comprises approximately 14.8% of the total assessed valuation of secured property in the District. These taxpayers, ranked by aggregate assessed value of taxable property as shown on the 2011-12 secured tax roll, and the amount of each owner's assessed valuation for all taxing jurisdictions within the District, are shown below.

Largest Taxpayers Natomas Unified School District

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2011-12 Assessed Valuation</u>	<u>% of Total¹</u>
1. CLPF Promenade LP	Shopping Center	\$ 81,400,000	1.18%
2. Buzz Oates LLC	Office Building	77,572,551	1.13
3. Homecoming at Creekside LLC	Apartments	71,434,440	1.04
4. Hines VAF II Sacramento Properties LP	Office Building	65,489,450	0.95
5. Prim Natomas LLC	Office Building	59,027,935	0.86
6. SCI PK PLC Fund 1-35 LLC	Shopping Center	56,290,000	0.82
7. DB RE California Residential 2 LLC	Apartments	52,274,042	0.76
8. Laguna Antelope Properties	Office Building	49,577,907	0.72
9. Riverpoint – 714 LLC	Apartments	48,512,124	0.71
10. Gateway West LLC	Technical Institute	47,811,927	0.70
11. KBSII Gateway Corp. Center LLC	Office Building	47,455,041	0.69
12. Donahue Schriber Realty Group LP	Commercial	46,647,570	0.68
13. Demmon Harbor Oaks Partners LP	Apartments	45,277,299	0.66
14. Kings Arco Arena LP	Sports Arena	42,130,800	0.61
15. Metzler I Metro Center LP	Office Building	41,000,000	0.60
16. Bannon Investors Ltd.	Office Building	40,693,356	0.59
17. Villagio Apartment Homes LLC	Apartments	39,999,931	0.58
18. Northwestern Mutual Life Insurance Company	Apartments	36,271,080	0.53
19. Raley's	Industrial	35,353,593	0.51
20. Irongate Investors LLC	Apartments	<u>35,001,321</u>	<u>0.51</u>
		\$1,019,220,367	14.83%

¹2011-12 Local secured assessed valuation: \$6,873,865,646.
Source: California Municipal Statistics, Inc.

In 2011-12, no single taxpayer owned more than approximately 1.2% of the total taxable property in the District. Each taxpayer listed is a unique name on the tax rolls. The District cannot determine from assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

Tax Rate

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

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

levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The following table shows *ad valorem* property tax rates for the last several years in a typical tax rate area of the District (TRA 3-325). TRA 3-326 comprises approximately 31.5% of the total assessed value of taxable property in the District.

Summary of *Ad Valorem* Tax Rates
TRA 3-325
Natomas Unified School District
(Dollars per \$100 of Assessed Valuation)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General	1.0000	1.0000	1.0000	1.0000	1.0000
Los Rios Community College District	.0066	.0074	.0124	.0090	.0192
Natomas Unified School District	<u>.1240</u>	<u>.1314</u>	<u>.1519</u>	<u>.1363</u>	<u>.1955</u>
Total	1.1306	1.1388	1.1643	1.1453	1.2147

Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment

The County Board approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) pursuant to sections 4701 through 4717 of the State’s Revenue & Taxation Code. The Teeter Plan guarantees distribution of all *ad valorem* taxes levied to the taxing entities within a county, with the County retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

The County cash position is protected by a special fund, known as the “Tax Loss Reserve Fund,” which accumulates moneys from interest and penalty collections. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt. The State’s Revenue & Taxation Code provides that, whenever in any year the amount of the Tax Loss Reserve Fund has reached an amount equivalent to 1% of the total of all taxes and assessments levied on the secured roll for that year for participating entities in the county, the amounts hereinafter authorized to be credited to the Tax Loss Reserve Fund may, for the remainder of that year, be credited to the county general fund.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board receives a petition for its discontinuance from two-thirds of the participating districts in the County. The County Board may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls in that agency.

Tax Collections and Delinquencies

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

The treasurer-tax collector of a county prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1 and on February 1. In the County, if the first installment is not paid by 5:00 p.m. December 10, a 10% penalty attaches. If the second installment is not paid by 5:00 p.m. April 10, a 10% penalty and a \$10 cost attach. If taxes remain unpaid by June 30, the tax is deemed to be in default. The property owner has the

right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the treasurer-tax collector.

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. In the County, if taxes are not paid by the delinquency date, as stated on the bill, lien(s) is/are recorded against the assessed owner of the property, which can and will adversely affect assessee's credit.

To collect unpaid taxes, a county treasurer-tax collector may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The treasurer-tax collector may also bring a civil suit against the taxpayer for payment.

The following table shows a recent history of real property tax collections and delinquencies for bond debt service levy of the portion of the District within the County.

Secured Tax Charges and Delinquencies Natomas Unified School District

<u>Fiscal Year</u>	<u>Secured Tax Charge¹</u>	<u>Amount Delinquent as of June 30</u>	<u>Percent Delinquent as of June 30</u>
2001-02	\$3,509,638	\$31,679	0.90%
2002-03	3,304,827	42,466	1.28
2003-04	5,010,022	57,360	1.14
2004-05	5,215,791	53,158	1.02
2005-06	5,673,117	109,212	1.93
2006-07	9,093,769	351,412	3.86
2007-08	10,439,242	459,793	4.40
2008-09	11,160,764	421,843	3.78
2009-10	11,625,693	309,104	2.66
2010-11	9,636,182	181,023	1.88

¹ General obligation bond debt service levy only.

Source: California Municipal Statistics, Inc.

As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of the tax levy no matter the delinquency rate within the District.

Direct and Overlapping Bonded Debt

The statement of direct and overlapping bonded debt relating to the District, which is set forth on the following page, was prepared by California Municipal Statistics, Inc. It has been included for general information purposes only. The District has not reviewed the statement for completeness or accuracy and makes no representations in connection with the statement.

Contained within the District's boundaries are numerous overlapping local entities providing public services. These local entities may have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds. The first column in the table below names the public agencies that have outstanding debt as of the date of the report and whose boundaries overlap the District. The second column in the table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The third column shows the corresponding portion of each overlapping entity's existing debt allocable to property within the District. The total amount of debt for each overlapping entity is not shown in the table. In addition, property owners within the District may be subject to other special taxes and assessments levied by other taxing authorities that provide services within the District. Such non-*ad valorem* special taxes and assessments (which are not levied to fund debt service) are not represented in the statement of direct and overlapping bonded debt.

The table generally includes long-term obligations sold in the public capital markets by the public agencies listed. 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.

Statement of Direct and Overlapping Bonded Debt (As of May 1, 2012)

Natomas Unified School District

2011-12 Total Assessed Valuation: \$7,581,104,735

	<u>% Applicable</u>	<u>Debt 5/1/12</u>
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Los Rios Community College District	5.633%	\$17,389,634
Natomas Unified School District	100.000	182,204,033 (1)
City of Sacramento Community Facilities Districts	9.259-100.000	110,280,329
City of Sacramento Assessment District No. 2	20.457	520,631
City of Sacramento Reassessment District No. 2006-01	100.000	10,745,000
Sacramento County Community Facilities District No. 2000-1	100.000	98,465,000
Sacramento Area Flood Control Capital Districts Assessment Districts	Various	35,985,900
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$455,590,527
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	6.776%	\$22,835,026
Sacramento County Pension Obligations	6.776	66,269,165
Sacramento County Board of Education Certificates of Participation	6.776	631,184
Los Rios Community College District Certificates of Participation	5.633	355,442
City of Sacramento General Fund Obligations	20.457	148,569,474
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$238,660,291
Less: Sacramento County supported obligations		465,681
City of Sacramento supported obligations		91,789,485
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$146,405,125
GROSS COMBINED TOTAL DEBT		\$694,250,818 (2)
NET COMBINED TOTAL DEBT		\$601,995,652

Ratios to 2011-12 Assessed Valuation:

Direct Debt (\$182,204,033)	2.40%
Total Direct and Overlapping Tax and Assessment Debt	6.01%
Gross Combined Total Debt	9.16%
Net Combined Total Debt	7.94%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

¹Excludes the Bonds to be sold.

²Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

SACRAMENTO COUNTY INVESTMENT POOL

This section provides a general description of the County's investment policy and current portfolio holdings. The information set forth under this section relating to the County Pool has been obtained from the Department of Finance of the County and is believed to be reliable but is not guaranteed as to accuracy or completeness. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Sacramento, Office of the County Director of Finance, 700 H Street, Suite 1710, Sacramento, California 95814, Telephone (916) 874-6744.

Most of the District's funds, including the Debt Service Fund, are held and invested at the County in the pooled investment fund managed by the County Director of Finance (the "County Pool"), in which certain funds of the County and certain funds of other

participating entities are invested pending disbursement. The County Director of Finance is the *ex officio* Treasurer of each of these participating entities, which therefore are legally required to deposit their cash receipts and revenues in the County treasury. Under State law, withdrawals are allowed only to pay for expenses, which have become due. The remaining amounts in the County Pool can be withdrawn by the depositors for whom these amounts are held, provided such withdrawals conform to legal mandates and procedures.

Each governing board of school districts and special districts within the County may allow certain withdrawals of non-operating funds for purposes of investing outside the County Pool. Some districts have from time to time authorized the County Director of Finance to purchase specified investments for certain district funds to mature on predetermined future dates when cash would be required for disbursements.

Funds held in the County Pool are invested by the County Director of Finance in accordance with State law and the County's investment policy, which is prepared by the County Director of Finance and approved by the County Board. A copy of the investment policy is attached hereto as "APPENDIX D—SACRAMENTO County Annual Investment Policy of the Pooled Investment fund." The County Director of Finance neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds.

The County Pool is invested in order to earn a reasonable return while awaiting application for governmental purposes. The specific objectives for the County Pool are ranked in order of importance: safety of principal, liquidity, public trust, and maximum rate of return. The gross earned interest yield of the County Pool for the month ended March 31, 2012 was 0.407%, with weighted average maturity of 251 days.

A summary description of the composition of the County Pool from the quarterly investment report is provided in the following table.

Sacramento County Pooled Investment Fund As of March 31, 2012

<u>Type</u>	<u>Interest Rate</u>	<u>Trading Yield</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Portfolio % of Market Value</u>
Variable Rates (Muni)	0.445%	0.445%	\$56,415,519.30	\$56,415,519.30	\$56,415,519.30	2.215%
Federal Farm Credit Bonds (FFCB) Notes	1.580%	0.829%	69,925,000.00	71,430,751.68	71,265,507.81	2.798%
Federal Home Loan Banks (FHLB)	2.493%	1.079%	140,000,000.00	144,577,970.00	143,678,125.00	5.641%
Federal Nat'l Mortgage Association (FNMA) Notes	2.062%	1.086%	300,000,000.00	308,325,729.00	307,103,400.00	12.058%
FNMA Discount Notes	0.068%	0.068%	198,110,000.00	198,071,525.79	198,110,000.00	7.778%
FHLB Discount Notes	0.084%	0.084%	329,581,000.00	329,513,454.31	329,581,000.00	12.940%
Fed. Home Loan Mtg. Corp. (FHLMC) Disc. Notes	0.074%	0.074%	432,704,000.00	432,614,768.23	432,704,000.00	16.989%
FHLMC Notes	1.827%	0.888%	335,000,000.00	342,191,537.00	341,873,437.50	13.423%
Commercial Paper (Discount)	0.146%	0.146%	256,400,000.00	256,322,042.49	256,338,811.12	10.065%
Certificates of Deposits/Thrift Notes	0.148%	0.148%	344,450,000.00	344,450,000.00	344,442,109.97	13.524%
CD-ACT Over 365/366	0.216%	0.216%	15,099,000.00	15,099,000.00	15,099,000.00	0.593%
Passbook Accounts	0.393%	0.393%	<u>50,325,000.00</u>	<u>50,325,000.00</u>	<u>50,325,000.00</u>	<u>1.976%</u>
County Pool Total	0.763%	0.417%	\$2,528,009,519.30	\$2,549,337,297.80	\$2,546,935,910.70	100.000%

Source: Sacramento County Department of Finance

COUNTY ECONOMIC PROFILE

The information in this section concerning the County's economy is provided as supplementary information only, and is not intended to be an indication of security for the Bonds. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and Constitutional requirements, and required to be levied by the County on all taxable property in the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.

General Information

Based on data compiled by DataQuick Information Systems, the median sale price of a single-family home in the County was \$155,000 in February 2012, a decrease of approximately 1.6% from \$157,500 in February 2011. The median sale price of a single-family home in the City of Sacramento was \$121,250 in February 2012, a decrease of approximately 3.0% from \$125,000 in February 2011.

Flood Zone

In December 2008, the Federal Emergency Management Agency ("FEMA") remapped the Natomas basin (within which the District resides) as an "AE" flood hazard zone, based on the findings of an evaluation study conducted by the U.S. Army Corps of Engineers (the "Corps"). The Corps closely examined two Sacramento River levee sections and found seepage and unstable slopes in both sections. The study also uses a new methodology for assessing flood risk called "risk analysis." Traditional levee-certification method uses historical weather records to set a target water elevation, and levees are then designed to meet that elevation plus an additional three feet. The Corps's new risk analysis method starts with a similar approach, but also uses statistical sampling to estimate the uncertainty behind the data. The levee height required for 100-year certification using this new methodology must be a height such that 90% of the possible 100-year floods will fall below this elevation. The levee sections examined within the study did not pass the elevation requirement, based on the new risk analysis methodology.

The AE flood zone designation requires that all new construction within the Natomas basin be elevated by up to 20 feet, thereby creating a *de facto* building moratorium.

The Sacramento Area Flood Control Agency ("SAFCA"), a joint powers agency of the City of Sacramento, the County, the Sacramento County Water Agency, the County of Sutter, the Sutter County Water Agency, and the American River Flood Control District and Reclamation District 1000, is working closely with the Corps to upgrade the Natomas levees. The entire project is divided into four major phases, with construction in the first two phases being the responsibility of SAFCA and the last two the responsibility of the Corp. SAFCA's construction activity is anticipated be fully concluded by the end of 2012 and the Corps will be responsible for completing the rest of the project, along the southern and eastern portions of the Natomas Basin. Once federal authorization has been obtained, re-mapping of the flood risk for the Natomas Basin from a FEMA AE Zone to an A99 Zone (indicative of substantial progress towards 100-year protection) can occur and the *de facto* building moratorium will be lifted.

Funding to restore the Natomas area to 100-year flood protection, and ultimately provide 200-year protection for the County, comes from local, State and federal levels. In 2007, voters approved an increased SAFCA assessment and in 2011 approved supplemental assessment paid by property owners in the Natomas Basin. The Corps has not yet received federal authorization and funding to begin work on the project. The proposal for the Corps. to begin work on the Natomas levees is part of a larger transportation bill, which has been stalled in the House of Representative. In January 2011, Rep. Doris Matsui introduced a bill (HR 433) and Sen. Dianne Feinstein introduced a companion bill (SB 1810) in November 2011 in order to make progress on obtaining federal authorization. Should federal authorization and funding be received in a timely manner, it is anticipated that construction may be completed within six years.

Population

The following table displays estimated population data as of January 1st for the past three years for the County.

Historical Population City of Sacramento and Sacramento County

	<u>2010</u>	<u>2011</u>	<u>2012</u>
City of Sacramento	466,488	469,477	470,956
Sacramento County	1,418,788	1,427,961	1,435,153

Source: State Department of Finance

Unemployment

The following table contains a summary of the City of Sacramento's unemployment data seasonally unadjusted.

Historical Unemployment City of Sacramento

	<u>Annual 2008</u>	<u>Annual 2009</u>	<u>Annual 2010</u>	<u>Annual 2011</u>	<u>March 2012¹</u>
Total Labor Force	214,400	216,300	217,000	214,900	214,300
# Employed	196,200	187,800	184,900	184,600	185,600
# Unemployed	18,100	28,500	32,200	30,300	28,700
Unemployment Rate	8.5%	13.2%	14.8%	14.1%	13.4%

¹Preliminary

Source: State Employment Development Department

The following table contains a summary of the County's unemployment data seasonally unadjusted.

Historical Unemployment Sacramento County

	<u>Annual 2008</u>	<u>Annual 2009</u>	<u>Annual 2010</u>	<u>Annual 2011</u>	<u>February 2012¹</u>
Total Labor Force	683,400	687,600	682,000	675,600	670,700
# Employed	634,500	609,600	595,200	594,100	595,400
# Unemployed	48,900	78,000	86,700	81,500	75,300
Unemployment Rate	7.2%	11.3%	12.7%	12.1%	11.2%

¹Preliminary.

Source: State Employment Development Department

Major Employers

The following table provides a listing of 25 major employers in the County, listed by number of employees.

Major Employers Sacramento County

	<u>Company</u>	<u># of Employees</u>
1	State of California	70,937
2	Sacramento County	11,300
3	UC Davis Health System	8,580
4	Sutter Health Sacramento Sierra Region	6,958
5	Mercy/Catholic Healthcare West	6,942
6	Intel Corp.	6,515
7	Kaiser Permanente	6,367
8	Elk Grove Unified School District	5,619
9	San Juan Unified School District	4,600
10	Sacramento City Unified School District	4,500
11	City of Sacramento	4,000
12	Raley's Family of Fine Stores	3,824
13	Los Rios Community College District	3,153
14	Sacramento Veterans Affairs Medical Center	2,785
15	Health Net of California, Health Net Federal Services	2,544
16	California State University Sacramento	2,342
17	Wells Fargo & Co.	1,953
18	Sacramento Municipal Utility District	1,859
19	Aerojet	1,650
20	Folsom Cordova Unified School District	1,564
21	Delta Dental of California	1,328
22	Franklin Templeton Investments	1,000
23	Eskaton	936
24	Siemens Industry, Mobility Division	850
25	The Sacramento Bee	846

Source: 2011 Sacramento Business Journal

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Taxable Sales

Total taxable sales reported during calendar year 2010 in the City of Sacramento were approximately \$4,947,448,000, a 0.03% decrease from the total taxable sales of approximately \$4,949,165,000 reported during calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Sacramento is presented in the following table, rounded to the nearest thousand.

Taxable Retail Sales City of Sacramento

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Sales Tax Permits	12,106	12,012	12,235	10,910	11,491
Taxable Sales (in 000's)	6,052,162	5,947,753	5,704,418	4,949,165	4,947,448

Source: State Board of Equalization

Total taxable sales reported during the calendar year 2010 in the County were approximately \$16,904,528,000, a 2.1% increase from the total taxable sales of approximately \$16,563,853,000 reported during calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table, rounded to the nearest thousand.

Taxable Retail Sales Sacramento County

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Sales Tax Permits	35,406	35,023	35,547	31,644	32,789
Taxable Sales (000's)	\$21,140,386	\$20,560,510	\$19,331,847	16,563,853	16,904,528

Source: State Board of Equalization

THE DISTRICT

The information in this section concerning the operations of the District and its finances are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the General Fund of the District. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and Constitutional requirements, and required to be levied by the County and Napa County on all taxable property in the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.

General Information

The District was established in 1950 and unified in 1992. The District is located in the northwestern portion of the County, approximately four miles north of the downtown area of Sacramento, the State capital, and provides grades K-12 and adult education. The District operates seven K-6 elementary schools, one K-8 elementary school, one middle school, two high schools, five fiscally dependent charter schools, and one alternative high school.

The Board of Trustees and Key Administrative Personnel

The Board governs all activities related to public education within the jurisdiction of the District. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding source entities. The Board consists of five members who are publicly elected from the District at large. Each Board member is elected by the public for a four-year term of office, and elections for the Board are held every two years. The Board has the decision-making authority and is accountable for all fiscal matters relating to the District. The current members of the Board are set forth in the following table.

The Board of Trustees Natomas Unified School District

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lisa Kaplan	President	November 2014
Jules Tran	Vice-President	November 2012
Susan Heredia	Clerk	November 2012
B. Teri Burns	Member	November 2014
Bruce Roberts	Member	November 2012

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for managing the District's day-to-day operations and supervising the work of other key District administrators. Key members of the District's staff are set forth on page 'ii' of this Official Statement.

Average Daily Attendance

California school districts receive a significant portion of their general purpose operating income from State appropriations under a formula known as the State revenue limit. In general, the State revenue limit for each school district is calculated by multiplying a "base revenue limit" per student by the school district's student enrollment measured in units of average daily attendance (ADA). For a further discussion of State revenue limits, see "STATE FUNDING OF PUBLIC EDUCATION" herein.

Set forth in the exhibit below is the District's historical and current Period 2 ADA for grades K-12 (excluding adult education and charter schools).

Period 2 Average Daily Attendance Natomas Unified School District

<u>Year</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12*</u>
K-12	9,513	10,005	9,696	9,277	8,955

*Second Interim Report.

Charter Schools

There are currently five fiscally dependent charter schools operating within the District:

- Natomas Charter School serves grades K-12 with 1,332 ADA in fiscal year 2011-12, of which approximately 998 reside within the District;
- Westlake Charter Elementary School serves grades K-3 with 445 ADA in fiscal year 2011-12, all of which reside within the District

- Westlake Charter Middle School serves grades 4-6 with 54 ADA in fiscal year 2011-12, all of which reside within the District. Westlake Charter Middle School will expand into 7th grade in fiscal year 2012-13 and into 8th grade in fiscal year 2014-15;
- Natomas Pacific Pathways Prep Middle School serves grades 6-8 with 480 ADA in fiscal year 2011-12, of which approximately 355 reside within the District; and
- Natomas Pacific Pathways Prep High School serves grades 9-12 with 454 ADA in fiscal year 2011-12, of which approximately 350 reside within the District.

These fiscally dependent schools operate, to a certain extent, under the financial control of the District, with their financial activities presented in the District's financial statements under the Charter School Fund (see "APPENDIX A" herein for more information). To the extent charter schools draw students from District schools and reduce District enrollment, charter schools can adversely affect District revenues. However, certain per-pupil expenditures of the District also decrease based upon the number of students enrolled in charter schools. School districts are required to provide facilities (comparable to those provided to regular District students) to charter schools having a projected average daily attendance of at least 80 or more students from within the District.

Westlake Charter Elementary School and Westlake Charter Middle School are projecting to experience cash shortfall beginning in April 2012. Since then, the Westlake Charter Middle School has applied for a charter loan from the State Department of Education's Charter School Revolving Loan Fund ("CSRLF") in the amount of \$250,000, has been accepted to receive a charter school grant in the amount of \$456,000, and is currently in the process of applying for the state aid apportionment deferral waiver. Westlake Charter Elementary School and Westlake Charter Middle School are in the process of applying for a line-of-credit, which is expected to be finalized in May 2012. The District will continue to closely monitor their fiscal situation.

The CSRLF, established in State Education Code Section 41365 *et seq.*, provides low-interest loans of up to \$250,000 to new charter schools by providing startup and initial operating capital to assist schools in establishing high quality, high performing charter school operations in the State. The CSRLF loan is proposed to be repaid in five fiscal years; the State Controller will offset apportionment payments to Westlake Charter Middle School in equal amounts for each year of the loan repayment period until the total loan amount, including interest, is repaid.

In Fall 2012, a dependent charter school, Leroy Greene Academy, will begin operation, serving grades 7-8 with projected 342 ADA for fiscal year 2012-13, all of which reside within the District. Leroy Greene Academy was originally a District-operated middle school, which closed by the District. The closure allowed the district to rehabilitate and repair reported construction defects.

Employee Relations

California law provides that employees of public school districts of the State are to be divided into appropriate bargaining units which then are to be represented by an exclusive bargaining agent.

The District has two recognized bargaining units which represent its employees. The Natomas Teacher's Association ("NTA") represents the District's certificated teaching staff and other non-management certificated employees. The California School Employees' Association, Chapter 745 ("CSEA"), represents the District's classified personnel. Set forth in the following table are the number of full-time equivalents ("FTEs") and contract status for each of the bargaining units, based on the District Fiscal Year Budget. The District has not completed negotiations of salaries and benefits for the Fiscal Year.

Bargaining Units, Number of Employees, and Contract Status Natomas Unified School District

<u>CERTIFICATED</u>	<u>FTEs</u>	<u>STATUS</u>
Natomas Teacher's Association	424	Impasse.
<u>CLASSIFIED</u>	<u>FTEs</u>	<u>STATUS</u>
California School Employees' Association	260	Settled through June 30, 2012.

The District also has 42 FTE managerial, supervisorial and other confidential employees who are not part of a bargaining unit.

Pension Plans

All full-time employees of the District are eligible to participate under defined benefit retirement plans maintained by agencies of the State. Certificated employees are eligible to participate in the cost-sharing multiple-employer State Teachers' Retirement System ("STRS"). Classified employees are eligible to participate in the agent multiple-employer Public Employees' Retirement Fund of the Public Employees' Retirement System ("PERS"), which acts as a common investment and administrative agent for participating public entities within the State.

STRS operates under the State of California Education Code sections commonly known as the State Teachers' Retirement Law. Membership is mandatory for all certificated employees of California public schools meeting the eligibility requirements. STRS provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty-five. Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate (8.25% in 2010-11). The District's contribution to STRS was \$3,308,750 for fiscal year 2010-11, and is budgeted to be \$3,384,531 for fiscal year 2011-12.

All full-time classified employees of the District participate in PERS, which provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and District resolution. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate (10.707% in fiscal year 2010-11). The District's contribution to PERS was \$1,207,362 for fiscal year 2010-11, and is budgeted to be \$1,306,651 for fiscal year 2011-12.

The District also approved a Public Agency Retirement System Supplementary Retirement Plan ("PARS"). For members who meet eligibility requirements, PARS provides an annuity of 80% of member's last pay from the District. In September 2009, the District entered into a five-year annuity to make contributions to PARS, which consists of annual payments of \$342,085 and covered 32 eligible members. Future payments to be made by the District total \$1,026,255.

For a more complete description of the District's pension plan and annual contribution requirements, see "APPENDIX A" attached hereto.

Other Post Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. The pronouncement requires public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. GASB Statement No. 45 ("GASB 45") was effective for the District for the fiscal year ending June 30, 2009. GASB 45 provides that agencies should establish a reserve fund and annually transfer sufficient funds to this reserve in order to pay for retiree employment benefits other than pensions ("OPEB") for the period of time agreed in union contracts.

The District provides postretirement health care benefits up to age 65 to retirees who are eligible for PERS retirement and who have over 10 years of service with the District. Certificated employees who retire after July 1, 1990, complete 15 years of consecutive service, and enter the retirement system upon leaving the District are eligible to receive medical benefits until they reach age 65.

In March 2010, an actuarial study was conducted to analyze liabilities associated with the District's retiree health program as of July 1, 2009. The study estimates the actuarial accrued liability (AAL) to be \$7,757,509, all of which is unfunded actuarial accrued liability (UAAL). The annual required contribution (ARC) is calculated to be \$1,231,813. The District's contributions for the year ended June 30, 2011 for current retirees on a "pay-as-you-go" basis was \$254,404; it is budgeted to be \$348,000 during fiscal year 2011-12.

DISTRICT FINANCIAL INFORMATION

Accounting Practices

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The District's basic financial statements consist of government-wide statements and fund-based financial statements. Government-wide statements, consisting of a statement of net assets and a statement of activities, report all the assets, liabilities, revenue and expenses of the District and are accounted for using the economic resources measurement focus and accrual basis of accounting. The fund-based financial statements consist of a series of statements that provide information about the District's major and non-major funds. Governmental funds, including the District's General Fund, special revenues funds, capital project funds and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See "NOTE 1" in "APPENDIX A" herein for a further discussion of applicable accounting policies.

The District's independent auditor for the year ended June 30, 2011 is Crowe Horwath LLP, Sacramento, California. The financial statements of the District as of and for the year ended June 30, 2011, are set forth in "APPENDIX A" attached hereto.

Budget and Financial Reporting Process

The District's General Fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as federal and State school apportionments, taxes, use of money and property, and aid from other governmental agencies.

The District is required by provisions of the State of California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed revenues plus the carry-over fund balance from the previous year. The State of California Department of Education imposes a uniform budgeting format for school districts.

The fiscal year for all school districts is July 1 to June 30. The same calendar applies to the budgets of county offices of education, except that their budgets and reports go to the State Superintendent of Public Instruction for review. The State budget, too, is extremely important since most school districts depend on it for almost all their revenue. There is a very close timing in the summer between final approval of the State budget, school finance legislation, and the adoption of local district budgets. In some years, the State budget is not approved by the deadline, which forces school districts to begin the new fiscal year with only estimates of the amount of money they will actually receive.

The District budgeting process involves continuous planning and evaluation. Within the deadlines, school districts work out their own schedules for considering whether or not to hire or replace staff, negotiating contracts with all employees, reviewing programs, and assessing the need to repair existing or acquire new facilities. Decisions depend on the critical estimates of enrollment, fixed costs, commitments in contracts with employees as well as best guesses about how much money will be available for elementary and secondary education.

The timing of some decisions is forced by legal deadlines. For example, preliminary layoff notices to teachers must be delivered in March, with final notices in May. This necessitates projecting enrollments and determining staffing needs long before a school district will know either its final financial positions for the current year or its income for the next one.

The governing board must submit a budget to the County Superintendent of Schools by July 1, and a publicized opportunity for public participation in the budget process is required by law. There are two options for budget adoption. School districts may adopt their budgets by July 1 and then revise and readopt them by September 8 after a public hearing. Alternatively, school districts may decide, by the previous October 31, to hold public hearings before adopting their budgets by July 1. School districts choosing this option revise their revenues and expenditures after the State budget act is adopted, without a second public hearing. All school districts must perform a criteria and standards review before budget adoption. In addition, those school districts on the alternative schedule for adoption must repeat the review before their revision only if the July 1 budget was disapproved. Legislation requires criteria and standards for stringent review of school districts' finances, focusing primarily on predictions of average daily attendance, operating deficit, and reserves. The legislation also dictates when and how outside committees, or an appointed State trustee in emergency situations, must work with school districts. This oversight is part of an effort to reduce the number of districts in financial trouble and to increase the responsible use of tax dollars.

The county superintendents monitor all school districts' budgets, ongoing financial obligations and multi-year contracts. They have specific powers for recommending actions to revise budgets. They are not, however, authorized to abrogate existing collective bargaining agreements. School districts must review their financial position for the periods ending October 31 and January 31 in order to certify their abilities to meet commitments through the current fiscal year and following two years.

Each school district is required by the State Education Code to file these two interim reports each year by not later than December 15 and March 15. 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, and financial projections for the following two years. The county office of education must then, within 30 days, evaluate the interim reports and forward their comments to the State Department of Education and the State Controller's Office. Included in the report is a certification by the president of the governing board of each school district that classifies the District according to its ability to meet its financial obligations. The certifications are grouped into three categories: positive certification, which designates that the District will be able to meet its financial obligations for the remainder of the fiscal year (including a minimum required reserve for contingencies set by the State Board of Equalization) and the following two years; a qualified certification, which means that the District may not be able to meet its financial obligations for the remainder of the current fiscal year and following two years if certain events occur; and a negative certification, which signifies that the District will not be able to meet its financial obligations for the remainder of the fiscal year or of the following year. A certification by the governing board may be overridden 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 report by June 1 covering the period ending April 30. If not required, a third interim report is generally not prepared (though may be at the election of the district). The same calendar applies to the budgets of county offices of education, except that their budgets and reports go to the State Superintendent of Public Instruction for review.

The county superintendent must annually present a report to the governing board of the school district and the State Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty, pursuant to Education Code Section 42127.6. Any school district with a qualified or negative certification must allow the county office of education at least ten working days to review and comment on any proposed agreement made between its bargaining units and the school district before it is ratified by the board (or the state administrator). The county superintendent will notify the school district, the county board of education, the governing board and the district superintendent (or the state administrator), and each parent and teacher organization of the school district within those ten days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district. Also, pursuant to Education Code Section 42133, a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or the next succeeding fiscal year, non-voter approved debt unless the county superintendent of schools determines that the repayment of that debt by the school district is probable.

The filing status of the District's interim reports for the past five years appears below.

Certifications of Interim Financial Reports Natomas Unified School District

<u>Fiscal Year</u>	<u>First Interim</u>	<u>Second Interim</u>
2007-08	Positive	Qualified
2008-09	Qualified	Qualified
2009-10	Negative	Negative
2010-11	Negative	Negative
2011-12	Qualified	Qualified

Impact of Reductions in Education Spending by the State

The past few years have seen large funding reductions to school districts across the State due to the State's fiscal crisis and the economic downturn. The District has used its reserves to offset more severe reductions that would have been made during the past few years. Recognizing the severity of the budget situation and the unsustainable pattern of deficit spending, the Sacramento County Superintendent of Schools appointed a fiscal advisor to the District in September 2009 to oversee and help guide the District to fiscal recovery in conformity with State Education Code Section 42127.6. The fiscal advisor has had an active role in making budget recommendations. The fiscal advisor has the authority to stay and rescind any financial decision of the Board that is inconsistent with the ability of the District to meet its financial obligations.

Since September 2009, the Board has approved various cuts, layoffs and bargaining unit concessions, the effects of which are offset by increasing expenditures such as step and column advancements, utilities, and professional services, resulting in a net reduction in expenditures of approximately \$14.1 million, from approximately \$81.0 million in fiscal year 2008-09 to approximately \$66.7 million in fiscal year 2011-12.

Financial Statements

Figures presented in summarized form herein have been gathered from the District's financial statements. The audited financial statements of the District for the fiscal year ending June 30, 2011, have been included in this Official Statement. See "APPENDIX A" herein. Audited financial statements for all prior fiscal years are on file with the District and available for public inspection during normal business hours. Copies of financial statements relating to any year are available to prospective investors and or their representatives upon request by contacting the District or by contacting the District's financial advisor, Government Financial Strategies inc. at the address and telephone number set forth on page "iii" of this Official Statement.

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The following table sets forth certain General Fund information for the District.

General Fund Activity Natomas Unified School District

	2007-08 <u>Audited</u>	2008-09 <u>Audited</u>	2009-10 <u>Audited</u>
BEGINNING BALANCE	\$10,496,383	\$9,622,263	\$12,271,549
REVENUES			
Revenue Limit Sources	\$60,716,938	\$62,630,503	\$54,288,643
Federal Revenue	2,348,806	6,538,003	5,173,343
Other State Revenues	10,230,185	9,518,437	8,992,942
Other Local Revenues	<u>3,020,803</u>	<u>2,683,322</u>	<u>2,698,566</u>
TOTAL REVENUES	\$76,316,732	\$81,370,265	\$71,153,494
EXPENDITURES			
Certificated Salaries	\$38,089,931	\$40,969,266	\$36,624,256
Classified Salaries	11,191,837	12,139,755	10,872,699
Employee Benefits	13,049,772	14,610,284	13,088,031
Books and Supplies	4,550,750	3,559,482	2,049,241
Services / Operating Expn.	8,694,690	9,060,614	8,444,150
Capital Outlay	432,263	154,395	318,698
Other Outgo	<u>54,440</u>	<u>484,026</u>	<u>532,180</u>
TOTAL EXPENDITURES	\$76,063,683	\$80,977,822	\$71,929,255
OTHER FINANCING SOURCES	(\$1,127,169)	\$2,256,843	\$230,501
NET INCREASE (DECREASE)	(\$874,120)	\$2,649,286	(\$545,260)
ENDING BALANCE	\$9,622,263	\$12,271,549	\$11,726,289

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Beginning in fiscal year 2010-11, beginning fund balances of the General Fund and the Special Reserve Fund for Post-Employment Benefits have been combined for financial audit reporting purposes in accordance with GASB Statement No. 54.

General Fund Activity with GASB 54 Adjustment Natomas Unified School District

	2010-11 <u>Audited</u>	2011-12 <u>Second Interim</u>
BEGINNING BALANCE	\$11,726,289	\$17,790,111
Balance in other fund ¹	<u>126,960</u>	
ADJUSTED BALANCE	\$11,853,249	\$17,790,111
REVENUES		
Revenue Limit Sources	\$52,134,629	\$49,670,732
Federal Revenue	4,260,172	5,823,613
Other State Revenues	9,004,580	8,175,032
Other Local Revenues	<u>5,096,099</u>	<u>4,854,757</u>
TOTAL REVENUES	\$70,495,480	\$68,524,134
EXPENDITURES		
Certificated Salaries	\$32,878,810	\$33,008,654
Classified Salaries	9,503,095	10,052,739
Employee Benefits	12,117,562	12,536,556
Books and Supplies	2,078,737	3,011,979
Services / Operating Expn.	6,875,157	6,765,353
Capital Outlay	14,731	487,997
Other Outgo	<u>975,431</u>	<u>877,707</u>
TOTAL EXPENDITURES	\$64,443,523	\$66,740,985
OTHER FINANCING SOURCES	(\$115,095)	\$538,091
NET INCREASE (DECREASE)	\$5,936,862	\$2,321,240
ENDING BALANCE	\$17,790,111	\$20,111,351 ²

¹ Balance in Special Reserve Fund for Post-Employment Benefits.

² On June 30, 2012, balance in the General Fund is budgeted to be \$19,983,146.73 and \$128,203.74 in the Special Reserve Fund for Post-Employment Benefits.

Revenues

The District categorizes its General Fund revenues into four primary sources: revenue limit sources, federal revenues, other state revenues and other local revenues.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, the state revenue limit for a school district is calculated by multiplying a “base revenue limit” per student by the school district’s student enrollment measured in units of ADA. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. The District’s base revenue limit per unit of ADA was \$6,477.49 for fiscal year 2010-11 (before application of a deficit factor of 0.82037) and is budgeted to be \$6,805.56 in fiscal year 2011-12 (before application of a deficit factor of 0.79398).

School district revenue limit funding is typically accomplished by a mix of a) local property taxes, and b) State apportionments of basic and equalization aid. Generally, the State's apportionments amount to the difference between the District's revenue limit and its local property tax revenues. The District received approximately \$13.7 million of property tax revenues (net of transfers) in fiscal year 2010-11, representing 26.2% of the District's revenue limit funding, and is budgeted to receive approximately \$12.9 million of property tax revenues (net of transfers) in fiscal year 2011-12, representing 26.0% of the District's revenue limit funding. Revenue limit sources as a whole were 74.0% of General Fund revenues in fiscal year 2010-11 and are budgeted to be 72.5% of General Fund revenues in fiscal year 2011-12.

Federal Revenues. The federal government provides funding for several District programs. These federal revenues, most of which historically have been restricted, were 6.0% of General Fund revenues in fiscal year 2010-11 and are budgeted to be 8.5% of General Fund revenues in fiscal year 2011-12. Federal revenues include the revenues received pursuant to the American Recovery and Reinvestment Act signed into federal law on February 17, 2009.

Other State Revenues. In addition to apportionment revenues, the State provides funding for several District programs. These other State revenues, most of which are restricted, were 12.8% of General Fund revenues in fiscal year 2010-11 and are budgeted to be 11.9% of General Fund revenues in fiscal year 2011-12. Included in other State revenues are proceeds received from the State from the California State Lottery.

Other Local Revenues. In addition to property taxes, District receives additional local revenues, such as donations from the community. Revenues from other local sources were 7.2% of General Fund revenues in fiscal year 2010-11 and are budgeted to be 7.1% of General Fund revenues in fiscal year 2011-12.

Expenditures

The largest components of a school district's general fund expenditures are certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated cost of living increases or changes in staffing levels, normal "step and column" advancements on the salary schedule result in increased salary expenditures. The District is in negotiations with the certificated employees' union; the cost of a 1% salary and benefit increase to the District is approximately \$310,000.

Employee salaries and benefits were 84.6% of General Fund expenditures in fiscal year 2010-11 and are budgeted to be 83.3% of General Fund expenditures in fiscal year 2011-12.

Short-Term Borrowings

The District has in the past issued short-term tax and revenue anticipation notes. Proceeds from the issuance of notes by the District have been used to reduce inter-fund dependency and to provide the District with greater overall efficiency in the management of its funds. The District has never defaulted on any of its short-term borrowings. No tax and revenue anticipation notes are currently outstanding.

Capitalized Lease Obligations

The District has made use of various capital lease arrangements in the past under agreements that provide for title of items and equipment being leased to pass to the District upon expiration of the lease period. The District has promised to annually appropriate the amounts necessary to make all future lease payments from available revenues. As of June 30, 2011, the District's capital lease liability was \$567,336. See the financial statements of the District as of and for the year ended June 30, 2011, set forth in "APPENDIX A."

Long-Term Borrowings

All long term bonded indebtedness of the District as of June 30, 2011, is set forth in “APPENDIX A” attached hereto. The following table summarizes the District’s outstanding bonded indebtedness as of April 1, 2012. The District has never defaulted on any of its long-term bonded indebtedness.

Outstanding General Obligation Bonds Natomas Unified School District

<u>Authorization</u>	<u>Issue</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding as of April 1, 2012</u>	<u>Debt Service in Fiscal Year 2011-12</u>
Refunding	1999 Refunding G.O.	September 1, 2021	\$22,450,000	\$10,655,000	\$1,895,090
1992 Election	G.O. Series 2001	September 1, 2026	7,170,000	5,215,000	503,046
2002 Election	G.O. Series 2003A	September 1, 2027	15,295,000	12,685,000	825,528
2002 Election	G.O. Series 2004B	September 1, 2028	30,584,687	27,667,393	1,742,335
2006 Election	G.O. Series 2006	August 1, 2031	60,000,000	56,820,000	2,697,781
2006 Election	G.O. Series 2007	August 1, 2032	54,999,999	59,485,664 ¹	1,467,575
Refunding	2008 Refunding G.O	September 1, 2019	21,170,000	16,130,000	2,485,594

¹ Includes accreted value on the capital appreciation bonds.

Additionally, the District authorized Westlake Charter School to enter into a revolving loan agreement with the State for the operation of the charter school at an interest rate of 4.28% in fiscal year 2011-12. In March 2012, the Westlake Charter School requested additional CSRLF loan in the amount of \$250,000, which will be repaid in five fiscal years. See “THE DISTRICT – Charter Schools” herein for more information.

STATE FUNDING OF PUBLIC EDUCATION

The information in this section concerning State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and Constitutional requirements, and required to be levied by the County on all taxable property in the District in an amount sufficient for the timely payment of principal and interest on the Bonds.

Sources of Revenues for Public Education

Sources of Revenues. The State’s K-12 education system is supported primarily from State revenues, mostly sales and income taxes. The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES”). As a result, changes in State revenues may affect appropriations made by the State to school districts. State revenue sources for school districts are supplemented with local property taxes, federal aid, local miscellaneous funds, and the California lottery.

In recent years, approximately 58% of all funds for California K-12 public education came from the State budget, which is required to be proposed by the Governor by January 10 and adopted by June 15 of each year (although the State often is late adopting the budget). Approximately 21% of funding for K-12 education comes from local property taxes. The California Constitution limits property taxes to one percent of the value of property; property taxes may only exceed this limit to repay voter-approved debt.

Statewide, approximately 13% of school districts’ revenues come from the federal government, and about 6% come from local miscellaneous sources. The latter category includes items such as food sales, money for debt repayment, interest on reserves and, in some cases, more significant sources such as developer fees and parcel taxes. Developer fees are fees that school districts can

levy on new residential or commercial development within their boundaries to finance the construction or renovation of school facilities. Many school districts also seek grants or contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses. School districts that still have unused school buildings or sites can lease or sell them for miscellaneous income as well. A significant number of school districts have secured the required two-thirds approval from local voters to levy special taxes on parcels or residences and/or have won voter approval, with either a two-thirds vote or a 55% majority, to sell general obligation bonds or to establish special taxing districts for the construction of schools. Use of such taxes is restricted by law.

The final revenue source for school districts is the California State Lottery. Approved by voters in late 1984, the lottery generates about 1% of total school revenues. Every three months the Lottery Commission calculates 34% of lottery proceeds for all public education institutions, the minimum according to the lottery law. Every K-14 school district receives the same amount of lottery funds per pupil from the State, which may be spent for any instructional purpose, excluding capital projects.

No other source of general purpose revenues is currently permitted for schools. Proposition 13 eliminated the possibility of raising additional *ad valorem* property taxes for general school support, and the courts have declared that fees may not be charged for school-related activities other than for busing services.

The State Revenue Limit. The State Revenue Limit establishes a mechanism to calculate the amount of revenue a school district, community college district or county board of education is entitled to receive from State and local sources. Each school district has its own target amount of funding from State funds and local property taxes per ADA. The ADA is the average number of pupils attending school over the year. This target is known as revenue limit, and the funding from this calculation forms the bulk of all school districts' income. The State Legislature usually grants annual cost-of-living adjustments (COLAs) to revenue limits. The exact amount depends on whether the school district is an elementary, high school or a unified school district.

Apportionments for revenue limits are calculated three times a year for each school district, community college district and county board of education. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for the June 25th Second Principal Apportionment, and the final calculation for the end of the year Annual Apportionment. Calculations are reviewed by the county and submitted to the State Department of Education with respect to school districts and to the Chancellor of the California Community Colleges with respect to community college districts, which, respectively, reviews the calculations for accuracy, calculates the amount of state aid owed to such school district or community college district, as the case may be, and notifies the State Controller of the amount, who then distributes the state aid.

School districts that receive their revenue limit income entirely from property taxes are called "basic aid" school districts. They are permitted to keep all their property tax money (even if it exceeds their revenue limit). As guaranteed in the California Constitution, the State must apportion \$120 per pupil. However, the categorical aid (see below) that school districts receive counts toward this requirement.

Distribution of Revenues for Public Education

General Purpose. The largest part of each school district's revenue funds general operating expenses associated with providing education, including salaries, benefits, supplies, textbooks and regular maintenance. As previously mentioned, the Revenue Limit governs the amount each school district receives. Each school district also receives some State and federal money for special programs, special costs, or categories of children with particular educational needs, called "categorical aid."

Categorical Aid. This special support goes into a school district's General Fund, but its expenditure is restricted to the purpose for which it is granted. About seventy-five percent (75%) of the total money generated for education is for general purposes, and about twenty-five percent (25%) is for categorical aid. The complex allocation system is adjusted somewhat by the State Legislature almost every year, with unpredictable effects on individual school districts.

There are a number of major federal and State categorical aid programs. Some allocations come automatically to school districts, while others require an application. Some programs are based on the characteristics of the children or families in a particular school district, such as gifted and talented, non-English speaking, migrant, low income or handicapped students. Other programs are for specific activities or expenses, such as transportation, textbooks or childcare. Each year a large amount of aid is allocated directly to the State Teachers' Retirement System (STRS) fund. For the past several years, supplemental grants have been directed to equalizing school districts' income from revenue limits plus specific categoricals. Most of the federal funds flow through the California Department of Education, which retains a certain percentage for administration.

In terms of dollars and the number of children served, the largest categorical aid program is Special Education for the Handicapped. According to court decisions and federal and California law, school districts are responsible for the appropriate education of each handicapped child from age 3 to 21 who lives within their boundaries. The allocations do not cover the cost of educating them. School districts are required to contribute a certain amount of general purpose funds for Special Education, and many spend much more. This is known as “encroachment.”

School Facilities. Growing enrollments and/or aging facilities require school districts to build or make major renovations to school buildings. The income from developer fees on residential or commercial property is insufficient to fund all facilities costs. General obligation bond moneys issued by a two-thirds voter approval may only be used for purchase or improvement of real property; general obligation bond moneys issued by 55% voter approval (pursuant to Proposition 39) can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities. See “CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING REVENUES & EXPENDITURES” herein. Mello-Roos taxes can be used for this as well as for ongoing maintenance or purchase of needed equipment. A majority of voters has regularly approved state bond measures for the construction or reconstruction of schools.

The 2011-12 State Budget

The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst’s Office. Neither the District nor the Underwriter assume any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.

Proposed Budget. On January 10, 2011, the Governor released his proposed 2011-12 State budget (the “Proposed 2011-12 State Budget”). The Proposed 2011-12 State Budget estimated that, without corrective action by the State Legislature and the Governor, the State would end fiscal year 2011-12 with a \$25.4 billion deficit. Specifically, the administration estimated that the general fund would end fiscal year 2010-11 with a deficit of \$8.2 billion, with the gap between expenditures and revenues in fiscal year 2011-12 at \$17.2 billion.

The Proposed 2011-12 State Budget proposed significant reforms to State and local programs, substantial reductions to state operations, and spending cuts across all service areas in order to address the deficit. Specifically, the Proposed 2011-12 State Budget identified \$12.5 billion in expenditure cuts over the next two fiscal years, particularly ongoing program reductions, and \$14 billion in increased revenues over the next two fiscal years, predominantly from extending the four temporary tax increases adopted in February 2009 which voters would be asked to approve in a June 2011 special election (which ultimately did not occur).

Other key features of the Proposed 2011-12 State Budget included:

- Restructuring the State-local relationship in the delivery of services by shifting funding and responsibility to local governments for those services, subject to voter approval at the June 2011 special election
- Overhauling redevelopment through elimination of redevelopment agencies and transfer of agencies’ revenues to local successor agencies

SB 70. On March 24, 2011, the Governor signed into law Senate Bill 70 (“SB 70”) implementing several provisions included in the Proposed 2011-12 State Budget. Key features of SB 70 relating to the funding of education included the following:

- For fiscal year 2011-12, SB 70 increases the revenue limit deficit factor for county offices of education and school districts to 19.892% and 19.608%, respectively.
- SB 70 extends, for an additional two fiscal years, existing flexibility options available to school districts relating to deferred maintenance contributions, use of surplus proceeds from the sale of real property, general fund reserve requirements, categorical program funding expenditures, reduction of instructional minutes, class size reduction program penalties, and the implementation of new State instructional materials.
- SB 70 establishes a zero percent cost of living adjustment for K-12 programmatic funding for fiscal year 2011-12.
- SB 70 authorizes three new cross-fiscal year deferrals of State apportionments, as follows: (1) \$1.3 billion from March to August, (2) \$763,794,000 from April to August, and (3) \$500 million from June to July. SB 70 also extended the existing April-to-July deferral to September and the existing May-to-July deferral to September. These deferrals are in addition to existing inter-fiscal year deferrals applicable to fiscal year 2011-12.
- SB 70 authorizes the State Director of Finance to adjust the State’s Proposition 98 calculation to ensure that any shift in property taxes previously received by redevelopment agencies does not affect the State’s minimum funding obligations under Proposition 98.
- SB 70 implements a reduction to categorical funding for basic aid school districts in proportion to the revenue limit funding

reductions experienced by non-basic aid school districts in fiscal years 2008-09 and 2009-10. SB 70 declares the State Legislature's intent to restore this categorical funding at the same time as such revenue limit funding reductions are restored.

May Revision to the Proposed Budget. On May 16, 2011, the Governor released his May revision to the Proposed 2011-12 State Budget for fiscal year 2011-12 (the "2011-12 May Revision") which included a revised projected budget deficit of \$9.6 billion without additional corrective action. Included in this revised projection were higher-than anticipated State general fund revenues totaling \$6.6 billion for both fiscal years 2010-11 and 2011-12. The increase in revenues was largely attributed to strong personal income tax collections experienced since the beginning of the 2011 calendar year. Offsetting these increased revenues, the 2011-12 May Revision identified additional general fund costs, as well as the impact of the cancelation of the State buildings sale authorized by the 2010-11 Budget. To address the \$9.6 billion budget gap, the 2011-12 May Revision proposed measures totaling \$10.8 billion for both fiscal years 2010-11 and 2011-12. These measures were in addition to, or modified, those set out by the Proposed 2011-12 State Budget and subsequent budget legislation. Assuming the implementation of these measures, the 2011-12 May Revision projected ending fiscal year 2011-12 with a surplus of \$1.2 billion.

Adopted Budget. On June 30, 2011, the Governor signed into law the 2011-12 State budget (the "2011-12 State Budget"). The 2011-12 State Budget, including previously enacted legislation, closes the \$26.6 billion budget gap identified in the 2011-12 May Revision through \$15.0 billion in expenditure reductions, \$0.9 billion in revenue increases and \$2.9 billion in other solutions, which, combined with increased State revenue forecast of \$8.3 billion, results in a State general fund reserve of \$543 million at the end of fiscal year 2011-12.

State general fund expenditures are budgeted to be \$85.9 billion in fiscal year 2011-12, a decrease of 6.1% from a revised \$91.5 billion figure for fiscal year 2010-11. State general fund revenues (including transfers) are budgeted to be approximately \$88.5 billion in fiscal year 2011-12, a decrease of 6.7% from a revised fiscal year 2010-11 State general fund revenues and transfers of \$94.8 billion.

The following table identifies historical and budgeted State general fund revenues and expenditures.

State General Fund under the 2011-12 State Budget

	<u>2010-11</u> <u>Original Budget</u> (Millions)	<u>2010-11</u> <u>Revised</u> (Millions)	<u>2011-12</u> <u>Revised</u> (Millions)
Prior-year Fund Balance	(\$4,804)	(\$4,507)	(\$1,206)
Revenues and Transfers	<u>94,230</u>	<u>94,781</u>	<u>88,456</u>
Total Resources Available	\$89,426	\$90,274	\$87,250
Expenditures	<u>86,552</u>	<u>91,480</u>	<u>85,937</u>
Ending Fund Balances	\$2,874	(\$1,206)	\$1,313
Encumbrances	<u>1,537</u>	<u>770</u>	<u>770</u>
Reserve	\$1,337	(\$1,976)	\$543

Source: The California Department of Finance

In general, the 2011-12 State Budget realigns the administration of various public safety and mental health and welfare programs from the State level to local government level. Funding for the \$5.6 billion realignment comes from 1) the dedication of 1.0625 cents of the existing sales tax rate (\$5.1 billion) and 2) the redirection of vehicle license fee revenues (\$453.4 million).

The 2011-12 State Budget reduces State government through expenditure cuts to various health and human services programs, education, and others, including:

- Maintenance of K-12 education funding at a similar level as fiscal year 2010-11 (as discussed in more detail in the following section)
- Reduction of State Supplementary Payment grants
- Reduction of CalWORKS grants
- Reduction of California Department of Corrections and Rehabilitation's inmate population by 25% once realignment is fully implemented
- Requiring recipients of Medi-Cal health benefits to pay a share of the cost for doctor visits and other services
- Reduction of the State's support for the University of California and California State University by 22 and 25%, respectively, and requiring community college students to pay \$10 more per class unit
- Delay of the court system's construction program for one year
- Elimination of the Adult Day Health Care program, Williamson Act subventions, and the refundable child care and dependent tax credit
- Reduction of the State's workforce by 5,500 positions
- Elimination of 20 boards, commissions, task forces, offices and departments, including the California Medical Assistance Commission and the Office of Insurance Advisor.

The 2011-12 State Budget also includes "trigger reductions" contingent on future revenues:

- Tier 1 – if revenues fall short of projections in the 2011-12 State Budget by more than \$1 billion, an additional \$600 million in cuts to higher education, health and human services and public safety would be implemented
- Tier 2 – if revenues fall short of projections by more than \$2 billion, up to an additional \$1.9 billion in education reductions would be implemented

Funding for K-12 Education. The 2011-12 State Budget includes total funding of \$64.1 billion for all K-12 education programs (\$34.7 billion from the State's General Fund and \$29.4 billion from other funds). The 2011-12 State Budget funds the Proposition 98 minimum funding requirement at \$48.7 billion, of which \$32.9 billion is budgeted from the State general fund.

The Proposition 98 minimum funding requirement reflects four new "rebenching" (or adjustments to base calculation) impacts:

- An increase of \$578 million to ensure that the Proposition 98 guarantee does not decrease with the shift in motor vehicle fuel revenues
- An increase of \$222 million to reflect the inclusion of mental health and out-of-home care services within the Proposition 98 guarantee
- A decrease of \$1.134 billion to reflect the exclusion of child care programs, with the exception of partial-day preschool programs, from Proposition 98
- A decrease of \$1.7 billion to ensure that the total Proposition 98 is not changed due to new local revenue related to redevelopment agencies

In addition to the rebenching, the Proposition 98 minimum funding requirement is decreased \$2.1 billion as a result of the reduction in State general fund sales tax revenues related to the realignment of public safety programs to local government.

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An overview of the State's Proposition 98 funding under the 2011-12 State Budget appears in the following table.

Proposition 98 Funding under the 2011-12 State Budget

	2009-10 <u>Final</u> (Millions)	2010-11 <u>Revised</u> (Millions)	2011-12 <u>Budget</u> (Millions)
K-12 Education	\$44,060	\$43,868	\$43,151
Community Colleges	5,721	5,834	5,415
Other Agencies	<u>93</u>	<u>85</u>	<u>85</u>
Total	\$49,874	\$49,787	\$48,651
State General Fund	\$35,546	\$35,691	\$32,879
Local Property Taxes	\$14,327	\$14,096	\$15,772

Source: The State Legislative Analyst's Office

As discussed previously, the 2011-12 State Budget also includes a series of trigger reductions in the event the State's revenues are less than forecasted. In December 2011, the State's revised revenue forecast for fiscal year 2011-12 fell short of the original budget amount by \$2.2 billion, resulting in "trigger reductions" of \$980 million, with Proposition 98 funding reduced by \$80 million and other K-12 education funding reduced by \$248 million.

Other solutions for K-12 education implemented in the 2011-12 State Budget include:

- Decrease of \$62.3 million of Proposition 98 funding to part-day State preschool program
- Provision of \$11 million to provide charter schools that commenced operation between fiscal years 2008-09 and 2011-12 with supplemental categorical funding
- Increase of \$3.2 million to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program,
- Decrease of \$180.4 million to child care and development programs
- Elimination of the Office of Secretary of Education
- Elimination of funding for California Longitudinal Teacher Integrated Data System (CALTIDES)
- Provision requiring districts to project the same level of revenue per student in fiscal year 2011-12 as in fiscal year 2010-11 and "maintain staffing and program levels" commensurately along with a related provision specifying that school districts are not required to demonstrate they can meet their financial obligations for the two subsequent fiscal years.

The full text of the 2011-12 State Budget may be found at the State Department of Finance website, www.dof.ca.gov, and the Legislative Analyst's Office overview of the 2011-12 State Budget may be found at www.lao.ca.gov.

The 2012-13 State Budget

The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the School District nor the Underwriter assume any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.

Proposed 2012-13 State Budget. On January 5, 2012, Governor Brown announced his proposed budget for fiscal year 2012-13 (the "Proposed 2012-13 Budget"). The Proposed 2012-13 Budget projects a budget deficit of approximately \$9.2 billion without corrective action, and provides for \$10.3 billion in cuts and additional revenues to balance the budget and create a \$1.1 billion reserve. The Proposed 2012-13 Budget assumes that voters will pass the Governor's ballot measure planned for the November 2012 election to raise taxes by approximately \$7 billion. The ballot measure proposes an income tax increase of up to 2% on high-income earners for five years and a temporary one-half cent sales tax increase. If passed, this measure will provide new revenues to schools and constitutionally protect the 2011 realignment funds for local public safety, as well as generate an estimated \$6.9 billion through fiscal year 2012-13. After accounting for the increased Proposition 98 minimum guarantee, the measure would provide \$4.4 billion in net benefit to the State general fund and prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the budget. The ballot measure also would provide some constitutional protection for the

funds dedicated in 2011 to counties and local law enforcement to fund the realignment of various State responsibilities to the local level. Should the voters reject the tax measure in November, the Proposed 2012-13 Budget provides for an additional \$5.4 billion in trigger cuts that would affect mainly K-12 schools (in the amount of approximately \$4.8 billion), higher education, courts, fire protection and a variety of parks services.

K-12 Education. The Proposed 2012-13 Budget provides Proposition 98 funding of \$52.5 billion for 2012-13, an increase of \$4.9 billion compared to fiscal year 2011-12. Accounting for all state, federal, and local property tax resources, total funding for K-12 education is projected to be \$67.1 billion in fiscal year 2012-13. The Proposed 2012-13 Budget projects per-pupil expenditures from all sources to be \$10,610 in fiscal year 2011-12 and \$11,246 in fiscal year 2012-13, including funds provided for prior year settle-up obligations, and K-12 Proposition 98 per-pupil expenditures of \$7,096 in fiscal year 2011-12 and \$7,815 in fiscal year 2012-13.

The Proposed 2012-13 Budget includes a series of adjustments or “rebenchings” of the Proposition 98 guarantee, including the elimination of the sales tax on gasoline in fiscal year 2010-11, which would result in \$373.2 million of State general fund savings. The Proposed 2012-13 Budget also includes a Proposition 98 reduction of \$171.2 million to special education and community college apportionments in the 2011-12 fiscal year to offset increased property taxes resulting from the elimination of redevelopment agencies and their entitlement to tax increment.

The Proposed 2012-13 Budget consolidates many categorical programs (excluding federally required programs such as special education) with revenue limit apportionments into a single stream of funding for schools on a permanent basis in an effort to eliminate inefficiencies and costs. This “weighted pupil formula” funding mechanism would be implemented over a period of five years, with school districts held harmless from any decreases in revenue in fiscal year 2012-13.

May Revision to Proposed 2012-13 Budget. On May 14, 2012, the Governor released his May revision to the Proposed 2012-13 Budget (the “2012-13 May Revision”), which includes a revised projected two-year budget deficit of \$15.7 billion without additional corrective action.

State general fund expenditures are budgeted to be \$91.4 billion in fiscal year 2012-13, an increase of 10.9% from a revised \$86.5 billion figure for fiscal year 2011-12. State general fund revenues (including transfers) are budgeted to be approximately \$95.7 billion in fiscal year 2012-13, an increase of 5.6% from a revised fiscal year 2011-12 State general fund revenues and transfers of \$84.0 billion.

The following table identifies historical and budgeted State general fund revenues and expenditures.

State General Fund under the Proposed 2012-13 Budget

	2011-12 <u>Revised</u> (Millions)	2012-13 <u>May Revision</u> (Millions)
Prior-year Fund Balance	(\$2,844)	(\$2,535)
Revenues and Transfers	<u>86,809</u>	<u>95,689</u>
Total Resources Available	83,965	93,154
Expenditures	<u>86,500</u>	<u>91,387</u>
Ending Fund Balances	(\$2,535)	\$1,767
Encumbrances	719	719
Reserve	(3,254)	1,048

Source: The California Department of Finance

The Governor attributes the \$6.5 billion increase in the projected budget deficit without corrective action to:

- A \$4.3 billion overestimation of State general fund revenue,
- Adverse decisions by the federal government and courts that blocked \$1.7 billion in cost reduction measures from previous budget solutions, and

- A \$2.4 billion increase in Proposition 98 funding, due to higher revenues being accrued from the Governor's revised tax measure and revenue growth in fiscal year 2012-13.

With the larger budget deficit, the 2012-13 May Revision proposes \$8.3 billion in spending cuts, \$1.5 billion of which will come from Proposition 98 reductions. In addition, the Governor proposes \$5.9 billion of increased revenues from temporary taxes, \$1.8 billion in new borrowing, and \$747 million in miscellaneous solutions, totaling \$16.7 billion in budget-balancing measures to address the State's budget problems and build a \$1.0 billion reserve.

K-12 Education. The 2012-13 May Revision proposes Proposition 98 guarantee funding of \$53.7 billion. Although State revenues are, in the aggregate, down from previous years, Proposition 98 funding is determined by Test I in fiscal year 2012-13, and as a result the guarantee is increased by \$1.2 billion from the \$52.5 billion spending level in the Proposed 2012-13 Budget. This \$1.2 billion increase is primarily the result of higher revenues being accrued from the Governor's modified tax measure and higher year-to-year revenue growth than initially projected. These increased revenues to schools are funded primarily by an estimated \$1.2 billion increase in local property taxes made available to schools through higher "Redevelopment Agency (RDA) asset liquidation."

The 2012-13 May Revision proposes to reduce inter-year deferral payments, allocating \$2.6 billion to a cross-year deferral buy-down. Overall, K-12 inter-year deferrals would be reduced from \$9.5 billion to \$7.2 billion in fiscal year 2012-13, and eliminated by fiscal year 2015-16.

The 2012-13 May Revision also:

- Alters the weighted pupil funding formula proposed in the Proposed 2012-13 Budget. Implementation of the modified formula, which would be phased in during a period of seven years as opposed to the five years originally proposed, would "be contingent on school funding being at the levels proposed in the May Revision." Compared to the Proposed 2012-13 Budget, the May Revision increases the weighted pupil formula base grant from \$4,920 to \$5,421, reduces supplemental grants for English-language learners and students from low-income families from 37 percent of the base funding grant to 20 percent, and reduces grants for concentrations of low-income students accordingly.
- Restores \$496 million in 2012-13 funding for the home-to-school transportation program. The Governor proposed to eliminate State funding for home-to-school transportation in the Proposed 2012-13 Budget.
- Contains a decrease of \$132.2 million in projected savings associated with the proposed elimination of transitional kindergarten requirements.
- Contains an increase of \$3.4 million Proposition 98 State general fund spending for charter school categorical programs due to growth.
- Contains an increase of \$459 million in fiscal year 2011-12 and \$398 million in fiscal year 2012-13 for school districts and county offices of education revenue limits as a result of lower offsetting property tax revenues.
- Designates \$450 million of 2011-12 over-appropriation towards 2012-13 Quality Education Investment Act payments (due to the *California Teachers Association v. Schwarzenegger* settlement agreement) and \$335 million as "settle-up" payments, which would produce \$450 million of 2012-13 State general fund savings.
- Eliminates nearly half of the existing K-12 and community college mandates and provides \$200 million to fund a mandates block grant incentive program to reimburse K-12 schools and community colleges for all remaining mandated electives.

Child Care and State Preschool. The 2012-13 May Revision proposes significant changes to three of the child care and preschool budget reduction and policy reform proposals included in the Proposed 2012-13 Budget:

- *Reduce Child Care Costs:* The 2012-13 May Revision proposes to maintain \$452.5 million in child care cost savings but modifies eligibility requirements.
- *Part-Day Preschool Programs:* The 2012-13 May Revision provides \$91.5 million in additional Proposition 98 funding to restore the 10% reduction to the standard reimbursement rates for part-day preschool programs included in the Proposed 2012-13 Budget (\$34.1 million impact), and to expand part-day preschool for 15,500 children from low-income families (\$57.5 million impact).
- *Restructure Administration of Child Care:* The 2012-13 May Revision addresses various concerns raised by the education community.

Charter School Reforms. Charter schools are not eligible for reimbursement of state-mandated costs. Additionally, charter schools have limited access to affordable interest rates for borrowing and cannot issue bonds. The 2012-13 May Revision makes a number of changes to accommodate these concerns:

- *Allow Surplus Property Conveyance:* The 2012-13 May Revision requires school districts to convey surplus property to any charter school opting to claim property and provides an incentive for school districts to sell property to sell property to charter schools without having to declare the property surplus and without losing eligibility in the state school facilities program.
- *Eliminate the State Funding Determination Process for Non-Classroom Charters:* The 2012-13 May Revision allows all new and existing non-classroom based charter schools to receive full funding without needing State Board of Education review and approval and would eliminate the funding determination process and will ultimately allow all non-classroom based charter schools to receive full funding.
- *Financial Assistance:* County treasurers will be authorized to lend to charter schools. Also, charter schools, as a condition of directly applying to the State for a deferral exemption, will be required to provide a copy of their application for a deferral exemption to their charter authorizer.

Trigger Cuts. The 2012-13 May Revision assumes the passage of the Governor's tax initiative. This measure temporarily increases the personal income tax on the State's wealthiest taxpayers for seven years and increases the sales tax by 0.25% for four years. If the tax initiative is not approved by voters in November 2012, the Governor proposes automatic trigger cuts of \$5.7 billion for K-14 schools, an increase of \$909 million over the \$4.8 billion trigger reduction level in the Proposed 2012-13 Budget. Should the trigger be implemented, the \$2.6 billion K-14 cross-year deferral buy-down would not occur. The remaining \$2.9 billion cut will be achieved through a reduction in core revenue funding for K-14 schools. K-12 schools are proposed to be given the flexibility to reduce the school year by up to 15 days in the 2012-13 and 2013-14 fiscal years. Other proposed "trigger" budget reductions proposed in the 2012-13 May Revision include:

- \$500 million from Higher Education (\$100 million higher than January)
- \$50 million from Developmental Services (new)
- \$10.6 million from Local Water Safety (new)
- \$10 million from Forestry and Fire Protection (\$5 million less than January)
- \$6.6 million from Flood Control (unchanged from January)
- \$3.5 million from Fish and Game (unchanged from January)
- \$1.5 million from Parks (\$.5 million higher than January)
- \$1.0 million from Department of Justice (unchanged from January)

Future Budgets

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

For more information on the State Budget, please refer to the California Department of Finance's website at www.dof.ca.gov and to the Legislative Analyst's Office's website at www.lao.ca.gov.

CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES & EXPENDITURES

Article XIII A. In an election held on June 6, 1978, the voters of the State approved an initiative amendment to the State Constitution. The amendment added Article XIII A to the State Constitution, commonly known as Proposition 13, which limits the taxing powers of State public agencies. Except as described in the following paragraph, Article XIII A provides that the maximum *ad valorem* tax on real property cannot exceed one percent of the "full cash value" which is defined as 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 exceptions for certain circumstances of transfer or reconstruction. The "full cash value" is subject to annual adjustments to reflect increases not to exceed two percent per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate to impose special taxes, and except as described in the following sentence, prohibits the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended by Proposition 46, on June 3, 1986, Article XIII A exempts from the one percent tax limitation *ad valorem* taxes required to pay debt service on indebtedness approved by the voters prior to July 1, 1978, or on bonded indebtedness approved by two-thirds of those voting thereon, after July 1, 1978, the proceeds of which are applied to the acquisition or improvement of real property.

Proposition 39: On November 7, 2000, voters within the State approved an amendment (commonly known as Proposition 39) to the State Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds, and (2) changes existing statutory law regarding charter school facilities. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. The 55 percent vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure.

Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district), or \$25 (for a community college district), per \$100,000 of taxable property value. The Governor can change these limitations with a majority vote of both houses of the Legislature and approval; unlike constitutional amendments, which may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition.

Finally, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws for the purpose of increasing tax revenues.

Article XIII B. In a special election held on November 6, 1979, the voters of the State approved an initiative constitutional amendment. This amendment added Article XIII B to the State Constitution. Article XIII B limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The “base year” for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by the State or by any other entity of local government, exclusive of certain State subventions, refunds or taxes, benefit payments from retirement, unemployment insurance and disability insurance funds but excludes taxes to pay voter approved bonds. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from (1) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (2) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. State law provides that in the event a school district's appropriations will exceed its limit, the district may assume from the State a portion of the State's appropriations limit.

Proposition 98/111: On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act.” Proposition 98 changed State funding of public education below the university level and the operation of the State's appropriations limit, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990, hereinafter defined as “Proposition 98/111”), K-14 schools are guaranteed the greater of (a) the percentage of General Fund revenues appropriated for school districts in Fiscal Year 1986-87 (“Test 1”); (b) the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State *per capita* personal income) and enrollment (“Test 2”); or (c) a third test, which would replace Test 2 in any year in which the percentage growth in State *per capita* personal income is greater than the percentage growth on *per capita* General Fund revenues plus one-half of one percent (“Test 3”).

Under Test 3, schools would receive the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year adjusted for changes in enrollment and *per capita* General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a “credit” to schools which would be the basis of payments in future years when *per capita* General Fund revenue growth exceeds *per capita* personal income growth. Legislation adopted prior to the end of the 1988-89 Fiscal Year, implementing Proposition 98, determined the K-14 schools' funding guarantee under Test 1 to be 40.3% of the General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 34% to account for a subsequent redirection of local property taxes, since such redirection directly affects the share of General Fund revenues to schools.

Proposition 98/111 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period. This guarantee was suspended in 2004-05, initially with the agreement of the Education Coalition (an alliance of major education interest groups), and effectively reduced the amount schools received by \$2 billion. The Legislature ratified the suspension in Senate Bill 1101. However, the Education Coalition agreed to the suspension under the terms that Proposition 98 funding would be reduced for only one year, the year of the State budget crisis, by a maximum of \$2 billion; and if the situation were to improve, funding would be restored. But when the State's finances did improve, funding was not restored to the same level it at which it would have been, had the suspension not occurred. Subsequently, the State Superintendent of Public Instruction Jack O'Connell filed a lawsuit jointly with the California Teachers Association against Governor Arnold Schwarzenegger over this loss in Proposition 98 funding. On May 10, 2006, the two sides reached an agreement whereby, in effect, the State would repay all losses incurred due to the suspension, with payments to be made annually through 2013-14.

Since Proposition 98/111 is unclear in some details, there can be no assurance that the Legislature or a court might not interpret it to require a different percentage of General Fund revenues to be allocated to K-14 districts or to apply the relevant percentage to the State's budget in a different way. Proposition 98/111 may place increasing pressure on the State's budget in future years, potentially reducing resources available for other State programs, especially to the extent that the Article XIIB spending limit would restrain the State's ability to fund these other programs by raising taxes.

Proposition 98/111 also changes how tax revenues in excess of the State's appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the appropriations limits for K-14 districts and the K-14 schools' appropriations limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIB surplus. The maximum amount of excess tax revenues which could be transferred to schools is four percent of the minimum State spending for education mandated by Proposition 98/111, as described above.

Proposition 1A. On November 2, 2004, California voters approved Proposition 1A amending the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not reduce any local sales tax rates or alter the method of allocation, shift property taxes from local governments to schools or community colleges, make changes in how property taxes revenues are shared among local governments without two-thirds approval of both house of the State Legislature, and decrease vehicle license fees without providing local governments with equal replacement funding.

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: (i) the Governor declares such action to be necessary due to a State fiscal emergency, (ii) two-thirds approval of both houses of the State Legislature, (iii) the amount diverted is required to be repaid within three years, and (iv) certain other conditions are met.

Article XIIC and Article XIID. 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 XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIC 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 except as allowed by Article XIIC; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIID also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIC of the State Constitution and special taxes approved by a two-thirds vote under Article XIIC, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer/tax collector (of each county) to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. Legislation adopted in 1997 provides that Article XIII C will 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.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws 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 school districts.

The interpretation and application of Proposition 218 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.

Possible Future Actions. Article XIII A, Article XIII B and Propositions 39, 46, 98, 111 and 218 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 K-14 school districts' revenues or such districts' ability to expend revenues. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations which could reduce property or other tax revenues and adversely affect the revenues of school districts or require additional expenditures.

LEGAL MATTERS

No Litigation

There is no action, suit or proceeding known to be pending or threatened restraining or enjoining the sale and delivery of the Bonds, or in any way contesting or affecting the validity thereof or any proceeding of the District taken with respect to the issuance or sale of the Bonds, or the pledge or application of moneys or security provided for the payment of the Bonds, or the authority of the County to levy property taxes to pay principal and interest on the Bonds when due.

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation, Sacramento, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is set forth in "APPENDIX C—FORM OF OPINION BOND COUNSEL" to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Tax Matters

In the opinion of Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation, Sacramento, California, Bond Counsel, based upon the analysis of existing statutes, regulations, ruling and court decisions, and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account when determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. A complete copy of the proposed form of Opinion of Bond Counsel is set forth in "APPENDIX C—FORM OF OPINION BOND COUNSEL."

The Internal Revenue Code of 1986, as amended, (the "Code") imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring

(or not occurring) after that date of issuance of the Bonds may adversely affect the tax status of interest on the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal and/or state income taxation, or otherwise prevent Beneficial Owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal and/or state tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations that present similar tax issues, will not affect the market price or liquidity of the Bonds.

The rights of the Owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and target audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Legality for Investment

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

RATING

Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of The McGraw-Hill Companies, Inc., has assigned a municipal bond rating of "BBB+" to the Bonds. Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from S&P at the following address: Standard & Poor's Financial Services LLC, 55 Water Street, New York, New York 10041. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the 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.

FINANCIAL ADVISOR

Government Financial Strategies inc. has been employed by the District to perform financial advisory services in relation to the sale and delivery of the Bonds. Government Financial Strategies inc., in its capacity as financial advisor, has read and participated in drafting certain portions of this Official Statement. Government Financial Strategies inc. has not, however, independently verified nor confirmed all of the information contained within this Official Statement. Government Financial Strategies inc. will not participate in the underwriting of the Bonds. Fees charged by Government Financial Strategies inc. are not contingent upon the sale of the Bonds.

INDEPENDENT AUDITORS

The financial statements of the District as of June 30, 2011, and for the fiscal year then ending, have been audited by Crowe Horwath LLP, Sacramento, California, and are set forth in "APPENDIX A—THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2011" attached hereto. The District considers its audited financial statements to be public information, and hence did not request the consent of the District's auditor for use of such financial statements in this Official Statement.

UNDERWRITING AND INITIAL OFFERING PRICE

The Bonds were sold to _____ (the "Underwriter") pursuant to a bond purchase agreement by and among the District and the Underwriter for \$_____, an amount equal to the principal amount of the Bonds, plus an original issue premium of \$_____, less an underwriting discount of \$_____, at a true interest cost (TIC%) to the District of _____%.

The Underwriter has certified the initial offering prices or yields stated on the cover page to this Official Statement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices. The reoffering prices may be changed from time to time by the Underwriter.

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 (the "Annual Report"), by not later than April 15 of each year, commencing with the report for the 2011-12 fiscal year (which is due no later than April 15, 2013), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of certain enumerated events will be filed by the District with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Report or the notices are set forth in "APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Within the past five years, the District has made all required disclosure filings in a timely manner.

ADDITIONAL INFORMATION

Additional information concerning the District, the Bonds or any other matters concerning the sale and delivery of the Bonds may be obtained by contacting the District through the Chief Financial Officer at the address and telephone number set forth on page “iii” of this Official Statement, or by contacting Government Financial Strategies inc. at the address and telephone number set forth on page “iii” of this Official Statement.

The execution and delivery of this Official Statement by the District has been duly authorized by its governing board.

Natomas Unified School District

By: _____
Douglas Crancer
Chief Financial Officer

APPENDIX A

THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR
ENDING JUNE 30, 2011

NATOMAS UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2011

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NATOMAS UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2011

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NATOMAS UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Natomas Unified School District
Sacramento, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Natomas Unified School District, as of and for the year ended June 30, 2011, which collectively comprise Natomas Unified School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund and the aggregate remaining fund information of Natomas Unified School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the District restated its beginning net assets to correct an error in recognition of accreted interest as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of Natomas Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT

(Continued)

Management's Discussion and Analysis and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule and the Schedule of Other Postemployment Benefits Funding Progress, are not required parts of the basic financial statements, but are supplementary information required by 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 on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Natomas Unified School District's basic financial statements. The accompanying financial and statistical information listed in the Table of Contents, including the Schedule of Expenditure of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Natomas Unified School District. 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2011

MANAGEMENT DISCUSSION AND ANALYSIS Fiscal Year Ending June 30, 2011

This annual report consists of three parts – Management’s Discussion & Analysis, the basic financial statements and required supplementary information.

The Management’s Discussion and Analysis consists of six sections:

- **Overview of the Financial Statements** – Serves as a guide to reading the financial statements provided in the sections following the Management’s Discussion & Analysis.
- **Financial Highlights** – Emphasizes significant actions implemented by the District, as well as significant factors affecting the District.
- **Financial Analysis of the District as a Whole** – Illustrates the District’s current, as well as, long-term assets and liabilities.
- **Financial Analysis of the District’s Funds** – Illustrates and compares the District’s primary activities.
- **Capital Asset and Debt Administration** – Illustrates the District’s investment in capital assets and its level of debt.
- **Economic Factors and Next Year’s Budget** – Illustrates issues that management sees as relevant to the future financial health of the District.

The following section provides an overview of the District’s financial activities for the fiscal year ending June 30, 2011. It is management’s view of the District’s financial condition. It should be read in conjunction with the independent auditor’s opinion, the basic financial statements, and the accompanying notes to those financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

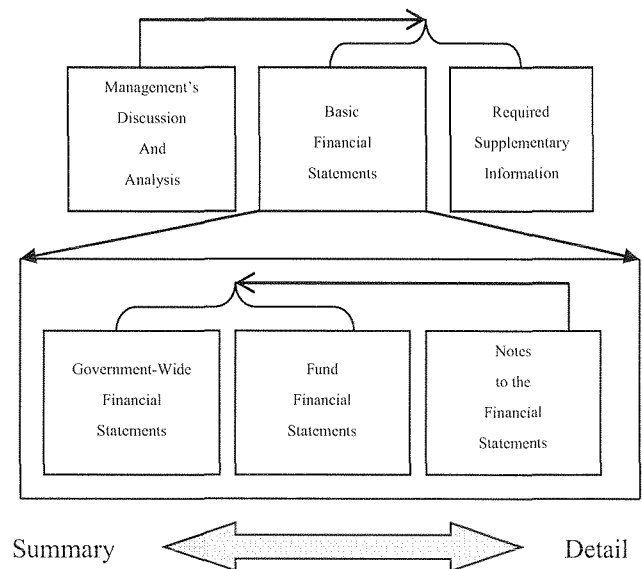
The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The fund financial statements can be further broken down into two types:

- *Governmental funds statements* illustrate how basic services (such as regular and special education) were financed in the short-term, as well as what remains for future spending.
- *Fiduciary funds statements* provide information about the financial relationships in which the district acts solely as trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the fiscal year. The diagram presented here shows how the various parts of the annual financial report are arranged and relate to one another.



The chart on the next page summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and content of each of the statements.

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Government Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as student activities monies
Required financial statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities both short-term and long-term; Standard funds do not currently contain non-financial assets, though they can
Type of inflow / outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets (the difference between the District's assets and liabilities) are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the District, additional non-financial factors (including the condition of the District's school buildings and other facilities) must be considered.

In the government-wide financial statements, the District's activities are reported as governmental activities. Most of the District's services are included here, such as general education, special education, transportation and administration. Funding received from the State of California through the revenue limit, along with categorical and special funding received from the federal and state governments finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes or to show that certain revenues have been properly used.

There are two types of funds that the District utilizes:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in the determination of whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. This information does not encompass the additional long-term focus of the government-wide statements; therefore additional information at the bottom of the governmental funds statements is provided that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets in these funds are used only for their intended purposes and only by those to whom they belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance operations.

FINANCIAL HIGHLIGHTS

- The financial statements present the District's fiscal activity of expenditures, revenues, assets, liabilities, beginning, and ending fund balances.
- Fiscal year starts in July and ends in June.
- The financial statements reflect the District's educational policy into sound instructional programs and delivery systems through the prudent allocation of financial resources.
- School finance is a complex and dynamic process that evolves daily. There are many variables, which impact a school district's finances – including student enrollment, student attendance, inflation, school facilities, state and federal funding, state and national economy.
- The District's number of English Language Learners and economically disadvantaged student population continues to increase from prior years.
- The District's General Fund increased by \$5.9 million (\$5.5 million for the unrestricted General Fund) as opposed to a projected decrease of \$2.1 million (unrestricted portion of the General Fund projected a decrease of \$3.9 million) as presented in the 2010/11 adopted budget. 2010/11 Estimated Actuals reflected the General Fund to increase by 3.7 million (\$4.1 million for the unrestricted General Fund).
- The District's General Fund ending cash balance was \$9.5 million as presented in the District's revised budget. The 2010/11 Estimated Actuals reflected a cash balance of \$3.5 million.
- The District incurred expenditures from the District's Special Revenue/Reserve Funds (non-general/charter funds) for the following major capital projects:
 - Bannon Creek Capital Improvements - \$782,000
 - Leroy Greene Rehabilitation - \$480,000
 - Safe Routes to School - \$251,000
 - Technology Refresh Program - \$312,000
 - Natomas Pacific Pathways Preparatory Middle School Portables - \$315,000
- 2010/11 shows a net loss of 415 average daily attendance (ADA) units relating to students attending traditional (non-charter) schools, and a net increase of 360 students attending charter schools from the prior year.
- The average daily attendance (ADA), which much of the District's revenue is based, was 9,277. However, since the District experienced a decline of over 400 ADA from 2009/10, the District received funding based on 9,447 ADA.
- The District's general-purpose (revenue limit) funds are the largest apportionment from the State of California. During fiscal year 2010/11 the District received \$5,314 per ADA, which was comparable to the District's 2009/10 funding.
- The ratio of attendance to enrollment was approximately 94%.
- As a result of the housing market, the District (General & Charter Funds) collected \$17 million of property taxes vs. \$19 million collected in the prior year. Due to State's revenue limit formula, the decrease in property taxes does not affect the District's revenue; it does however, significantly affect the District's cash resources.
- During 2010/11 the District received \$1.8 million of Federal Education Jobs stimulus funds, which the District has carried over into 2011/12 for expenditure.
- During 2010/11 the District exercised its full flexibility option under SB X 34 by using the funds for other general-purpose educational options.
- As of June 30, 2011 the Natomas Teachers Association and the California School Employees Association #745 respective contracts with the District for the current year were settled.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A review of the District as a whole can best be seen in the strength of the District's net assets and the subsequent changes in net assets.

The computation of the District net assets is presented by category in the table below:

	Government-Wide Statement of Net Assets		
	June 30, 2010 (Restated)	June 30, 2011	% Variance
Assets:			
Cash	\$ 56,566,108	\$ 56,062,028	
Receivables	14,093,806	19,788,525	
Prepaid Expenses	52,201	89,458	
Inventories	266,546	236,043	
Capital Assets, net of Depreciation	397,513,014	391,627,420	
Total Assets	\$ 468,491,675	\$ 467,803,474	-0.15%
Liabilities:			
Accounts Payable	\$ 7,893,391	\$ 9,493,129	
Deferred Revenue	174,645	2,400,044	
Long-term Liabilities			
Current Portion	6,526,385	6,786,633	
Non-Current Portion	195,271,460	191,551,612	
Total Liabilities	\$ 209,865,881	\$ 210,231,418	-0.17%
Net Assets:			
Invested in Capital Assets, net of Related Debt	\$ 223,595,845	\$ 216,372,431	
Restricted	25,811,447	31,384,627	
Unrestricted	9,218,502	9,814,998	
Total Net Assets	\$ 258,625,794	\$ 257,572,056	-0.41%

Total net assets decreased by \$1,053,738 during the 2010/11 fiscal year. Capital assets net of depreciation decreased by a total of \$5,885,594. As a result of short-term liabilities increasing by approximately \$4 million and long-term debt decreasing by approximately \$4 million, total liabilities as a whole remained relatively constant.

It should be noted that land is accounted for at purchase value, not market value, and is not depreciated. Most of the District's school sites have low values for today's market because the District acquired the land decades ago. This valuation of land is consistent with accounting rules set forth by the Governmental Accounting Standards Board (GASB).

Although the land and buildings owned by the District contribute to its net assets, they are not available as assets that could be liquidated because of the nature of the District's operations and the fact that the District will be utilizing these assets fully for the foreseeable future.

Changes in Net Assets

A summary of total District revenues, expenses, and change in net assets is presented in the table below:

	Government-Wide Activities		
	2009/10	2010/11	% Variance
Revenues – Program:			
Charges for Services	\$ 1,207,395	\$ 1,119,265	
Operating Grants and Contributions	15,649,039	13,391,567	
Capital Grants and Contributions	51,419	23,565	
Revenues – General:			
Taxes Levied for General Purposes	19,266,122	17,188,209	
Taxes Levied for Other Debt Service	13,049,195	10,204,344	
Taxes Levied for Other Specific Purposes	5,173	1,401	
Unrestricted Federal and State Aid	51,351,516	57,576,701	
Interest and Investment Earnings	701,496	179,355	
Interagency Revenues	335,446	396,721	
Other General Revenues	748,786	410,537	
Total Revenues	\$ 102,365,587	\$ 100,491,665	-1.83%
Expenses			
Instruction	\$ 62,271,114	\$ 61,584,454	
Instruction Related	10,121,864	8,546,588	
Pupil Services	8,789,645	7,925,428	
General Administration	7,134,440	5,360,685	
Plant Services	9,179,546	7,892,343	
Ancillary Services	8,644	8,931	
Community Services	14,159	8,964	
Interest on Long-Term Liabilities	5,780,347	9,241,812	
Other Expenses	938,107	976,198	
Total Expenses	\$ 104,237,866	\$ 101,545,403	-2.58%
Increase (Decrease) in Net Assets:	\$ (1,872,279)	\$ (1,053,738)	
Net Assets, Beginning of the Year	266,291,753	258,625,794	
Net Asset Decrease due to Restatement	(5,793,680)	N/A	
Net Assets, End of the Year	\$ 258,625,794	\$ 257,572,056	-0.41%

As illustrated above, total revenues and expenses had a slight decline from prior year. The net asset restatement resulting in a decrease was a due to prior periods of accreted interest that was not recognized as an expense when incurred.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

FUND	2009/10	Net Change	2010/11
GENERAL – UNRESTRICTED & RESTRICTED (<i>OPEB FUND INCLUDED</i>)	\$ 11,853,249	\$ 5,936,862	\$ 17,790,111
CHARTER SCHOOL FUND	3,419,211	567,853	3,987,064
CHILD DEVELOPMENT	1,368	6	1,374
CAFETERIA	(110,820)	355,392	244,572
DEFERRED MAINTENANCE	1,671,278	(103,949)	1,567,329
BUILDING FUND	22,332,048	(1,297,326)	21,034,722
CAPITAL FACILITIES	12,167,243	(1,312)	12,165,931
COUNTY SCHOOL FACILITIES	4,714,593	(844,498)	3,870,095
CAPITAL PROJECTS RESERVE	110,274	(411)	109,863
BOND INTEREST & REDEMPTION	9,429,126	(3,080,538)	6,348,588
PRIVATE-PURPOSE TRUST (<i>DISTRICT FIDUCIARY FUND</i>)	16,230	13,695	29,925
TOTAL	\$ 65,603,800	\$ 1,545,774	\$ 67,149,574

As the District completed the year, its funds reported a combined fund balance of \$67 million in 2010/11, which is illustrated above. Due to the requirements of Governmental Accounting Standards Board Statement 54, the Post-Employment Benefit (OPEB) beginning fund balance (\$126,960), the annual activity (\$644), and ending fund balance (\$127,604) has been combined within the General Fund. Approximately 58% (\$38.7 million) of the District's ending fund balance is restricted for capital expenditures.

2010/11 Financial Comparison and Analysis

GENERAL FUND SUMMARY

Description	2009/10 Audited Statements	2010/11 Audited Statements	Difference
Beginning Balance	12,398,509	11,853,249	-545,260
Revenues / Transfers In	71,384,583	70,933,132	-451,451
Expenditures / Transfers Out	71,929,843	64,996,270	6,933,573
Ending Balance	11,853,249	17,790,111	5,936,862

GENERAL FUND SUMMARY (UNRESTRICTED)

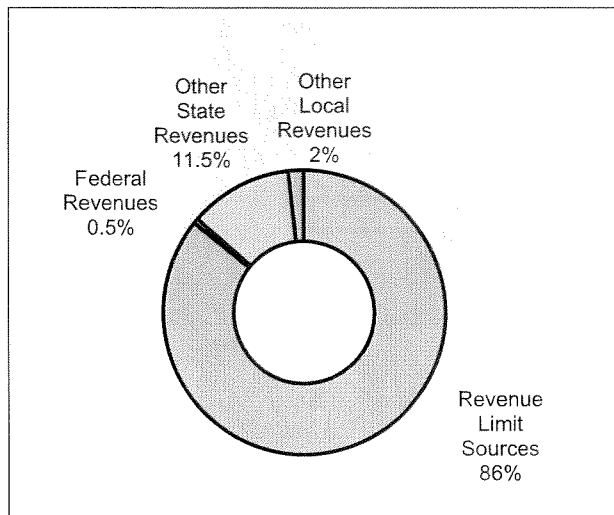
Description	2009/10 Audited Statements	2010/11 Audited Statements	Difference
Beginning Balance	9,523,923	11,261,848	1,737,925
Revenues / Transfers In*	50,162,703	51,938,817	1,771,114
Expenditures / Transfers Out	48,424,778	46,400,776	-2,024,002
Ending Balance	11,261,848	16,794,889	5,533,041

❖ Amount includes 2009/10 contributions of \$8,034,319 and 2010/11 contributions of \$7,599,439.

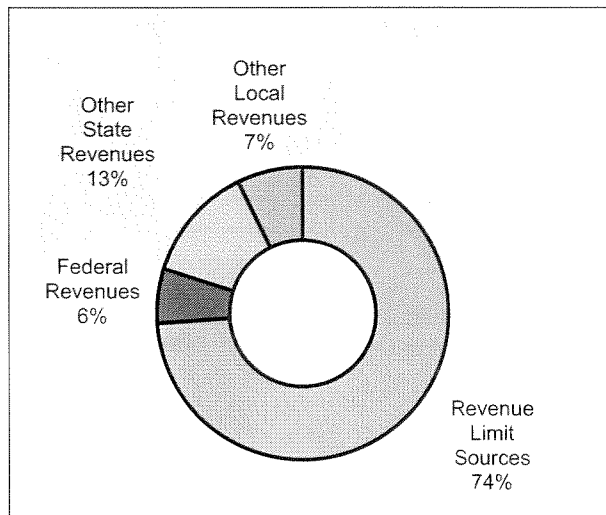
The District receives funding for the General Fund from several sources. Following is a breakdown of major funding sources:

Description	2010/11 Unrestricted General Fund	2010/11 Total General Fund
General Purpose (Revenue Limit)	50,717,507	52,134,629
Federal Revenues	338,380	4,260,172
Other State Revenues	7,004,216	9,004,580
Other Local Revenues	1,035,499	5,096,099
Total	59,095,602	70,495,480

Unrestricted Revenues

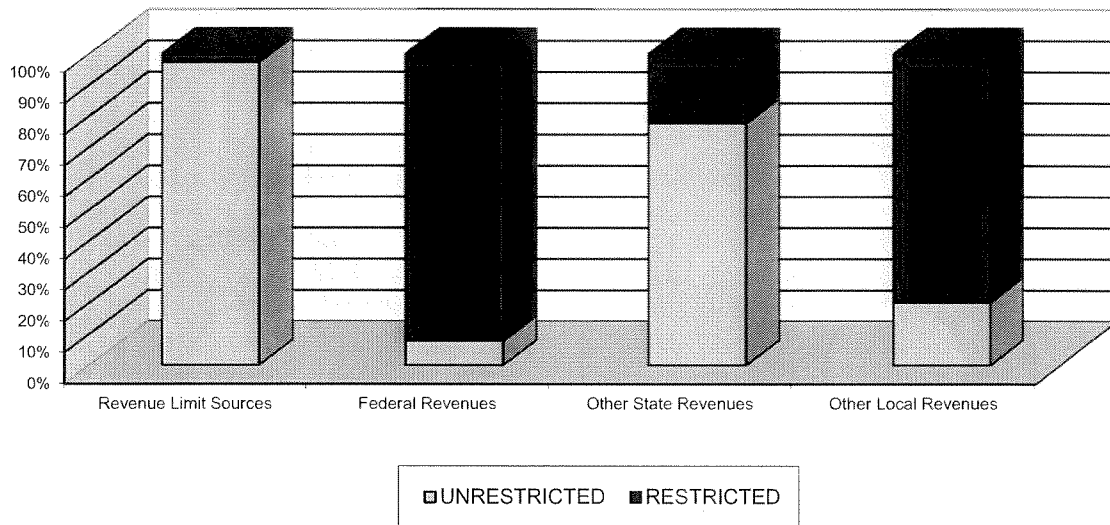


Total Revenues



Illustrated below is a comparison of General Fund unrestricted and restricted revenues in relation to one another.

	Unrestricted	Restricted
Revenue Limit Sources	50,717,507	1,417,122
Federal Revenue	338,380	3,921,792
Other State Revenue	7,004,216	2,000,364
Other Local Revenue	1,035,499	4,060,600
TOTAL	59,095,602	11,399,878

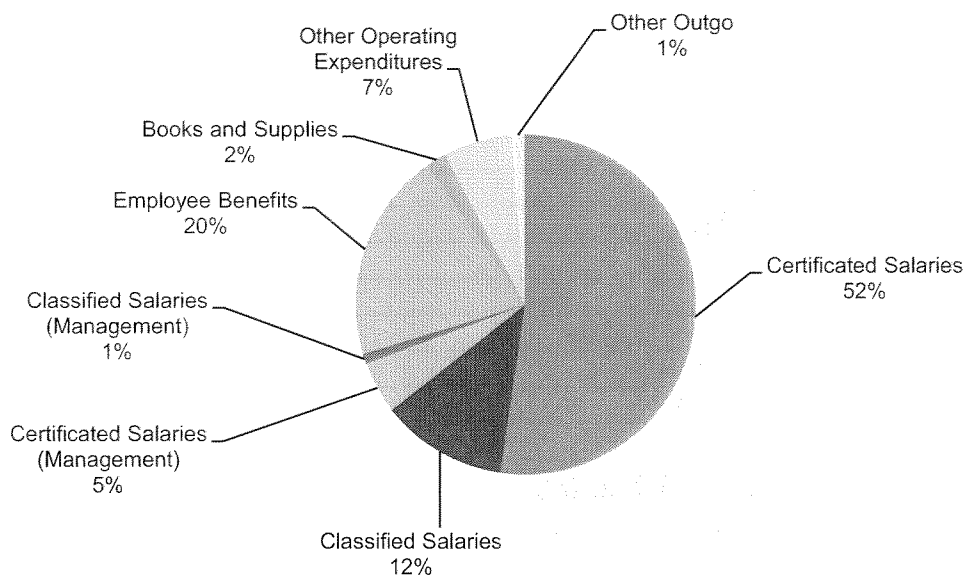


General Fund Expenditures

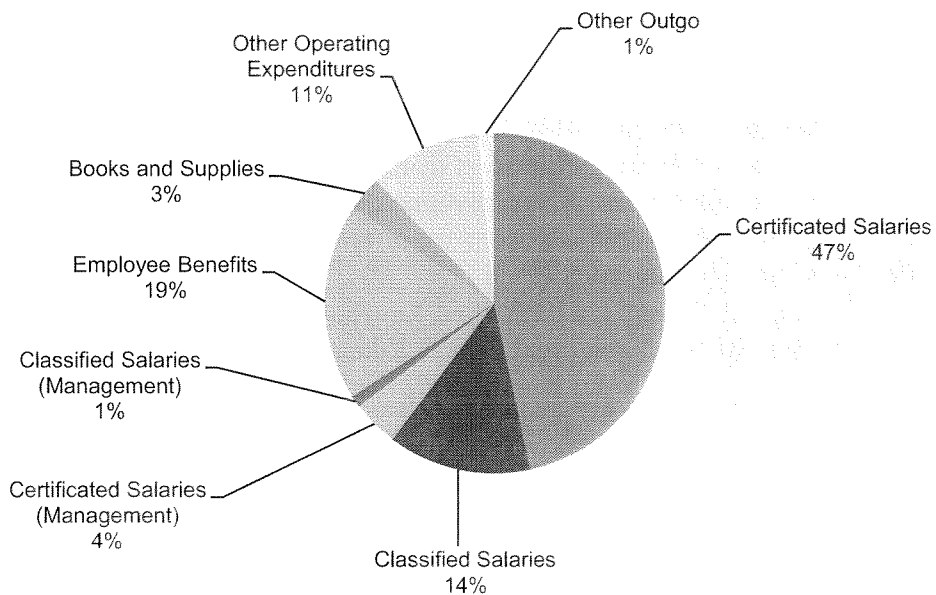
The General Fund is used for expenditures for many of the functions within the District. As illustrated below, the largest part of expenditures are comprised of salaries and related benefits that comprise of approximately 85% of total General Fund expenditures and 90% of unrestricted General Fund expenditures. Please note that the above percentages do not reflect any expenditures associated with contracted services (e.g. non-public/non-sectarian schools), which are reflected as other operating expenditures.

Description	2010/11 Unrestricted General Fund	2010/11 Total General Fund
Certificated Salaries	24,580,144	30,045,376
Classified Salaries	5,648,658	8,787,906
Certificated Salaries (Management)	2,332,740	2,833,434
Classified Salaries (Management)	451,795	715,189
Employee Benefits	9,387,271	12,117,562
Books and Supplies	911,302	2,078,737
Other Operating Expenditures	3,071,235	6,875,157
Capital Outlay	0	14,731
Other Outgo	579,318	975,431
TOTAL	46,962,463	64,443,523

Unrestricted General Fund Expenditures



Total General Fund Expenditures



The General Fund made the following financial contributions for the operations of programs that are important for the district and the community we serve:

Description	2009/10 Contributions	2010/11 Contributions
Beginning Teacher Support & Assessment	9,132	0
Community Day School	102,820	0
Junior ROTC	13,571	96,246
Natomas Education Foundation	12,000	0
Restricted Maintenance Account	1,149,945	1,185,388
Safe Routes to School	0	3,391
Special Education	5,003,933	4,933,480
Title II, Part A: Improving Teacher Quality	20,018	0
Title IV: Safe & Drug Free Schools	18,305	0
Title X: McKinney Vento Homeless	0	25,663
Transportation: OI/SD	153,585	217,022
Transportation – Other	1,551,010	1,138,249
TOTAL	8,034,319	7,599,439

General Fund Budgetary Highlights

Comparing the actual results to the 2010/11 adopted budget discloses the following information that illustrates the primary differences relating to an increase in the General Fund of approximately \$9.8 million (\$9.4 million for the unrestricted General Fund) from the 2010/11 adopted budget.

- The District received approximately \$4,970,000 of additional unrestricted revenue and sources comprised of the following:
 - \$2,760,000 relating to the 2010/11 Enacted State Budget reversing the additional deficit of 3.85% and adjusting the deficit factor to eliminate the negative Cost of Living Adjustment (COLA)
 - \$855,000 of Mandated Cost and Medi-Cal Administrative Activities (MAA)
 - \$600,000 of additional direct cost transfers from other Funds
 - \$335,000 relating to supplemental state revenue that the District was not allowed to recognize as revenue during 2009/10
 - \$170,000 of additional local funds
 - \$150,000 of additional Class Size Reduction Revenues
 - \$100,000 of additional funds relating to Adult Education & Lottery
- The District expended approximately \$1,340,000 less than what was originally budgeted for in salaries and benefits as illustrated below:
 - \$900,000 of salaries primarily relating to substitutes and other variable pay (e.g. stipends, extra duty, overages, etc.)
 - \$115,000 relating to unspent budgeted payroll taxes primarily relating to STRS
 - \$325,000 relating to unspent Health & Welfare employee benefit appropriations
- The District expended approximately \$150,000 less than what was originally budgeted for in supplies.

- The District expended approximately \$1,240,000 less than what was originally budgeted for in other operating expenditures as illustrated below:
 - \$125,000 relating to insurance payments
 - \$700,000 relating to utilities & rentals/repairs
 - \$215,000 relating to communications primarily as a result of receiving a substantial amount of E-rate credits from prior years
 - \$200,000 relating to other contracted services
- The District was able to contribute approximately \$1,700,000 less to restricted programs, which was primarily a result of less expenditures/additional revenue relating to special education.
- The District did not expend approximately \$400,000 of restricted categorical funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets at Year-End (Net of Depreciation)

	2009/10	2010/11	Difference
Land	\$ 65,725,317	\$ 65,725,317	\$ 0
Improvement of Sites	8,172,389	7,953,644	-218,745
Buildings	317,631,928	311,380,065	-6,251,863
Equipment	2,964,665	2,674,674	-289,991
Construction in Progress	3,018,715	3,893,720	875,005
Totals	\$ 397,513,014	\$ 391,627,420	\$ -5,885,594

By the end of 2010/11, the District had invested a total of \$2,561,757 into capital assets that primarily consisted of site and building improvements, as well as, custodial and grounds equipment. The decrease in the District's capital assets consists of recognizing depreciation expense for the 2010/11 fiscal year in the amount of \$8,447,351.

Outstanding Debt at Year-End

	2009/10	2010/11	Difference
General Obligation Bonds	\$ 191,669,101	\$ 186,282,155	\$ -5,386,946
Accreted interest	5,793,680	7,380,631	-1,586,951
Capital Leases	738,986	567,336	-171,650
Compensated Absences	178,729	0	-178,729
Net OPEB Obligation	1,909,009	2,981,868	1,072,859
Early Retirement Incentive (PARS)	1,368,340	1,026,255	-342,085
Charter School Loan	140,000	100,000	-40,000
Totals	\$ 201,797,845	\$ 198,338,245	\$ -3,459,600

As illustrated above, the District's long-term liabilities decreased from 2009/10 to 2010/11 in the amount of \$3.5 million primarily due to large principal payments made relating to the District's general obligation bonds. The District expects a similar decline for 2011/12.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2011-12 Budget reflects the District's fiscal activity and changes to estimated revenues and expenditures resulting from the Enacted State Budget that was approved on June 30, 2011 by Governor Brown. Prior to the Enacted Budget, the Governor's May Revision (released on May 16, 2011) was more optimistic than the January Budget Proposal. Governor Brown has acknowledged that education has been the only major program that has taken disproportionate budget reductions since 2007-08. As illustrated below, the 2011-12 Enacted State Budget stays consistent with the theory of "flat" funding. Whereas Natomas USD originally budgeted \$330 less of per pupil funding based on the Sacramento County Office of Education prudent advice, the Enacted Budget added Education Code Section 42127 that requires school districts to budget the same amount of per pupil general purpose funding as school districts did in 2010-11. Please note that while "flat" funding reflects no change in per pupil general purpose funds from 2010-11, school districts across the state are expected to only receive 80% of what is entitled to them under the Enacted State Budget. ***As a result, after the applied deficit, the allocated amount per pupil (funded base revenue limit) is comparable to the per pupil amount allocated in 2005-06.***

Description	2010-11 Operating Budget	2011-12 Adopted Budget	2011-12 Revised Budget
Statutory Cost of Living Adjustment (COLA)	(0.39%)	2.24%	2.24%
K-12 Deficit	17.963% (.82037)	19.754% (.80246)	19.754% (.80246)
Elementary/High School/Unified	(\$24)/(\$29)/(\$25)	\$137/\$164/\$143	\$137/\$164/\$143
Natomas USD Net Funding Per Pupil Before Adjustments*	\$5,313.94	\$5,312.68**	\$5,312.68**
Per Pupil Adjustments	\$0	(\$330.00)	\$0
Net Per Pupil Amount Budgeted	\$5,313.94	\$4,982.68	\$5,312.68**
Revenue Limit (Funded ADA)***	9,447	9,045	9,045

* Amount excludes AB 851 (Needy Meal & Beginning Teacher Salary) net adjustment of \$148.51

** Amount is slightly less than 2010-11 since NUSD per pupil amount is greater than the statewide average per pupil amount

*** Amount excludes 31 ADA associated with the Sacramento County Office of Education

While the per pupil funding remained relatively the same, the Enacted Budget and accompanying Education Trailer Bill AB 114 contained the following major changes from the Governor's May Revision, including the following:

- Added \$4 billion more in General Fund Revenues over the \$6.6 billion in the May Revision.
- Re-designated 1.06¢ of the sales tax from state revenue to local revenue to fund the Governor's realignment of services. Shifted funding for child development programs (except preschool programs) out of Proposition 98, which reduced the minimum guarantee by \$1.054 billion.
- Enacted "Trigger Language" that automatically implements reductions to K-14 education if state revenue forecasts are not met. Provides a formula for calculating the reductions implemented by the "Trigger Language".
 - If State revenues for the year are estimated to be less than \$1 billion below the forecast, then no changes are required.
 - If revenues fall between \$1 billion and \$2 billion lower, then a series of additional cuts are triggered, including a \$23 million across-the-board cut to childcare and a \$30 million reduction to community colleges, accompanied by a \$10 increase to student enrollment fees (this is on top of the \$10 increase included in the first Budget bill).

- If revenues fall more than \$2 billion, then the state will impose additional cuts to public education of up to \$1.9 billion: a proportional reduction to revenue limits (up to 4% / \$250 per ADA); a \$248 million cut to school transportation; and a \$73 million reduction to community colleges.
 - If the reductions authorized by the “Trigger Language” are implemented, then AB 114 provides the authority for local school boards to negotiate the reduction of the school year an additional seven (7) days to a minimum of 168 instructional days.
- Eliminated the August 15th layoff window for 2011/12, which would have allowed for further adjustments to certificated staffing.
- Reinstated the \$2.1 billion in new deferrals that were proposed in the Governor’s January Budget Proposal, bringing the total of deferrals to \$9.44 billion for K-12 (approximately 39% for NUSD).
- Added Education Code Section 42127(a)(1)(B) which states, “for the 2011/12 fiscal year, the school district shall not be required to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years.”
- Added Education Code Section 42127(d) which was amended to state, “the county superintendent, as condition on approval of a school district budget, shall not require a school district to project a lower level of revenue per unit of average daily attendance than it received in the 2010/11 fiscal year nor require the school district to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years.”

As a result of the Enacted State Budget, the revised estimated 2011/12 ending General Fund balance is projected to be \$17,871,014 with a revolving cash reserve of \$35,200, an assigned fund balance for lottery expenditures (part of cash deferral assignment if needed) of \$1,849,740, a cash deferral assignment of \$13,053,260, and an unassigned amount of \$2,932,814 of which \$1,957,000 has been reserved for economic uncertainties. All other funds are anticipated to have positive ending fund balances at June 30, 2011.

In addition, the 2011 Budget Act reinstated the \$2.1 billion deferral from the Governor’s January Proposal consisting of a \$1.3 billion deferral from March 2012 to August 2012 and a \$763.8 million deferral from April 2012 to August 2012. It is important to note that \$7.4 billion (28.3%) was deferred from 2010/11 to 2011/12 and \$9.4 billion (38.4%) will be deferred from 2011/12 to 2012/13. Unfortunately for NUSD, State Aid comprises approximately 73% of what the District receives in general purpose funds, which has a severe negative impact on the principal apportionment revenues received. As a result, the District estimates that approximately \$14,136,000 of its principal apportionment will be deferred into 2012/13. However, despite these deferrals, the District does not anticipate that it will have a negative cash balance at any point during the 2011/12 fiscal year.

Additional factors impacting the 2011/12 District’s budget include the following:

- Estimated Actual Average Daily Attendance (ADA) at 8,850
 - Estimate a decline of approximately 427 ADA
 - Estimate losing approximately 232 ADA of the 427 ADA to district sponsored charter schools
 - Estimate being funded on 9,045 ADA due to declining enrollment
- Base Revenue Limit (BRL) per ADA / Amount per student is estimated at \$6,621
 - COLA of 2.24% or \$143 is expected
 - BRL deficit factor is expected to increase from 18% to 20%
 - Net BRL does not include the \$330 per pupil cut that was presented in the adopted budget
 - Analysis excludes Needy Meal and BTS adjustment of \$185 (\$148 net amount)
 - \$5,313 net allocated amount per student after deficits
 - 2005/06 Funded BRL was \$5,304

- Employer taxes are projected to remain consistent with 2010/11 amounts.
- The following concessions were made by all employee groups as illustrated below:
 - Natomas Teachers Association:
 - Accepted seven furlough days that was equivalent to a 3.81% salary reduction
 - Waived class size overage payments for the first two pupils that exceeded class size goals as defined by the collective bargaining agreement.
 - California School Employees' Association, Chapter 745
 - Accepted one furlough day per month worked for an average salary reduction of 4.77%
 - Certificated Management:
 - Accepted a 4.77% salary reduction, and received seven less workdays in exchange.
 - Classified (Non-Credentialed) Management:
 - Accepted one furlough day per month worked for an average salary reduction of 4.77%.

The 2010/11 budget continues to fund most of the programs from the prior year with the caveat that revenue sources are limited. Revisions to the budget will be made as warranted with the overriding goal being the ability to offer a quality education to all students in the District while maintaining a sound fiscal position.

Contacting the District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact:

Douglas Crancer
 Chief Financial Officer
 Natomas Unified School District
 1901 Arena Boulevard
 Sacramento, CA 95834
 (916) 567-5457

BASIC FINANCIAL STATEMENTS

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 56,062,028
Receivables	19,788,525
Prepaid expenditures	89,458
Stores inventory	236,043
Non-depreciable capital assets (Note 4)	69,619,037
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>322,008,383</u>
Total assets	<u>467,803,474</u>
LIABILITIES	
Accounts payable	9,493,129
Deferred revenue	2,400,044
Long-term liabilities (Note 5):	
Due within one year	6,786,633
Due after one year	<u>191,551,612</u>
Total liabilities	<u>210,231,418</u>
NET ASSETS	
Invested in capital assets, net of related debt	216,372,431
Restricted (Note 6)	31,384,627
Unrestricted	<u>9,814,998</u>
Total net assets	<u><u>\$ 257,572,056</u></u>

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

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges For	Operating Grants and Contri- butions	Capital Grants and Contri- butions	
	Expenses	Services			Governmental Activities
Governmental activities (Note 4):					
Instruction	\$ 61,584,454	\$ 2,468	\$ 7,356,715	\$ 23,565	\$ (54,201,706)
Instruction-related services:					
Supervision and administration	1,783,803	1,254	717,799		(1,064,750)
Library, media and technology	593,219	157	17,488		(575,574)
School site administration	6,169,566	552	146,243		(6,022,771)
Pupil services:					
Home-to-school transportation	1,717,023	270,216	128,521		(1,318,286)
Food services	3,603,398	760,878	2,669,165		(173,355)
All other pupil services	2,605,007	825	388,755		(2,215,427)
General administration:					
Centralized data processing	760,936				(760,936)
All other general administration	4,599,749	54,889	629,389		(3,915,471)
Plant services	7,892,343	11,828	387,949		(7,492,566)
Ancillary services	8,931				(8,931)
Community services	8,964	25	5,964		(2,975)
Other outgo	976,198	16,173	943,579		(16,446)
Interest on long-term liabilities	9,241,812				(9,241,812)
Total governmental activities	<u>\$ 101,545,403</u>	<u>\$ 1,119,265</u>	<u>\$ 13,391,567</u>	<u>\$ 23,565</u>	<u>(87,011,006)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					17,188,209
Taxes levied for debt service					10,204,344
Taxes levied for other specific purposes					1,401
Federal and state aid not restricted to specific purposes					57,576,701
Interest and investment earnings					179,355
Miscellaneous					410,537
Interagency revenues					396,721
Total general revenues					<u>85,957,268</u>
Change in net assets					<u>(1,053,738)</u>
Net assets, July 1, 2010, as previously presented					264,419,474
Restatement (Note 11)					<u>(5,793,680)</u>
Net assets, July 1, 2010, as restated					<u>258,625,794</u>
Net assets, June 30, 2011					<u>\$ 257,572,056</u>

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

NATOMAS UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

ASSETS

	General Fund	Charter School Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
Cash and investments:							
Cash in County Treasury	\$ 9,509,233	\$ 320,368	\$ 2,418,639	\$ 12,772,934	\$ 6,347,944	\$ 5,660,077	\$ 37,029,195
Cash in banks	200					2,500	2,700
Cash in revolving fund	35,000	15,000		5,000			55,000
Investments		350,100	18,625,033				18,975,133
Receivables	15,111,629	4,324,769	2,037	9,415	27,957	312,718	19,788,525
Prepaid expenditures		62,229					62,229
Due from other funds	1,225,498	211,698	8,503	41,865		136,637	1,624,201
Stores inventory						236,043	236,043
Total assets	<u>\$ 25,881,560</u>	<u>\$ 5,284,164</u>	<u>\$ 21,054,212</u>	<u>\$ 12,829,214</u>	<u>\$ 6,375,901</u>	<u>\$ 6,347,975</u>	<u>\$ 77,773,026</u>

LIABILITIES AND FUND BALANCES

Liabilities:							
Accounts payable	\$ 5,629,231	\$ 233,745	\$ 4,109	\$ 653,076	\$ 25,774	\$ 83,197	\$ 6,629,132
Deferred revenue	2,119,317	279,188			1,539		2,400,044
Due to other funds	<u>342,901</u>	<u>784,167</u>	<u>15,381</u>	<u>10,207</u>		<u>471,545</u>	<u>1,624,201</u>
Total liabilities	<u>8,091,449</u>	<u>1,297,100</u>	<u>19,490</u>	<u>663,283</u>	<u>27,313</u>	<u>554,742</u>	<u>10,653,377</u>
Fund balances:							
Nonspendable	35,000	77,229		5,000		236,043	353,272
Restricted	995,222	3,909,835	21,034,722	12,160,931	6,348,588	5,557,190	50,006,488
Assigned	2,672,927						2,672,927
Unassigned	<u>14,086,962</u>						<u>14,086,962</u>
Total fund balances	<u>17,790,111</u>	<u>3,987,064</u>	<u>21,034,722</u>	<u>12,165,931</u>	<u>6,348,588</u>	<u>5,793,233</u>	<u>67,119,649</u>
Total liabilities and fund balances	<u>\$ 25,881,560</u>	<u>\$ 5,284,164</u>	<u>\$ 21,054,212</u>	<u>\$ 12,829,214</u>	<u>\$ 6,375,901</u>	<u>\$ 6,347,975</u>	<u>\$ 77,773,026</u>

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

NATOMAS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET ASSETS**

June 30, 2011

Total fund balances - Governmental Funds \$ 67,119,649

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$449,680,552 and the accumulated depreciation is \$58,053,132 (Note 4). 391,627,420

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2011 consisted of (Note 5):

General Obligation Bonds	\$ (186,282,155)	
Accreted interest	(7,380,631)	
Unamortized premium		
Capitalized lease obligations	(567,336)	
Charter School loans	(100,000)	
Net OPEB liability (Note 8)	(2,981,868)	
PARS	<u>(1,026,255)</u>	
		(198,338,245)

In the governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred: (2,863,997)

Costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as assets in governmental funds. 27,229

Total net assets - governmental activities \$ 257,572,056

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

NATOMAS UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES**

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011

	General Fund	Charter School Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
Revenues:							
Revenue limit sources:							
State apportionment	\$ 38,452,566	\$ 9,953,400					\$ 48,405,966
Local sources	13,682,063	3,507,812					17,189,875
Total revenue limit	52,134,629	13,461,212					65,595,841
Federal sources	4,260,172	430,441				\$ 2,278,472	6,969,085
Other state sources	9,004,580	1,911,981			\$ 103,055	193,223	11,212,839
Other local sources	5,096,099	469,503	\$ 84,004	\$ 63,199	10,102,690	1,186,898	17,002,393
Total revenues	70,495,480	16,273,137	84,004	63,199	10,205,745	3,658,593	100,780,158
Expenditures:							
Certificated salaries	32,878,810	7,812,295					40,691,105
Classified salaries	9,503,095	1,330,862	34,638			1,176,275	12,044,870
Employee benefits	12,117,562	2,532,159	11,855			379,764	15,041,340
Books and supplies	2,078,737	612,872	55,306	2,505		201,017	2,950,437
Contract services and operating expenditures	6,875,157	2,597,961	331,906	267,145		1,886,535	11,958,704
Capital outlay	14,731	201,128	911,825	803,154		123,618	2,054,456
Other outgo	630,528				2,176		632,704
Debt service:							
Principal retirement	344,567	324,236			5,620,000		6,288,803
Interest	336	36,285			7,664,107		7,700,728
Total expenditures	64,443,523	15,447,798	1,345,530	1,072,804	13,286,283	3,767,209	99,363,147
Excess (deficiency) of revenues over (under) expenditures	6,051,957	825,339	(1,261,526)	(1,009,605)	(3,080,538)	(108,616)	1,417,011
Other financing sources (uses):							
Operating transfers in	437,652	4,400	93,349	1,871,094		1,521,730	3,928,225
Operating transfers out	(552,747)	(376,954)	(129,149)	(862,801)		(2,006,574)	(3,928,225)
Proceeds from the issuance of capitalized lease obligations		115,068					115,068
Total other financing sources (uses)	(115,095)	(257,486)	(35,800)	1,008,293		(484,844)	115,068
Change in fund balances	5,936,862	567,853	(1,297,326)	(1,312)	(3,080,538)	(593,460)	1,532,079
Fund balances, July 1, 2010	11,853,249	3,419,211	22,332,048	12,167,243	9,429,126	6,386,693	65,587,570
Fund balances, June 30, 2011	\$ 17,790,111	\$ 3,987,064	\$ 21,034,722	\$ 12,165,931	\$ 6,348,588	\$ 5,793,233	\$ 67,119,649

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

NATOMAS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2011

Net change in fund balances - Total Governmental Funds \$ 1,532,079

Amounts reported for governmental activities in the statement of activities are different because:

Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 4).	\$ 2,561,757	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(8,447,351)	
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 5).	6,288,803	
In governmental funds, proceeds from debt are recognized as other financing sources. In the statement of net assets, proceeds from debt are reported as increases to liabilities (Note 5).	(115,068)	
Accreted interest is an expense that is not reported in the governmental funds (Note 5).	(1,820,005)	
Issuance costs and discounts related to the issuance of long-term liabilities is an expenditure in the governmental funds, but increases the assets in the statement of net assets.	(24,971)	
In governmental funds, interest on long-term liabilities is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred.	153,608	
In governmental funds, revenues are recognized only to the extent that they are "available". In the government-wide statements, revenue is recognized when earned, regardless of availability.	(288,460)	
In the statement of activities, expenses related to net OPEB liability and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5).	<u>(894,130)</u>	<u>(2,585,817)</u>
Change in net assets of governmental activities		<u>\$ (1,053,738)</u>

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

NATOMAS UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
June 30, 2011

	<u>Scholarship Trust Fund</u>	<u>Student Body Funds</u>	<u>Total</u>
ASSETS			
Cash and investments (Note 2):			
Cash in County Treasury	\$ 9,801		\$ 9,801
Cash on hand and in banks	14,113	\$ 339,572	353,685
Receivables	<u>6,011</u>		<u>6,011</u>
Total assets	<u>29,925</u>	<u>339,572</u>	<u>369,497</u>
LIABILITIES			
Due to student groups		<u>339,572</u>	<u>339,572</u>
NET ASSETS			
Restricted (Note 6)	<u>\$ 29,925</u>	<u>\$ -</u>	<u>\$ 29,925</u>

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

NATOMAS UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2011

	<u>Scholarship Trust Fund</u>
Revenues:	
Other local sources	\$ <u>23,195</u>
Expenditures:	
Contract services and operating expenditures	<u>9,500</u>
Change in net assets	13,695
Net assets, July 1, 2010	<u>16,230</u>
Net assets, June 30, 2011	<u><u>\$ 29,925</u></u>

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

NATOMAS UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Natomas Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

Reporting Entity

The Board of Trustees is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District and the Natomas Unified School District Financing Corporation (the "Corporation") have a financial and operational relationship which meet the reporting entity definition criteria of the *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, for inclusion of the Corporation as a blended component unit of the District. Therefore, the financial activities of the Corporation have been included in the basic financial statements of the District.

The following are those aspects of the relationship between the District and the Corporation which satisfy *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, criteria:

A - Manifestations of Oversight

1. The Corporation's Board of Directors were appointed by the District's Board of Trustees.
2. The Corporation has no employees. The District's Superintendent and Chief Business Officer function as agents of the Corporation. Neither individual received additional compensation for work performed in this capacity.
3. The District exercises significant influence over operations of the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the Corporation.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the District.
2. Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.
3. It is anticipated that the District's lease payments will be the sole revenue source of the Corporation.
4. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

C - Scope of Public Service and Financial Presentation

1. The Corporation was created for the sole purpose of financially assisting the District.
2. The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion the District intends to occupy all Corporation facilities. When the Corporation's Certificates of Participation have been paid with state reimbursements and the District's developer fees, title of all Corporation property will pass to the District for no additional consideration.

Basis of Presentation - Financial Statements

The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets and the Statement of Change in Fiduciary Net Assets at the fund financial statement level.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements (Continued)

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting

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

A - Governmental Fund Types

1. General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. For fiscal reporting purposes, the current year activity and year end balance of the Special Reserve for Postemployment Benefits Fund is combined with the General Fund.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

2. Special Revenue Funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Charter School, Child Development, Cafeteria and Deferred Maintenance Funds.

3. Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of capital facilities by the District. This classification includes the Building, Capital Facilities, County School Facilities and Special Reserve for Capital Outlay Funds.

4. Debt Service Funds:

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This classification includes the Bond Interest and Redemption Fund.

All records relating to the Bond Interest and Redemption Fund are maintained by the Sacramento County Auditor-Controller. The revenue for this fund is raised by school district taxes which are levied, collected, and administered by County officials. The Education Code stipulates that the tax rate levied shall be sufficient to provide monies for the payment of principal and interest as they become due on outstanding school district bonds.

B - Fiduciary Funds

1. Trust Funds:

Scholarship Trust Fund:

The Scholarship Trust Fund is a Trust Fund used to account for amounts held by the District as Trustee, to be used to provide scholarships to students of the District.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

B - Fiduciary Funds (Continued)

2. Agency Funds:

Student Body Funds:

Student Body Funds are used to account for revenues and expenditures of the various student body organizations. All cash activity, assets and liabilities of the various student bodies of the District are accounted for in Student Body Funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting

By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

Stores Inventory

Inventories in the Cafeteria Fund are valued at latest invoice cost. Inventory recorded in the Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cafeteria Food Purchases

Cafeteria purchases include food purchased through the State of California Office of Surplus Property, for which the District is required to pay only a handling charge. The state does not require the Cafeteria Fund to record the fair market value of these commodities. The expenditures for these items would have been greater had the District paid fair market value for the government surplus food commodities.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 3 - 30 years depending on asset types.

Compensated Absences

Any vacation earned as of June 30 must be taken by September 1 of the following fiscal year. If approved, the employee may carry over a maximum of five days into the following fiscal year.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and CalPERS employees, when the employee retires.

Deferred Revenue

Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenditures and stores inventory reflect the portions of net assets represented by revolving cash fund, prepaid expenditures and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues and state programs represent programs where the revenue received is restricted for expenditures only in that particular program. The restriction for special revenues represents the portion of net assets restricted for special purposes. The restriction for debt service repayments represents the portion of net assets which the District plans to expend on debt repayment in the ensuing year. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for scholarships represents the portion of net assets to be used to provide financial assistance to students of the District.

Fund Balance Classifications

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide and fiduciary trust fund statements.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2011, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however, as of June 30, 2011, no such designation has occurred.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require Districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2011, the District has established a minimum fund balance policy of 3%. At June 30, 2011, the District has not established a stabilization arrangement.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Sacramento bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Encumbrances

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

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2011 are reported at fair value and consisted of the following:

	Governmental Funds	Fiduciary Activities
Pooled Funds:		
Cash in County Treasury	<u>\$ 37,029,195</u>	<u>\$ 9,801</u>
Deposits:		
Cash on hand and in banks	2,700	353,685
Cash in revolving fund	<u>55,000</u>	<u> </u>
Total deposits	<u>57,700</u>	<u>353,685</u>
Investments:		
Cash with Fiscal Agent	<u>18,975,133</u>	<u> </u>
Total cash and investments	<u>\$ 56,062,028</u>	<u>\$ 363,486</u>

Pooled Funds

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

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the Sacramento County Treasurer may invest in derivative securities. However, at June 30, 2011, the Sacramento County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. CASH AND INVESTMENTS (Continued)

Deposits - Custodial Credit Risk - Deposits

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2011, the carrying amount of the District's accounts was \$411,385 and the bank balance was \$410,206, all of which was insured.

Investments

The Cash with Fiscal Agent represents debt proceeds that have been set aside for capital asset expenditures. These amounts are held by a third party custodian in the District's name as a fiscal agent.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2011, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2011, the District had no concentration of credit risk.

3. INTERFUND TRANSACTIONS

Interfund Activity

Transactions between funds of the District are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2011 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 1,225,498	\$ 342,901
Charter School	211,698	784,167
Building	8,503	15,381
Capital Facilities	41,865	10,207
Non-Major Funds:		
Cafeteria	132,644	450,391
County Facilities	<u>3,993</u>	<u>21,154</u>
Totals	<u>\$ 1,624,201</u>	<u>\$ 1,624,201</u>

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2010-2011 fiscal year were as follows:

Transfer from the General Fund to the Cafeteria Fund for food services.	\$ 548,347
Transfer from the General Fund to the Charter Schools Fund for Medical Administrative Activities.	4,400
Transfer from the Charter Schools Fund to the General Fund for building payments and indirect costs.	278,954
Transfer from the Charter Schools Fund to the Building Fund for the gym building replacement.	75,000
Transfer from the Charter Schools Fund to the Capital Facilities Fund for portable relocation contribution.	23,000
Transfer from the Building Fund to the County School Facilities Fund for eligible capital expenditures.	129,149
Transfer from the Capital Facilities Fund to the County School Facilities Fund to return interest to source of the funding.	844,234
Transfer from the Capital Facilities Fund to the Building Fund for capital expenditures.	18,349
Transfer from the Capital Facilities Fund to the General Fund for administrative fees.	218
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	158,480
Transfer from the County School Facilities Fund to the Capital Facilities Fund to return interest to the funding source.	<u>1,848,094</u>
	<u>\$ 3,928,225</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2011 is shown below:

	Balance July 1, 2010	Transfers and Additions	Transfers and Deductions	Balance June 30, 2011
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 65,725,317			\$ 65,725,317
Work-in-process	3,018,715	\$ 875,005		3,893,720
Depreciable:				
Buildings	359,808,280	1,200,458		361,008,738
Site improvements	9,413,756	258,403		9,672,159
Equipment	<u>9,220,535</u>	<u>227,891</u>	\$ 67,808	<u>9,380,618</u>
Totals, at cost	<u>447,186,603</u>	<u>2,561,757</u>	<u>67,808</u>	<u>449,680,552</u>
Less accumulated depreciation:				
Buildings	(42,176,352)	(7,452,321)		(49,628,673)
Site improvements	(1,241,367)	(477,148)		(1,718,515)
Equipment	<u>(6,255,870)</u>	<u>(517,882)</u>	(67,808)	<u>(6,705,944)</u>
Total accumulated depreciation	<u>(49,673,589)</u>	<u>(8,447,351)</u>	<u>(67,808)</u>	<u>(58,053,132)</u>
Capital assets, net	<u>\$ 397,513,014</u>	<u>\$ (5,885,594)</u>	<u>-</u>	<u>\$ 391,627,420</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 8,345,632
Home to School	15,068
Food Services	17,201
General Administration	4,799
Centralized Data Processing	7,899
Plant Services	<u>56,752</u>
Total depreciation expense	<u>\$ 8,447,351</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES

General Obligation Bonds

Refunding Bonds, Series 1999:

On January 1, 1999 the District issued 1999 Refunding General Obligation Bonds totaling \$22,450,000. Repayment of the bonds is made from the special parcel tax revenues levied in connection with the bond issue. The Bonds bear interest rates from 4.70% to 5.95% and are scheduled to mature through September 2021 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,210,000	\$ 685,090	\$ 1,895,090
2013	1,285,000	614,756	1,899,756
2014	1,365,000	539,613	1,904,613
2015	1,445,000	459,573	1,904,573
2016	1,530,000	374,288	1,904,288
2017-2021	4,755,000	751,485	5,506,485
2022	<u>275,000</u>	<u>8,181</u>	<u>283,181</u>
	<u>\$ 11,865,000</u>	<u>\$ 3,432,986</u>	<u>\$ 15,297,986</u>

Series 2001:

On August 1, 2001, the District issued General Obligation Bonds in the amount of \$7,170,000 for acquisition, construction and completion of improvements of the District's existing educational facilities. The General Obligation Bonds are authorized pursuant to the special election of the registered voters held on April 14, 1992, and are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The bonds bear interest rates from 4.0% to 6.0% and are scheduled to mature through September 2026 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 240,000	\$ 263,046	\$ 503,046
2013	245,000	253,206	498,206
2014	260,000	242,794	502,794
2015	270,000	231,354	501,354
2016	280,000	219,204	499,204
2017-2021	1,625,000	880,591	2,505,591
2022-2026	2,060,000	437,750	2,497,750
2027	<u>475,000</u>	<u>23,750</u>	<u>498,750</u>
	<u>\$ 5,455,000</u>	<u>\$ 2,551,695</u>	<u>\$ 8,006,695</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2003A:

On May 1, 2003, the District issued General Obligation Bonds, Series "A" in the amount of \$15,295,000 for addition and modernization of school facilities. The District authorized the General Obligation Bonds pursuant to the special election of the registered voters held on November 5, 2002, and are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The bonds bear interest rates from 2.0% to 5.0% and are scheduled to mature through September 2027 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 240,000	\$ 585,528	\$ 825,528
2013	285,000	577,128	862,128
2014	330,000	567,153	897,153
2015	380,000	555,603	935,603
2016	435,000	540,403	975,403
2017-2021	3,140,000	2,388,773	5,528,773
2022-2026	5,225,000	1,538,088	6,763,088
2027-2028	<u>2,890,000</u>	<u>220,000</u>	<u>3,110,000</u>
	<u>\$ 12,925,000</u>	<u>\$ 6,972,676</u>	<u>\$ 19,897,676</u>

Series 2004B:

On August 1, 2004, the District issued General Obligation Bonds, Series "B" in the amount of \$30,584,687 for addition and modernization of school facilities and to refund outstanding District 2003 Certificates of Participation (COPs) with resources from the Bond issue. The resources were used to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of the 2003 COPs. The District authorized the General Obligation Bonds pursuant to the special election of the registered voters held on November 5, 2002, and are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the district. The bonds bear interest rates from 2.0% to 5.0% and are scheduled to mature through September 2028 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 598,122	\$ 1,144,213	\$ 1,742,335
2013	850,000	1,122,963	1,972,963
2014	661,006	1,101,713	1,762,719
2015	1,040,000	1,075,713	2,115,713
2016	1,165,000	1,020,588	2,185,588
2017-2021	5,128,046	4,455,731	9,583,777
2022-2026	8,463,341	3,823,250	12,286,591
2027-2029	<u>10,360,000</u>	<u>866,000</u>	<u>11,226,000</u>
	<u>\$ 28,265,515</u>	<u>\$ 14,610,171</u>	<u>\$ 42,875,686</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2006:

On August 1, 2006, the District issued general obligation bonds (the bonds), Series "2006" in the amount of \$60,000,000 for addition and modernization of school facilities. The District authorized the bonds pursuant to the special election of the registered voters held on June 6, 2006, and the bonds are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The bonds bear interest rates from 4.25% to 5.0% and are scheduled to mature through August 2031 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012		\$ 2,697,781	\$ 2,697,781
2013	\$ 375,000	2,689,813	3,064,813
2014	790,000	2,665,056	3,455,056
2015	695,000	2,633,500	3,328,500
2016		2,618,731	2,618,731
2017-2021	1,495,000	13,061,888	14,556,888
2022-2026	14,175,000	8,320,925	22,495,925
2027-2031	30,455,000	6,303,238	36,758,238
2032	8,835,000	220,875	9,055,875
	<u>\$ 56,820,000</u>	<u>\$ 41,211,807</u>	<u>\$ 98,031,807</u>

Series 2007:

On August 1, 2007, the District issued general obligation bonds (the bonds), Series "2007" in the amount of \$54,999,999 for addition and modernization of school facilities. The District authorized the bonds pursuant to the special election of the registered voters held on June 6, 2006, and the bonds are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The bonds bear interest rates from 3.90% to 5.65% and are scheduled to mature through August 2032 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012		\$ 1,467,575	\$ 1,467,575
2013		1,467,575	1,467,575
2014		1,467,575	1,467,575
2015	\$ 392,179	1,467,575	1,859,754
2016	1,181,006	1,467,575	2,648,581
2017-2021	8,338,222	7,337,875	15,676,097
2022-2026	7,800,776	7,337,875	15,138,651
2027-2031	13,869,457	7,068,138	20,937,595
2032-2033	21,450,000	1,328,750	22,778,750
	<u>\$ 53,031,640</u>	<u>\$ 30,410,513</u>	<u>\$ 83,442,153</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2008:

On September 1, 2008, the District issued 2008 General Obligation Bonds in the amount of \$21,170,000 to refund the 1997 Refunding General Obligation Bond (Prior Bond). The Prior Bond was issued to refund the District's General Obligation Bonds Election of 1992, Series 1992A. Series 1994A and Series 1995A, which were originally issued to finance the acquisition and construction of new schools and for the alteration and additions of existing schools. The District completed the refunding to reduce debt service payments by \$654,026 in aggregate and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$450,574 in aggregate. The District authorized the 2008 bonds pursuant to resolution adopted by the District board on May 14, 2008, and the bonds are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The 2008 bonds bear interest rates from 4.1% to 5% and are scheduled to mature in September 2019 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,790,000	\$ 695,594	\$ 2,485,594
2013	1,855,000	632,944	2,487,944
2014	1,930,000	563,381	2,493,381
2015	2,000,000	491,006	2,491,006
2016	2,085,000	416,006	2,501,006
2017-2020	<u>8,260,000</u>	<u>806,425</u>	<u>9,066,425</u>
	<u>\$ 17,920,000</u>	<u>\$ 3,605,356</u>	<u>\$ 21,525,356</u>

Capitalized Lease Obligations

The District leases equipment under capital lease agreements. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2012	\$ 313,042
2013	<u>282,634</u>
Total payments	595,676
Less amount representing interest	<u>(28,340)</u>
Net minimum lease payments	<u>\$ 567,336</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

Charter School Loans

The Westlake Charter School, as authorized by the District, entered into a revolving loan agreement with the State of California for the operation of the Charter School. The revolving loan has an interest rate of 4.28% and matures in the fiscal year ending June 30, 2012.

Public Agency Retirement System Supplemental Retirement Plan

In May 2004, the District approved a Public Agency Retirement System Supplementary Retirement Plan (PARS). For members who meet eligibility requirements, PARS provides retirement benefits for members until the age of 80, or until the death of the retiree, whichever occurs first. Eligibility requires a member to: a) be a certified/classified management employee, or classified non-management employee of the District as of May 12, 2004; b) have enrolled in the plan upon execution of an irrevocable separation agreement with the District; c) have terminated employment with the District by the date indicated in the employee separation agreement; d) have entered into formal retirement under CalSTRS or PERS immediately following termination of employment; and e) have applied for benefits under the Plan. In September 2009, the District entered into a five year annuity to make contributions to the PARS, which consists of yearly payments of \$342,085 and covered 32 eligible members. Future payments to be made by the District are outlined as follows:

<u>Year Ending June 30,</u>	<u>PARS Payments</u>
2012	\$ 342,085
2013	342,085
2014	<u>342,085</u>
Total payments	<u><u>\$ 1,026,255</u></u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2011 is shown below:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 191,669,101		\$ 5,386,946	\$ 186,282,155	\$ 4,078,122
Accreted interest (Note 11)	5,793,680	\$ 1,820,005	233,054	7,380,631	1,652,381
Capitalized lease obligations	738,986	115,068	286,718	567,336	292,309
Charter school loans	140,000		40,000	100,000	100,000
Net OPEB liability (Note 8)	1,909,009	1,327,263	254,404	2,981,868	321,736
PARS	1,368,340		342,085	1,026,255	342,085
Compensated absences	<u>178,729</u>		<u>178,729</u>		
	<u>\$ 201,797,845</u>	<u>\$ 3,262,336</u>	<u>\$ 6,721,936</u>	<u>\$ 198,338,245</u>	<u>\$ 6,786,633</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities (Continued)

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Capitalized lease obligations are made from the Charter School Fund and the General Fund. Payments on the Charter school loans are made from the Charter School Fund. Payments on PARS are made from the General Fund. Payments on net OPEB liability and compensated absences are made from the fund for which the related employee worked.

6. NET ASSETS / FUND BALANCES

Restricted net assets consisted of the following at June 30, 2011:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Restricted for revolving cash	\$ 55,000	
Restricted for prepaid expenditures	62,229	
Restricted for stores inventory	236,043	
Restricted for unspent categorical program revenues and state programs	995,222	
Restricted for special revenues	5,487,067	
Restricted for debt service	6,348,588	
Restricted for capital projects	18,200,478	
Restricted for scholarships	<u> </u>	\$ 29,925
Total restricted net assets	<u>\$ 31,384,627</u>	<u>\$ 29,925</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

6. NET ASSETS / FUND BALANCES (Continued)

Fund balances, by category, at June 30, 2011 consisted of the following:

	General Fund	Charter School Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:							
Revolving cash fund	\$ 35,000	\$ 15,000		\$ 5,000		\$	\$ 55,000
Prepaid expenses		62,229					62,229
Stores inventory						\$ 236,043	236,043
Subtotal nonspendable	<u>35,000</u>	<u>77,229</u>		<u>5,000</u>		<u>236,043</u>	<u>353,272</u>
Restricted:							
Unspent categorical revenues	995,222					9,903	1,005,125
Capital projects		3,909,835	\$ 21,034,722	12,160,931		3,979,958	41,085,446
Special revenues						1,567,329	1,567,329
Debt service					\$ 6,348,588		6,348,588
Subtotal restricted	<u>995,222</u>	<u>3,909,835</u>	<u>21,034,722</u>	<u>12,160,931</u>	<u>6,348,588</u>	<u>5,557,190</u>	<u>50,006,488</u>
Assigned:							
Board assigned	<u>2,672,927</u>						<u>2,672,927</u>
Unassigned:							
Designated for economic uncertainty	1,950,000						1,950,000
Undesignated	<u>12,136,962</u>						<u>12,136,962</u>
Subtotal unassigned	<u>14,086,962</u>						<u>14,086,962</u>
Total fund balances	<u>\$ 17,790,111</u>	<u>\$ 3,987,064</u>	<u>\$ 21,034,722</u>	<u>\$ 12,165,931</u>	<u>\$ 6,348,588</u>	<u>\$ 5,793,233</u>	<u>\$ 67,119,649</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (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 death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7% 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 2010-2011 was 10.707% of annual 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, 2009, 2010 and 2011 were \$1,333,865, \$1,171,264 and \$1,207,362, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

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

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2010-2011 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2009, 2010 and 2011 were \$3,733,339, \$3,428,295 and \$3,308,750, respectively, and equal 100% of the required contributions for each year.

8. OTHER POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

Natomas Unified School District's provides postretirement health care benefits for life to all classified employees hired prior to April 21, 1993 (up to age 65 if hired April 21, 1993 or later), who are eligible for CalPERS retirement and who have over 10 years of service. Certificated employees who retire after July 1, 1990, complete 15 years of consecutive service, and enter the retirement system upon leaving the District are eligible to receive medical benefits until they reach age 65. As of June 30, 2011 the District had not established an irrevocable trust or designated a trustee for the payment of plan benefits. As such, there is no separately issued report of the plan.

Funding Policy

The contribution requirements of the District are established and may be amended by the Board of Education. The required contribution is based in projected pay-as-you-go financing requirements, with an amount to fund the actuarial accrued liability as determined annually by the Board. For fiscal year ended June 30, 2011, the District contributed \$254,404 to the plan.

NATOMAS UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8. OTHER POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based in the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 1,231,813
Interest on net OPEB obligation	95,450
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	1,327,263
Contributions made	<u>(254,404)</u>
Increase in net OPEB obligation	1,072,859
Net OPEB obligation - beginning of year	<u>1,909,009</u>
Net OPEB obligation - end of year	<u><u>\$ 2,981,868</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 1,096,309	16%	\$ 916,519
June 30, 2010	\$ 1,231,813	19%	\$ 1,909,009
June 30, 2011	\$ 1,327,263	19%	\$ 2,981,868

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$7.8 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$7.8 million. For fiscal year ending June 30, 2011, the covered payroll (annual payroll of active employees covered by the plan) was \$60.8 million, and the ratio of the UAAL to the covered payroll was 13 percent. The Schedule of Funding Progress is presented as Required Supplementary Information. The OPEB plan is currently operated as a pay-as-you-go plan.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. OTHER POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the July 1, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate, an annual healthcare cost trend rate of 4 percent. Both rates included a 3 percent inflation rate assumption. The UAAL is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2011, was 28 years.

9. JOINT POWERS AGREEMENT

Schools Insurance Authority

The District is a member with other school districts of a Joint Powers Authority, Schools Insurance Authority (SIA), for the operation of a common risk management and insurance program for property and liability coverage. The following is a summary of financial information for SIA at June 30, 2011:

Total assets	\$ 103,081,563
Total liabilities	\$ 44,227,541
Total net assets	\$ 58,854,022
Total revenues	\$ 38,625,514
Total expenses	\$ 39,798,771
Change in net assets	\$ (1,173,257)

The relationship between the District and the Joint Powers Authority is such that the Joint Powers Authority is not a component unit of the District for financial reporting purposes.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

10. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements of future revenue offsets subsequently determined will not be material.

11. RESTATEMENT

During the year ended June 30, 2011, it was determined that accreted interest related to General Obligation Bonds was not recorded at June 30, 2010. The effect of the restatement is an increase of long-term liabilities and a decrease in net assets as of July 1, 2010 of \$5,793,680.

REQUIRED SUPPLEMENTARY INFORMATION

NATOMAS UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2011

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Revenue limit sources:				
State apportionment	\$ 34,022,025	\$ 38,298,988	\$ 38,452,566	\$ 153,578
Local sources	<u>15,401,593</u>	<u>13,899,618</u>	<u>13,682,063</u>	<u>(217,555)</u>
Total revenue limit	<u>49,423,618</u>	<u>52,198,606</u>	<u>52,134,629</u>	<u>(63,977)</u>
Federal sources	3,177,718	4,887,835	4,260,172	(627,663)
Other state sources	7,787,556	8,933,822	9,004,580	70,758
Other local sources	<u>4,422,444</u>	<u>5,127,719</u>	<u>5,096,099</u>	<u>(31,620)</u>
Total revenues	<u>64,811,336</u>	<u>71,147,982</u>	<u>70,495,480</u>	<u>(652,502)</u>
Expenditures:				
Certificated salaries	33,819,616	33,354,355	32,878,810	475,545
Classified salaries	9,814,063	9,705,325	9,503,095	202,230
Employee benefits	12,766,001	12,427,230	12,117,562	309,668
Books and supplies	2,018,502	2,617,419	2,078,737	538,682
Contract services and operating expenditures	9,944,958	7,620,523	6,875,157	745,366
Capital outlay	10,000	21,674	14,731	6,943
Other outgo	780,730	732,218	630,528	101,690
Debt service:				
Principal retirement		344,567	344,567	
Interest		<u>336</u>	<u>336</u>	
Total expenditures	<u>69,153,870</u>	<u>66,823,647</u>	<u>64,443,523</u>	<u>2,380,124</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(4,342,534)</u>	<u>4,324,335</u>	<u>6,051,957</u>	<u>1,727,622</u>
Other financing sources (uses):				
Operating transfers in	307,355	471,551	437,652	(33,899)
Operating transfers out		<u>(475,400)</u>	<u>(552,747)</u>	<u>(77,347)</u>
Total other financing sources	<u>307,355</u>	<u>(3,849)</u>	<u>(115,095)</u>	<u>(111,246)</u>
Change in fund balance	(4,035,179)	4,320,486	5,936,862	1,616,376
Fund balance, July 1, 2010	<u>11,853,249</u>	<u>11,853,249</u>	<u>11,853,249</u>	
Fund balance, June 30, 2011	<u>\$ 7,818,070</u>	<u>\$ 16,173,735</u>	<u>\$ 17,790,111</u>	<u>\$ 1,616,376</u>

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

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2011

Schedule of Funding Progress							
Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2008	July 1, 2007	\$ -	\$ 5,440,225	\$ 5,440,225	0%	\$ 55,938,428	10%
6/30/2009	July 1, 2007	\$ -	\$ 5,440,225	\$ 5,440,225	0%	\$ 55,938,428	10%
6/30/2010	July 1, 2009	\$ -	\$ 7,757,509	\$ 7,757,509	0%	\$ 60,754,925	13%
6/30/2011	July 1, 2009	\$ -	\$ 7,757,509	\$ 7,757,509	0%	\$ 60,754,925	13%

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

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

B - Schedule of Other Postemployment Benefits Funding Progress

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

SUPPLEMENTARY INFORMATION

NATOMAS UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2011

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total
ASSETS						
Cash in County Treasury	\$ 1,373	\$ 98,550	\$ 1,566,519	\$ 3,883,850	\$ 109,785	\$ 5,660,077
Cash in banks		2,500				2,500
Receivables	1	308,163	1,070	3,406	78	312,718
Prepaid expenditures						
Due from other funds		132,644		3,993		136,637
Stores inventory		236,043				236,043
Total assets	<u>\$ 1,374</u>	<u>\$ 777,900</u>	<u>\$ 1,567,589</u>	<u>\$ 3,891,249</u>	<u>\$ 109,863</u>	<u>\$ 6,347,975</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable		\$ 82,937	\$ 260			\$ 83,197
Due to other funds		450,391		\$ 21,154		471,545
Total liabilities		533,328	260	21,154		554,742
Fund balances:						
Nonspendable		236,043				236,043
Restricted	\$ 1,374	8,529	1,567,329	3,870,095	109,863	5,557,190
Total fund balances	1,374	244,572	1,567,329	3,870,095	109,863	5,793,233
Total liabilities and fund balances	<u>\$ 1,374</u>	<u>\$ 777,900</u>	<u>\$ 1,567,589</u>	<u>\$ 3,891,249</u>	<u>\$ 109,863</u>	<u>\$ 6,347,975</u>

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

NATOMAS UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2011

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total
Revenues:						
Federal sources		\$ 2,278,472				\$ 2,278,472
Other state sources		193,223				193,223
Other local sources	\$ 6	1,130,889	\$ 8,345	\$ 47,100	\$ 558	1,186,898
Total revenues	6	3,602,584	8,345	47,100	558	3,658,593
Expenditures:						
Classified salaries		1,174,599		1,676		1,176,275
Employee benefits		379,150		614		379,764
Books and supplies		161,879	38,169		969	201,017
Contract services and operating expenditures		1,829,267	56,822	446		1,886,535
Capital outlay		92,164	17,303	14,151		123,618
Total expenditures		3,637,059	112,294	16,887	969	3,767,209
Excess (deficiency) of revenues over (under) expenditures	6	(34,475)	(103,949)	30,213	(411)	(108,616)
Other financing sources (uses):						
Operating transfers in		548,347		973,383		1,521,730
Operating transfers out		(158,480)		(1,848,094)		(2,006,574)
Total other financing sources (uses)		389,867		(874,711)		(484,844)
Net change in fund balances	6	355,392	(103,949)	(844,498)	(411)	(593,460)
Fund balances, July 1, 2010	1,368	(110,820)	1,671,278	4,714,593	110,274	6,386,693
Fund balances, June 30, 2011	\$ 1,374	\$ 244,572	\$ 1,567,329	\$ 3,870,095	\$ 109,863	\$ 5,793,233

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

NATOMAS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES
ALL AGENCY FUNDS

For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
Student Body Funds				
<u>American Lakes Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 5,294	\$ 27,618	\$ 26,284	\$ 6,628
Liabilities:				
Due to student groups	\$ 5,294	\$ 27,618	\$ 26,284	\$ 6,628
<u>Bannon Creek Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 7,988	\$ 2,434	\$ 3,043	\$ 7,379
Liabilities:				
Due to student groups	\$ 7,988	\$ 2,434	\$ 3,043	\$ 7,379
<u>H. Allen Hight Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 5,172	\$ 44,114	\$ 45,132	\$ 4,154
Liabilities:				
Due to student groups	\$ 5,172	\$ 44,114	\$ 45,132	\$ 4,154
<u>Haron Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 21,200	\$ 131,484	\$ 134,017	\$ 18,667
Liabilities:				
Due to student groups	\$ 21,200	\$ 131,484	\$ 134,017	\$ 18,667
<u>Jefferson Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 17,423	\$ 29,489	\$ 31,854	\$ 15,058
Liabilities:				
Due to student groups	\$ 17,423	\$ 29,489	\$ 31,854	\$ 15,058

(Continued)

NATOMAS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
Student Body Funds (Continued)				
<u>Natomas Park Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 28,512	\$ 86,400	\$ 91,614	\$ 23,298
Liabilities:				
Due to student groups	\$ 28,512	\$ 86,400	\$ 91,614	\$ 23,298
<u>Two Rivers Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 16,348	\$ 47,349	\$ 50,542	\$ 13,155
Liabilities:				
Due to student groups	\$ 16,348	\$ 47,349	\$ 50,542	\$ 13,155
<u>Witter Ranch Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 5,697	\$ 48,185	\$ 50,354	\$ 3,528
Liabilities:				
Due to student groups	\$ 5,697	\$ 48,185	\$ 50,354	\$ 3,528
<u>Leroy Greene Elementary</u>				
Assets:				
Cash on hand and in banks	\$ 3,649	\$ 357	\$ (138)	\$ 4,144
Liabilities:				
Due to student groups	\$ 3,649	\$ 357	\$ (138)	\$ 4,144
<u>Natomas Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 11,141	\$ 62,139	\$ 42,476	\$ 30,804
Liabilities:				
Due to student groups	\$ 11,141	\$ 62,139	\$ 42,476	\$ 30,804

(Continued)

NATOMAS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
Student Body Funds (Continued)				
<u>Discovery High School</u>				
Assets:				
Cash on hand and in banks	\$ 1,187	\$ 5,749	\$ 5,694	\$ 1,242
Liabilities:				
Due to student groups	\$ 1,187	\$ 5,749	\$ 5,694	\$ 1,242
<u>Inderkum High</u>				
Assets:				
Cash on hand and in banks	\$ 105,391	\$ 342,902	\$ 343,877	\$ 104,416
Liabilities:				
Due to student groups	\$ 105,391	\$ 342,902	\$ 343,877	\$ 104,416
<u>Natomas High</u>				
Assets:				
Cash on hand and in banks	\$ 54,233	\$ 213,290	\$ 212,094	\$ 55,429
Liabilities:				
Due to student groups	\$ 54,233	\$ 213,290	\$ 212,094	\$ 55,429
<u>Charter School Leading Edge</u>				
Assets:				
Cash on hand and in banks	\$ 48,607	\$ 139,084	\$ 151,064	\$ 36,627
Liabilities:				
Due to student groups	\$ 48,607	\$ 139,084	\$ 151,064	\$ 36,627
<u>Charter School PA</u>				
Assets:				
Cash on hand and in banks	\$ 7,193	\$ 26,851	\$ 19,030	\$ 15,014
Liabilities:				
Due to student groups	\$ 7,193	\$ 26,851	\$ 19,030	\$ 15,014

(Continued)

NATOMAS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES
ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
Student Body Funds (Continued)				
<u>Natomas Pacific Pathways</u>				
Assets:				
Cash on hand and in banks	\$ 59	\$ -	\$ 30	\$ 29
Liabilities:				
Due to student groups	\$ 59	\$ -	\$ 30	\$ 29
<u>Total Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ 339,094	\$ 1,207,445	\$ 1,206,967	\$ 339,572
Liabilities:				
Due to student groups	\$ 339,094	\$ 1,207,445	\$ 1,206,967	\$ 339,572

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

NATOMAS UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2011

Natomas Unified School District, a political subdivision of the State of California, was established in 1950 and Unified on July 1, 1993. The District is located in Sacramento County, and currently operates seven K-6 elementary schools, one K-8 elementary school, one middle school, four charter schools (one K-12, one for K-5, one 6-8, and one for 9-12), two high schools, and one continuation high school. There were no changes in the boundaries of the District during the current year.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bruce Roberts	President	2012
Lisa Kaplan	Vice President	2014
Susan Heredia	Clerk	2012
B. Teri Burns	Member	2014
Jules Tran	Member	2012

ADMINISTRATION

Superintendent
Bobbie Plough

Assistant Superintendent Business Services
John H. Christ

Human Resources
Donald Balfour

Assistant Superintendent Educational Services
Howard Kornblum

Assistant Superintendent Facilities and Planning
Michael Cannon

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2011

	<u>Second Period Report</u>	<u>Revised Second Period Report</u>	<u>Annual Report</u>
<u>District</u>			
Elementary:			
Kindergarten	764	765	766
First through Third	2,433	2,432	2,429
Fourth through Sixth	2,061	2,061	2,056
Grades Seventh and Eighth	990	990	988
Home and Hospital	1	1	2
Special Education	149	148	164
Extended Year ADA	<u>5</u>	<u>5</u>	<u>5</u>
Total Elementary	<u>6,398</u>	<u>6,402</u>	<u>6,410</u>
Secondary:			
Regular Classes	2,628	2,634	2,607
Special Education	126	114	107
Continuation Education	114	126	115
Home and Hospital	<u>1</u>	<u>1</u>	<u>1</u>
Total Secondary	<u>2,869</u>	<u>2,875</u>	<u>2,830</u>
District ADA Totals	<u><u>9,267</u></u>	<u><u>9,277</u></u>	<u><u>9,240</u></u>
<u>Natomas Charter School</u>			
<u>Classroom-Based:</u>			
Elementary:			
Kindergarten	49	49	48
Fourth through Sixth	170	171	172
Seventh and Eighth	<u>330</u>	<u>330</u>	<u>330</u>
Total Elementary	<u>549</u>	<u>550</u>	<u>550</u>
Secondary:			
Regular Classes	<u>393</u>	<u>393</u>	<u>391</u>
Total Classroom-Based	<u><u>942</u></u>	<u><u>943</u></u>	<u><u>941</u></u>

(Continued)

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
(Continued)
For the Year Ended June 30, 2011

	<u>Second Period Report</u>	<u>Revised Second Period Report</u>	<u>Annual Report</u>
<u>Natomas Charter School</u> (Continued)			
<u>Nonclassroom-Based:</u>			
Elementary:			
Kindergarten		28	28
First through Third	28	90	90
Fourth through Sixth	90	90	91
Seventh and Eighth	90	63	62
Total Elementary	208	271	271
Secondary:			
Regular Classes	124	61	64
Total Nonclassroom-Based	332	332	335
Total Natomas Charter School	1,274	1,275	1,276
<u>Natomas Pacific Pathways Prep Middle School - Classroom-Based</u>			
Elementary:			
Fourth through Sixth	155		155
Seventh and Eighth	270		270
Total	425	-	425
<u>Natomas Pacific Pathways Prep High School - Classroom-Based</u>			
Secondary:			
Regular Classes	385	-	385
<u>Westlake Charter School - Classroom-Based</u>			
Elementary:			
Kindergarten	58	58	58
First through Third	178	178	177
Fourth through Sixth	109	109	109
Total	345	345	344

See accompanying notes to
supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2011

<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>Reduced 1986-87 Minutes Require- ment</u>	<u>Statutory 1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>2010-11 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
<u>District</u>								
Kindergarten	36,000	35,000	31,500	30,625	35,532	175	175	In Compliance
Grade 1	50,400	49,000	44,625	43,385	49,945	175	175	In Compliance
Grade 2	50,400	49,000	44,625	43,385	49,945	175	175	In Compliance
Grade 3	50,400	49,000	44,625	43,385	49,945	175	175	In Compliance
Grade 4	54,000	52,500	56,000	54,444	55,440	175	175	In Compliance
Grade 5	54,000	52,500	56,000	54,444	55,440	175	175	In Compliance
Grade 6	54,000	52,500	56,000	54,444	55,440	175	175	In Compliance
Grade 7	54,000	52,500	56,000	54,444	55,440	175	175	In Compliance
Grade 8	54,000	52,500	56,000	54,444	55,440	175	175	In Compliance
Grade 9	64,800	63,000	N/A	N/A	63,676	175	175	In Compliance
Grade 10	64,800	63,000	N/A	N/A	63,676	175	175	In Compliance
Grade 11	64,800	63,000	N/A	N/A	63,676	175	175	In Compliance
Grade 12	64,800	63,000	N/A	N/A	63,676	175	175	In Compliance
<u>Natomas Charter School - Classroom-Based</u>								
Kindergarten	36,000	N/A	N/A	N/A	36,900	180	N/A	In Compliance
Grade 6	54,000	N/A	N/A	N/A	57,380	180	N/A	In Compliance
Grade 7	54,000	N/A	N/A	N/A	57,590	180	N/A	In Compliance
Grade 8	54,000	N/A	N/A	N/A	57,590	180	N/A	In Compliance
Grade 9	64,800	N/A	N/A	N/A	69,450	180	N/A	In Compliance
Grade 10	64,800	N/A	N/A	N/A	69,450	180	N/A	In Compliance
Grade 11	64,800	N/A	N/A	N/A	69,450	180	N/A	In Compliance
Grade 12	64,800	N/A	N/A	N/A	69,450	180	N/A	In Compliance
<u>Natomas Pacific Pathways Prep Middle School - Classroom-Based</u>								
Grade 6	54,000	N/A	N/A	N/A	65,152	180	N/A	In Compliance
Grade 7	54,000	N/A	N/A	N/A	65,152	180	N/A	In Compliance
Grade 8	54,000	N/A	N/A	N/A	65,152	180	N/A	In Compliance
<u>Natomas Pacific Pathways Prep High School - Classroom-Based</u>								
Grade 9	64,800	N/A	N/A	N/A	67,142	180	N/A	In Compliance
Grade 10	64,800	N/A	N/A	N/A	67,142	180	N/A	In Compliance
Grade 11	64,800	N/A	N/A	N/A	67,142	180	N/A	In Compliance
Grade 12	64,800	N/A	N/A	N/A	67,142	180	N/A	In Compliance
<u>Westlake Charter School - Classroom-Based</u>								
Kindergarten	36,000	N/A	N/A	N/A	51,345	180	N/A	In Compliance
Grade 1	50,400	N/A	N/A	N/A	57,840	180	N/A	In Compliance
Grade 2	50,400	N/A	N/A	N/A	57,840	180	N/A	In Compliance
Grade 3	50,400	N/A	N/A	N/A	57,840	180	N/A	In Compliance
Grade 4	50,400	N/A	N/A	N/A	57,840	180	N/A	In Compliance
Grade 5	50,400	N/A	N/A	N/A	57,840	180	N/A	In Compliance

See accompanying notes to supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	10115	\$ 3,247
84.027	Special Ed IDEA: Basic and Local Assistance Entitlement, Part B, Sec 611 (Formerly 94-142)	13379	1,662,800
84.027A	Special Ed: IDEA: Preschool Local Entitlement, Part B, Section 611	13682	144,227
84.027A	Special Ed IDEA: Preschool Local Entitlement, Part B, Sec 611	13682	33,157
84.391	Special Ed: ARRA IDEA: Part B, Sec 611, Local Assistance Private School ISPs	10123	1,723
84.391	Special Ed: ARRA IDEA: Part B, Sec 611, Preschool Local Entitlement	15002	61,772
84.391	Special Ed - ARRA IDEA, Part B, Sec 611, Basic Local Assistance	15003	210,980
84.392	Special Ed - ARRA IDEA, Part B, Sec 611, Preschool Grants	15000	<u>30,069</u>
	Subtotal Special Education Cluster		<u>2,147,975</u>
	Title I, Part A Cluster:		
84.389	NCLB: ARRA Title I, Part A, Basic Grants Low Income and Neglected	15005	98,461
84.010	NCLB: Title I, Part A, Basic Grants Low Income and Neglected	14329	320,426
84.010	NCLB: Title I, Basic School Support	14416	<u>81,341</u>
	Subtotal NCLB: Title I Cluster		<u>500,228</u>
	Education Technology State Grants Cluster:		
84.318	NCLB: Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	14334	334
84.386	NCLB: ARRA Title II, Part D, Enhancing Education Through Technology	15019	<u>9,234</u>
	Subtotal Education Technology State Grants Cluster		<u>9,568</u>
84.196	NCLB: Title X McKinney-Vento Homeless Children Assistance Grants	14332	41,125
84.387	NCLB: ARRA Title X, McKinney-Vento Homeless Assistance	15120	23,116

(Continued)

NATOMAS UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2011

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	\$ 123,064
84.367	NCLB: Title II, Part A, Administrator Training	14344	4,905
84.365	NCLB (ESEA) : Title III, Immigrant Education Program	15146	4,944
84.365	NCLB: Title III Limited English Proficiency Student Program	14346	74,725
84.282	NCLB: Title V, Part B, Public Charter Schools Grants	14941	273,759
84.394	ARRA: State Fiscal Stabilization Fund (SFSF)	25008	647,638
84.186	NCLB: Title IV, Part A, Safe & Drug Free Schools and Communities	14347	10,678
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	16,200
84.410	Education Jobs Fund (SB 847)	25152	<u>156,682</u>
	Total U.S. Department of Education		<u>4,034,607</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.788	Dept of Health Care Services (DHCS): Medi-Cal Billing Option	10013	224,593
93.788	Medi-Cal Administrative Activities	10061	<u>6,598</u>
	Total U.S. Department of Health and Human Services		<u>231,191</u>
<u>Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs	13523	<u>2,278,472</u>
<u>U.S. Department of Defense - Passed through California Department of Education</u>			
12.375	ROTC	*	<u>54,194</u>
<u>U.S. Department of Transportation</u>			
20.205	Safe routes to school	*	<u>90,046</u>
	Total Federal Programs		<u>\$ 6,688,510</u>

* PCA numbers are not available.

See accompanying notes to
supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

	<u>Cafeteria Fund</u>
June 30, 2011 Unaudited Actual Financial Report Ending Fund Balance	\$ 169,260
Adjustment to record school site inventory	<u>75,312</u>
June 30, 2011 Audited Financial Statements Ending Fund Balances	<u><u>\$ 244,572</u></u>

There were no audit adjustments proposed to any other funds of the District.

See accompanying notes to
supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2011

	(Budget) 2012	2011	2010	2009
<u>General Fund</u>				
Revenues and other financing sources	\$ 64,262,380	\$ 70,933,132	\$ 71,389,365	\$ 83,997,767
Expenditures	64,648,853	64,443,523	71,929,255	80,997,822
Other uses and transfers out	575,000	552,747	588	370,659
Total outgo	65,223,853	64,996,270	71,929,843	81,368,481
Change in fund balance	\$ (961,473)	\$ 5,936,862	\$ (540,478)	\$ 2,629,286
Ending fund balance	\$ 16,828,638	\$ 17,790,111	\$ 11,853,249	\$ 12,396,118
Available reserves	\$ 14,093,982	\$ 14,086,962	\$ 9,307,492	\$ 8,892,835
Designated for economic uncertainties	\$ 1,957,000	\$ 1,950,000	\$ 2,157,895	\$ 2,440,455
Undesignated fund balance	\$ 12,136,982	\$ 12,136,962	\$ 7,149,597	\$ 6,452,380
Available reserves as percentages of total outgo	21.6%	21.7%	12.9%	10.9%
<u>All Funds</u>				
Total long-term liabilities	\$ 191,551,612	\$ 200,426,071	\$ 198,219,481	\$ 272,623,375
Average daily attendance at P-2, excluding Adult and Charter School	8,850	9,277	9,696	10,005

The General Fund fund balance has increased by \$8,025,670 over the past three years. The District has incurred operating deficits in one of the past three years, and anticipates incurring an operating loss during the 2011-2012 fiscal year. The fiscal year 2011-2012 budget projects an decrease of \$961,473. For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2011, the District has met this requirement.

Total long-term liabilities have decreased by \$72,197,304 over the past two years, due primarily to the issuance of General Obligation Bonds (Note 7 to the financial statements).

Average daily attendance has decreased by 728 over the past two years. The District anticipates a decrease of 427 ADA for the 2011-2012 fiscal year.

See accompanying notes to
supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2011

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
Natomas Charter School	Included in the Charter School Fund
NP3 (Natomas Pacific Pathway Prep) Middle School	Included in the Charter School Fund
NP3 (Natomas Pacific Pathway Prep) High School	Included in the Charter School Fund
Westlake Charter School	Included in the Charter School Fund

See accompanying notes to
supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FIRST 5 REVENUES AND EXPENSES
For the Year Ended June 30, 2011

	<u>First 5 Grant</u>
Revenues	
Other local sources	\$ <u>561,802</u>
Expenditures:	
Certificated salaries	190,734
Classified salaries	160,026
Employee benefits	94,344
Books and supplies	44,038
Contract services and operating expenditures	34,532
Indirect costs	<u>38,128</u>
	<u>561,802</u>
Net income	<u><u>\$ -</u></u>

See accompanying notes to
supplementary information.

NATOMAS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133 requirements, and is presented on the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2011.

Description	CFDA Number	Amount
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 6,969,085
Add funds spent from prior year awards:		
State Fiscal Stabilization Funds spent from prior year awards	84.394	81,415
Less funds not spent:		
Medi-Cal Billing Funds not spent	93.788	(134,402)
Medi-Cal Administrative Activities not spent	93.788	<u>(227,588)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 6,688,510</u>

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

1. PURPOSE OF SCHEDULES (Continued)

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2011-2012 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

G - Schedule of First 5 Revenues and Expenses

This schedule provides information about the First 5 Sacramento County Program.

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2011, the District did not adopt this program.

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Trustees
Natomas Unified School District
Sacramento, California

We have audited the compliance of Natomas Unified School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2011. Compliance with the requirements of state laws and regulations is the responsibility of Natomas Unified School District's management. Our responsibility is to express an opinion on Natomas Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Natomas Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Natomas Unified School District's compliance with those requirements.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Regular and Special Day Classes	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No, see below
Public Hearing Requirements - Receipt of Funds	1	Yes
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Yes

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contemporaneous Records of Attendance, for charter schools	1	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes - Classroom-Based, for charter schools	3	Yes

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office of Education.

We did not perform any procedures related to Early Retirement Incentive Program because the District did not offer this program in the current year.

The 2010-2011 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2011. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2010-2011 Audit Guide relating to the comparison of tested data from the 2010-2011 fiscal year to the 2010-2011 School Accountability Report Cards.

The District does not offer Class Size Reduction - Option Two classes and have more than one school serving grades K through 3; therefore, we did not perform any procedures relating to Class Size Reduction Program - Option Two and Districts with only one school serving grades K through 3.

In our opinion, Natomas Unified School District complied with the state laws and regulations referred to above for the year ended June 30, 2011. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Natomas Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information of the Board of Trustees, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2011

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

Board of Trustees
Natomas Unified School District
Sacramento, California

We have audited the financial statements of Natomas Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Natomas Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Natomas Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Natomas Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Natomas Unified School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2011-01 to be a material weakness. We also provided management with other comments as identified in the Schedule of Audit Findings and Questioned Costs as Findings 2011-02 and 2011-03.

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

(Continued)

Compliance and Other Matters

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

Natomas Unified School District's responses to the findings identified in our audit are included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information of the Board of Trustees, management, the California Department of Education, the California State Controller's Office and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FIRST 5
SACRAMENTO COUNTY PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH A PROGRAM-SPECIFIC AUDIT**

Board of Trustees
Natomas Unified School District
Sacramento, California

Compliance

We have audited Natomas Unified School District's compliance with the types of compliance requirements described in the Program Guidelines for the First 5 Sacramento County Program that could have a direct and material effect on its First 5 Sacramento County Program for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts and grants applicable to its First 5 Sacramento County Program is the responsibility of Natomas Unified School District's management. Our responsibility is to express an opinion on Natomas Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on First 5 Sacramento County Program occurred. An audit includes examining, on a test basis, evidence about Natomas Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Natomas Unified School District's compliance with those requirements.

In our opinion, Natomas Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its First 5 Sacramento County Program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Natomas Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the First 5 Sacramento Program. In planning and performing our audit, we considered Natomas Unified School District's internal control over compliance with requirements that could have a direct and material effect on its First 5 Sacramento County Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the First 5 Sacramento County Program, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Natomas Unified School District's internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FIRST 5
SACRAMENTO COUNTY PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH A PROGRAM-SPECIFIC AUDIT**

(Continued)

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the First 5 Sacramento County Program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the First 5 Sacramento County Program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management and First 5 Sacramento County and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Natomas Unified School District
Sacramento, California

Compliance

We have audited Natomas Unified School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Natomas Unified School District's major federal programs for the year ended June 30, 2011. Natomas Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Natomas Unified School District's management. Our responsibility is to express an opinion on Natomas Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Natomas Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Natomas Unified School District's compliance with those requirements.

In our opinion, Natomas Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Natomas Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Natomas Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Natomas Unified School District's internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Trustees, management, the California Department of Education, the California State Controller's Office and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2011

FINDINGS AND RECOMMENDATIONS

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.391, 84.392	Special Education Cluster (including ARRA)
84.010, 84.389	NCLB: Title I Cluster (including ARRA)
84.394	ARRA: State Fiscal Stabilization Fund (SFSF)
84.410	Education Jobs Fund (SB 847)
10.555	Child Nutrition: School Programs (NSL Sec 4)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

STATE AWARDS

Internal control over state programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes X None reported

Type of auditors' report issued on compliance for state programs: Unqualified

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

2011-01 MATERIAL WEAKNESS - LONG-TERM LIABILITIES (30000)

Criteria

Accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting.

Condition

The District did not recognize accreted interest on outstanding General Obligation Bonds.

Effect

The District's long-term liabilities were understated.

Cause

The District did not establish the requisite internal control procedures.

Fiscal Impact

The District's long-term liabilities were understated by \$5,793,680 at June 30, 2010.

Recommendation

The District should establish the requisite internal control procedures to maintain adequate records regarding accreted interest.

Corrective Action Plan

The District has spreadsheets that calculate the accreted interest on each General Obligation Bond issue and has established procedures to ensure that the appropriate adjustments are made at the end of each fiscal year.

NATOMAS UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

2011-02 DEFICIENCY - ASSOCIATED STUDENT BODY (30000)

Criteria

Education Code Section 48930 (and California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

At American Lakes Elementary and Jefferson Elementary fundraising approval forms are not consistently being used to approve revenue-producing activities.

At Natomas Middle School cash is not dual counted at the time the cash receipt is prepared.

At Natomas High School student store inventory is not counted or reviewed periodically. Profit and loss statements are not consistently prepared for the student store and for those prepared; there is no review of the statements.

At Discovery High School cash collected is not dual counted at the time the cash receipt is prepared. Evidence of the principal's approval of disbursements before the check being initiated could not be obtained on a consistent basis. Fundraising approval forms are not consistently being used to approve revenue-producing activities. Bank reconciliations are not being performed in a timely manner.

Effect

ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

- Student council and school site administration should approve all fundraising events.
- Cash should be counted in dual custody at the time it is turned in and evidence of the count should be documented on the receipt.
- Student store inventory should be counted or reviewed regularly. Profit and loss statements should be prepared monthly for the student store activity.

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS
(Continued)

2011-02 DEFICIENCY - ASSOCIATED STUDENT BODY (30000) (Continued)

Recommendation (Continued)

- Cash receipts should be reconciled to the deposits and approved by school site administrators.
- Cash disbursements should have a request for payment that is signed by an administrator and student council to indicate approval for all payments.
- Reconciliations should be prepared on a monthly basis by the office manager and reviewed by the principal within a timely manner.

Corrective Action Plan

The District's ASB Account Technician and Bookkeeper will ensure that procedures are followed at each school site.

2011-03 DEFICIENCY - CREDIT CARDS (30000)

Criteria

Safeguarding of assets.

Condition

Credit card statement, dated March 17, 2011, had no signature indicating review and approval of expenses.

Effect

Expenditures can be processed without appropriate approval.

Cause

Inadequate Internal Controls surrounding the credit card cycle.

Fiscal Impact

Not determinable.

Recommendation

The Director of Fiscal Services or chief business official should formally approve all expenditures on credit card statement prior to processing payment.

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS
(Continued)

2011-03 DEFICIENCY - CREDIT CARDS (30000) (Continued)

Corrective Action Plan

The chief business official will review the credit card statement submitted for payment prior to payment being processed by Accounts Payable.

NATOMAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2011

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

NATOMAS UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2011

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

NATOMAS UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2011

Finding/Recommendation	Current Status	District Explanation If Not Implemented
<p>2010-01</p> <p>The District's government-wide financial statement conversion entry failed to remove the unamortized bond issuance costs of the COP which was paid off during the year.</p> <p>The District should review the GASB 34 conversion entries for completeness and proper recording.</p>	Implemented.	
<p>2010-02</p> <p>Students were not properly marked absent in the attendance system and therefore were claimed for apportionment.</p> <p>The District should perform periodic reviews over the attendance generated from the system to ensure the system is calculating attendance correctly.</p>	Implemented.	
<p>2010-03</p> <p>The public hearing notice was not held within the required amount of time (eight weeks) and was out of compliance with Ed Code 60119.</p> <p>The District should assign responsibility for monitoring the eight week window in order to comply with the compliance requirement.</p>	Implemented.	

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APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$(PAR AMOUNT)
NATOMAS UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2012 GENERAL OBLIGATION REFUNDING BONDS

Dated: [Closing Date]

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is delivered by the Natomas Unified School District (the “District”) in connection with the issuance of the above-referenced bonds (the “Bonds”) pursuant to a Paying Agent Agreement dated June 1, 2012 (the “Paying Agent Agreement”), between the District and Union Bank, N.A. (the “Paying Agent”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being delivered by the District for the benefit of the beneficial owners of the Bonds and to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. Unless the context otherwise requires, the definitions set forth in the Paying Agent Agreement apply to this Disclosure Certificate. The following additional capitalized terms shall have the following meanings:

Annual Report means any report provided by the District pursuant to, and as described in, Sections 3 (Provision of Annual Reports) and 4 (Content of Annual Reports) of this Disclosure Certificate.

Beneficial Owner means any person that (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Bondholders means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

Dissemination Agent means the District, or any successor Dissemination Agent designated in writing by the District and that has filed with the District a written acceptance of such designation.

EMMA or Electronic Municipal Market Access means the centralized on-line repository for documents 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 means any of the events listed in Section 5(a) and (b) (Reporting of Significant Events – Qualified and Unqualified Listed Events) 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.

Official Statement means the final Official Statement dated _____, 2012 relating to the Bonds.

Opinion of Bond Counsel means a written opinion of a law firm or attorney experienced in matters relating to obligations the interest on which is excludable from gross income for federal income tax purposes.

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

Repositories means MSRB or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future. (As of the date of this Certificate, there is no California state information depository.)

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

State means the State of California.

Section 3. Provision of Annual Reports.

a. Delivery of Annual Report to Repositories. The District shall, or shall cause the Dissemination Agent to, not later than April 15 of each year, commencing with the report for the 2010-2011 Fiscal Year, provide to the Repositories an Annual Report that is consistent with the requirements of Section 4 (Content of Annual Reports) of this Disclosure Certificate. The Annual Report may be submitted as a single document or as a package of separate documents and may include by cross-reference other information as provided in Section 4 (Content of Annual Reports) 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(e) (Notice of Listed Events).

c. Delivery of Annual Report to Dissemination Agent. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, 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 unable to provide an Annual Report to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories in substantially the form attached 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 provided pursuant to this Disclosure Certificate, stating the date it was provided.

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

a. The audited financial statements of the District for the prior fiscal year, prepared in accordance with 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) (Delivery of Annual Report to Repositories), 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. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

- (i) State funding received by the District for the last completed fiscal year;
- (ii) average daily attendance of the District for the last completed fiscal year;
- (iii) summary financial information on revenues, expenditures and fund balances for the District's general fund for the last completed fiscal year and summary financial information on any adopted budget for the current fiscal year; and
- (iv) current fiscal year assessed valuation of taxable properties in the District; and
- (v) assessed valuation of the top ten taxpayers in the District.

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 that have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, or their failure to perform;
- (5) defeasances;
- (6) rating changes;
- (7) the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB);
- (8) tender offers;
- (9) bankruptcy, insolvency, receivership or similar event of the obligated person;

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

- (1) Except as otherwise provided in paragraph 5(a)(7) above, adverse tax opinions or or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax-exempt status of the Bonds;
- (2) non-payment related defaults;
- (3) modifications to rights of Bondholders;
- (4) bond calls;
- (5) release, substitution, or sale of property securing repayment of the Bonds;
- (6) the consummation of a merger, consolidation, or acquisition, or certain asset sales, involving the obligated person, or entry into or termination of a definitive agreement relating to the foregoing;
- (7) appointment of a successor or additional trustee or the change of name of a trustee.

c. Determination of Materiality of Unqualified Listed Events. Whenever the District obtains knowledge of the occurrence of an Unqualified Listed Event, the District shall immediately determine if such event would be material under applicable federal securities laws.

d. Notice to Dissemination Agent. If the District has determined an occurrence of a Listed Event under applicable federal securities laws, the District shall promptly notify the Dissemination Agent (if other than the District) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e) (Notice of Listed Events).

e. Notice of Listed Events. The District shall file, or cause the Dissemination Agent to file with the Repositories, a notice of the occurrence of a Listed Event to provide notice of specified events in a timely manner not in excess of ten business days after the event's occurrence. Notwithstanding the foregoing, notice of Listed Events described in subsection (b)(4) (bond calls) need not be given under this subsection any earlier than the notice (if any) given to Bondholders of affected Bonds pursuant to the Paying Agent Agreement.

Section 6. Filings with MSRB. All documents provided to MSRB under this Disclosure Certificate shall be filed in a readable PDF or other electronic format as prescribed by MSRB and shall be accompanied by identifying information as prescribed by MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon the delivery to the District of an Opinion of Bond Counsel to the effect that continuing disclosure is no longer required.. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e) (Notice of Listed Events).

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. The initial Dissemination Agent shall be the District.

b. Compensation of Dissemination Agent. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

The Dissemination Agent may at any time resign by giving written notice of such resignation to the District.

c. **Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense, and liability that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders, 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 Bond Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate.

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 the following conditions are satisfied:

a. **Change in Circumstances.** If the amendment or waiver relates to the provisions of Sections 3(a) (Delivery of Annual Report to Repositories), 4 (Content of Annual Reports), or 5(a) and (b) (Listed Events), 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 have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and the District obtains an Opinion of Bond Counsel to that effect; and

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 Paying Agent Agreement for amendments to the Paying Agent Agreement with the consent of Bondholders, or (ii) does not materially impair the interests of the Bondholders and the District obtains an Opinion of Bond Counsel to that effect.

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(e) (Notice of Listed Events), 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. If the District fails to comply with any provision of this Disclosure Certificate any Bondholder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Paying Agent Agreement, and the sole remedy under this Disclosure Certificate if the District fails to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters, and the Bondholders and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the District has caused this Continuing Disclosure Certificate to be executed by its authorized officer as of the day and year first above written.

NATOMAS UNIFIED SCHOOL DISTRICT

By: _____
Authorized Officer

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Natomas Unified School District

Name of Bonds: Natomas Unified School District
(Sacramento County, California)
2012 General Obligation Refunding Bonds

Date of Delivery: [Closing Date]

NOTICE IS HEREBY GIVEN that the Natomas Unified School District(the “District”) has not provided an Annual Report with respect to the above-named Bonds as required by a Continuing Disclosure Certificate executed _____, with respect to the above-captioned bond issue. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

NATOMAS UNIFIED SCHOOL DISTRICT

[SAMPLE ONLY]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

APPENDIX C
PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

Board of Trustees
Natomas Unified School District

Re: Natomas Unified School District
(Sacramento County, California)
2012 General Obligation Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Natomas Unified School District (the “District”) of \$[PAR AMOUNT] principal amount of Natomas Unified School District (Sacramento County, California) 2012 General Obligation Refunding Bonds (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

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

2. All taxable property in the territory of the District is subject to *ad valorem* taxation without limitation regarding rate or amount (except certain personal property that is taxable at limited rates) to pay the Bonds. The County of Sacramento is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent that necessary funds are not provided from other sources.

3. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

4. Interest on the Bonds is exempt from State of California personal income taxation.

The rights of the owners of the Bonds and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding the accuracy, adequacy, or completeness of the Official Statement or other offering material relating to the Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

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.

Very truly yours,

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD,
A Professional Corporation

STATEMENT OF INSURANCE

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APPENDIX D

SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY OF THE POOLED INVESTMENT FUND



SACRAMENTO COUNTY

Annual Investment Policy of the Pooled Investment Fund

CALENDAR YEAR 2012

*Approved by the
Sacramento County Board of Supervisors*

December 13, 2011
Resolution No. 2011-0918

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Annual Investment Policy of the Pooled Investment Fund

CALENDAR YEAR 2012

I. Authority

Under the Sacramento County Charter, the Board of Supervisors established the position of Director of Finance and by ordinance will annually review and renew the Director of Finance's authority to invest and reinvest all the funds in the County Treasury.

II. Policy Statement

This Investment Policy (Policy) establishes cash management and investment guidelines for the Director of Finance, who is responsible for the stewardship of the Sacramento County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code and this Policy. All portfolio activities will be judged by the standards of the Policy and its investment objectives. Activities that violate its spirit and intent will be considered contrary to the Policy.

III. Standard of Care

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

IV. Investment Objectives

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

A. Safety of Principal

The preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.

B. Liquidity

As a second objective, the Pooled Investment Fund should remain sufficiently flexible to enable the Director of Finance to meet all operating requirements that may be reasonably anticipated in any depositor's fund.

C. Public Trust

In managing the Pooled Investment Fund, the Director of Finance and the authorized investment traders should avoid any transactions that might impair public confidence in Sacramento County and the participating local agencies. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

D. Maximum Rate of Return

As the fourth objective, the Pooled Investment Fund should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein. For comparative purposes, the State of California Local Agency Investment Fund (LAIF) will be used as a performance benchmark. The Pooled Investment Fund quarterly performance benchmark target has been set at or above LAIF's yield. This benchmark was chosen because LAIF's portfolio structure is similar to the Pooled Investment Fund.

V. Pooled Investment Fund Investors

The Pooled Investment Fund investors are comprised of Sacramento County, school and community college districts, districts directed by the Board of Supervisors, and independent special districts whose treasurer is the Director of Finance. Any local agencies not included in this category are subject to California Government Code section 53684 and are referred to as outside investors.

VI. Implementation

In order to provide direction to those responsible for management of the Pooled Investment Fund, the Director of Finance has established this Policy and will provide it to the Oversight Committee and render it to legislative bodies of local agencies that participate in the Pooled Investment Fund. In accordance with California Government Code section 53646, et seq., the Board of Supervisors shall review and approve this Policy annually.

This Policy provides a detailed description of investment parameters used to implement the investment process and includes the following: investable funds; authorized instruments; prohibited investments; credit requirements; maximum maturities and concentrations; repurchase agreements; Community Reinvestment Act Program; criteria and qualifications of broker/dealers and direct issuers; investment guidelines, management style and strategy; Approved Lists; and calculation of yield and costs.

VII. Internal Controls

The Director of Finance shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. To assist in implementation and internal controls, the Director of Finance has established an Investment Group and a Review Group.

The Investment Group, which is comprised of the Director of Finance and his/her designees, is responsible for maintenance of the investment guidelines and Approved Lists. These guidelines and lists can be altered daily, if needed, to adjust to the ever-changing financial markets. The guidelines can be more conservative or match the policy language. In no case can the guidelines override the Policy.

The Review Group, which is comprised of the Director of Finance and his/her designees, is responsible for the monthly review and appraisal of all the investments purchased by the Director of Finance and staff. This review includes bond proceeds, which are invested separately from the Pooled Investment Fund and are not governed by this Policy.

The Director of Finance shall establish a process for daily, monthly, quarterly, and annual review and monitoring of the Pooled Investment Fund activity. The following articles, in order of supremacy, govern the Pooled Investment Fund:

1. California Government Code
2. Annual Investment Policy
3. Current Investment Guidelines
4. Approved Lists (see page 9, Section IX.K)

The Director of Finance shall review the daily investment activity and corresponding bank balances.

Monthly, the Review Group shall review all investment activity and its compliance to the corresponding governing articles and investment objectives.

Quarterly, the Director of Finance will provide the Oversight Committee with a copy of the Pooled Investment Fund activity and its compliance to the annual Policy and California Government Code.

Annually, the Oversight Committee shall cause an annual audit of the activities within the Pooled Investment Fund to be conducted to determine compliance to the Policy and California Government Code. This audit will include issues relating to the structure of the investment portfolio and risk.

All securities purchased, with the exception of time deposits, money market mutual funds, LAIF and Wells Fargo's overnight investment fund, shall be delivered to the independent third-party custodian selected by the Director of Finance. This includes all collateral for repurchase agreements. All trades, where applicable, will be executed by delivery versus payment by the designated third-party custodian.

VIII. Sacramento County Treasury Oversight Committee

In accordance with California Government Code section 27130 et seq., the Board of Supervisors, in consultation with the Director of Finance, has created the Sacramento County Treasury Oversight Committee (Oversight Committee). Annually, the Director of Finance shall prepare an Investment Policy that will be forwarded to and monitored by the Oversight Committee and rendered to Boards of all local agency participants. The Board of Supervisors shall review and approve the Policy during public session. Quarterly, the Director of Finance shall provide the Oversight Committee a report of all investment activities of the Pooled Investment Fund to ensure compliance to the Policy. Annually, the Oversight Committee shall cause an audit to be conducted on the Pooled Investment Fund. The meetings of the Oversight Committee shall be open to the public and subject to the Ralph M. Brown Act.

A member of the Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the Oversight Committee. A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the Sacramento County Board of Supervisors or governing board of any local agency that has deposited funds in the county treasury while a member of the Oversight Committee. Finally, a member may not secure employment with, or be employed by bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the Oversight Committee or for one year after leaving the committee.

The Oversight Committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the Department of Finance treasury and investment operations.

IX. Investment Parameters

A. Investable Funds

Total Investable Funds (TIF) for purposes of this Policy are all Pooled Investment Fund moneys that are available for investment at any one time, including the estimated bank account float. Included in TIF are funds of outside investors, if applicable, for which the Director of Finance provides investment services. Excluded from TIF are all bond proceeds.

The Cash Flow Horizon is the period in which the Pooled Investment Fund cash flow can be reasonably forecasted. This Policy establishes the Cash Flow Horizon to be one (1) year.

Once the Director of Finance has deemed that the cash flow forecast can be met, the Director of Finance may invest funds with maturities beyond one year. These securities will be referred to as the Core Portfolio.

B. Authorized Investments

Authorized investments shall match the general categories established by the California Government Code sections 53601 et seq. and 53635 et seq. Authorized investments shall

include, in accordance with California Government Code section 16429.1, investments into LAIF. Authorization for specific instruments within these general categories, as well as narrower portfolio concentration and maturity limits, will be established and maintained by the Investment Group as part of the Investment Guidelines. As the California Government Code is amended, this Policy shall likewise become amended.

C. Prohibited Investments

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

All legal investments issued by a tobacco-related company are prohibited. A tobacco-related company is defined as an entity that makes smoking products from tobacco used in cigarettes, cigars, or snuff or for smoking in pipes. The tobacco-related issuers restricted from any investment are Alliance One, Altria Group, Inc., Auri Inc., British American Tobacco PLC, Imperial Tobacco Group PLC, Kirin International Holding Inc., Lorillard, Philip Morris International, Reynolds American, Inc., Schweitzer-Mauduit International Inc., Smokefree Innotec Inc., Star Scientific Inc., Universal Corp., and Vector Group, Ltd. Annually the Director of Finance and/or his designee will update the list of tobacco-related companies.

D. Credit Requirements

Except for municipal obligations and Community Reinvestment Act (CRA) bank deposits and certificates of deposit, the issuer's short-term credit ratings shall be at or above A-1 by Standard & Poor's, P-1 by Moody's, and, if available, F1 by Fitch, and the issuer's long-term credit ratings shall be at or above A by Standard & Poor's, A2 by Moody's, and, if available, A by Fitch. There are no credit requirements for Registered State Warrants. All other municipal obligations shall be at or above a short-term rating of SP-1 by Standard & Poor's, MIG1 by Moody's, and, if available, F1 by Fitch. In addition, domestic banks are limited to those with a Fitch Individual bank rating of B or better. The Investment Group is granted the authority to specify approved California banks with Fitch Individual bank ratings of B/C or C but they must have a Support rating of 1 where appropriate. Foreign banks with domestic licensed offices must have a Fitch Sovereign rating of AAA and a Fitch Individual bank rating of B or better; however, a foreign bank may have a rating of B/C or C but they must have a Support rating of 1. Domestic savings banks must be rated B or better or may have a rating of B/C or C but they must have a Support rating of 1.

Community Reinvestment Act Program Credit Requirements

Maximum Amount	Minimum Requirements
Up to the FDIC- or NCUSIF-insured limit for the term of the deposit	<u>Banks</u> — FDIC Insurance Coverage
	<u>Credit Unions</u> — NCUSIF Insurance Coverage <i>Credit unions are limited to a maximum deposit of the NCUSIF-insured limit since they are not rated by nationally recognized rating agencies and are not required to provide collateral on public deposits.</i>
Over the FDIC- or NCUSIF-insured limit to \$10 million Collateral is required	(Any 2 of 3 ratings) S&P: A-2 Moody's: P-2 Fitch: F-2

Eligible banks must have Community Reinvestment Act performance ratings of “satisfactory” or “outstanding” from each financial institution’s regulatory authority. In addition, deposits greater than the federally-insured amount must be collateralized. Banks must place securities worth between 110% and 150% of the value of the deposit with the Federal Reserve Bank of San Francisco, the Home Loan Bank of San Francisco, or a trust bank.

Since credit unions do not have Community Reinvestment Act performance ratings, they must demonstrate their commitment to meeting the community reinvestment lending and charitable activities, which are also required of banks.

All commercial paper and medium-term note issues must be issued by corporations operating within the United States and having total assets in excess of one billion dollars (\$1,000,000,000).

The Investment Group may raise these credit standards as part of the Investment Guidelines and Approved Lists. Appendix A provides a Comparison and Interpretation of Credit Ratings by Standard & Poor’s, Moody’s, and Fitch.

E. Maximum Maturities

Due to the nature of the invested funds, no investment with limited market liquidity should be used. Appropriate amounts of highly-liquid investments, such as Treasury and Agency securities, should be maintained to accommodate unforeseen withdrawals.

The maximum maturity, determined as the term from the date of ownership to the date of maturity, for each investment shall be established as follows:

U.S. Treasury Notes and Agency Obligations	5 years
Bonds issued by local agencies	5 years
Registered State Warrants and Municipal Notes	5 years
Bankers Acceptances	180 days
Commercial Paper	270 days
Negotiable Certificates of Deposit	180 days
CRA Bank Deposit/Certificates of Deposit	1 year
Repurchase Agreements	1 year
Reverse Repurchase Agreements	92 days
Medium Term Corporate Notes.....	180 days
Shares of a Money Market Mutual Fund	(per SEC regulations) ¹
Collateralized Mortgage Obligations	180 days

The Investment Group may reduce these maturity limits to a shorter term as part of the Investment Guidelines and the Approved Lists.

The ultimate maximum maturity of any investment shall be five (5) years. The dollar-weighted average maturity of all securities shall be equal to or less than three (3) years.

F. Maximum Concentrations

No more than 80% of the portfolio may be invested in issues other than United States Treasuries and Government Agencies. The maximum allowable percentage for each type of security is set forth as follows:

U.S. Treasury and Agency Securities	100%
Bonds issued by local agencies	80%
Registered State Warrants and Municipal Notes	80%
Bankers Acceptances	40%
Commercial Paper	40%
Negotiable or CRA Bank Deposit/Certificates of Deposit.....	30%
Repurchase Agreements	30%
Reverse Repurchase Agreements	20%
Medium Term Corporate Notes.....	30%
Shares of a diversified Money Market Mutual Fund.....	20%
Collateralized Mortgage Obligations.....	20%
Local Agency Investment Fund (LAIF)	(per State limit) ²

The Investment Group may reduce these concentrations as part of the Investment Guidelines and the Approved Lists.

¹ Money Market mutual funds are regulated by the Securities and Exchange Commission under §270.2a-7 and are required to maintain a dollar-weighted average portfolio maturity of 60 days or less.

² LAIF current maximum allowed is \$50 million.

No more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

Where a percentage limitation is established above, for the purpose of determining investment compliance, that maximum percentage will be applied on the date of purchase.

G. Repurchase Agreements

Under California Government Code section 53601, paragraph (j) and section 53635, the Director of Finance may enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of a Repurchase Agreement shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must be "matched to maturity" and meet all other requirements in the code.

All repurchase agreements must have an executed Sacramento County Master Repurchase Agreement on file with both the Director of Finance and the Broker/Dealer. Repurchase Agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the Approved Lists of the County and which meet the qualifications of the Policy, with a market value of 102%. Since the market value of the underlying securities is subject to daily market fluctuations, investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. Use of mortgage-backed securities for collateral is not permitted. Strictly for purposes of investing the daily excess bank balance, the collateral provided by the Sacramento County's depository bank can be Treasuries or Agencies valued at 110%, or mortgage-backed securities valued at 150%.

H. Community Reinvestment Act Program

The Director of Finance has allocated within the Pooled Investment Fund, a maximum of \$90 million for the Community Reinvestment Act Program to encourage community investment by financial institutions, which includes community banks and credit unions, and to acknowledge and reward local financial institutions which support the community's financial needs. The Director of Finance may increase this amount, as appropriate, while staying within the investment policy objectives and maximum maturity and concentration limits. The eligible banks and savings banks must have Community Reinvestment Act performance ratings of "satisfactory" or "outstanding" from each financial institution's regulatory authority. The minimum credit requirements are located on page 5 of Section IX.D.

I. Criteria and Qualifications of Brokers/Dealers and Direct Issuers

All transactions initiated on behalf of the Pooled Investment Fund and Sacramento County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York or direct issuers that directly issue their own securities which have been placed on the Approved List of

brokers/dealers and direct issuers. Further, these firms must have an investment grade rating from at least two national rating services, if available.

Brokers/Dealers and direct issuers which have exceeded the political contribution limits, as contained in Rule G-37 of the Municipal Securities Rulemaking Board, within the preceding four year period to the Director of Finance or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer authorized to do business with Sacramento County shall, at least annually, supply the Director of Finance with audited financial statements.

J. Investment Guidelines, Management Style and Strategy

The Investment Group, named by the Director of Finance, shall issue and maintain Investment Guidelines specifying authorized investments, credit requirements, permitted transactions, and issue maturity and concentration limits which are consistent with this Policy.

The Investment Group shall also issue a statement describing the investment management style and current strategy for the entire investment program. The management style and strategy can be changed to accommodate shifts in the financial markets, but at all times they must be consistent with this Policy and its objectives.

K. Approved Lists

The Investment Group, named by the Director of Finance, shall issue and maintain various Approved Lists. These lists are:

1. Approved Domestic Banks for all legal investments.
2. Approved Foreign Banks for all legal investments.
3. Approved Commercial Paper and Medium Term Note Issuers.
4. Approved Money Market Mutual Funds.
5. Approved Firms for Purchase or Sale of Securities (Brokers/Dealers and Direct Issuers).
6. Approved Banks / Credit Unions for the Community Reinvestment Act Program.

L. Calculation of Yield and Costs

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets; managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated by specific cost

accounting projects and charged to the Pooled Investment Fund on a quarterly basis throughout the fiscal year.

The Department of Finance will allocate the net interest earnings of the Pooled Investment Fund quarterly. The net interest earnings are allocated based upon the average daily cash balance of each Pooled Investment Fund participant.

X. Reviewing, Monitoring and Reporting of the Portfolio

The Review Group will prepare and present to the Director of Finance at least monthly a comprehensive review and evaluation of the transactions, positions, performance of the Pooled Investment Fund and compliance to the California Government Code, Policy, and Investment Guidelines.

Quarterly, the Director of Finance will provide to the Oversight Committee and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. Pursuant to California Government Code section 53646, the report will list the type of investments, name of issuer, maturity date, par and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value, and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Policy and a statement of the Pooled Investment Fund's ability to meet the expected expenditure requirements for the next six months.

Each quarter, the Director of Finance shall provide to the Board of Supervisors and interested parties a comprehensive report on the Pooled Investment Fund.

Annually, the Director of Finance shall provide to the Oversight Committee the Investment Policy. Additionally, the Director of Finance will render a copy of the Investment Policy to the legislative body of the local agencies that participate in the Pooled Investment Fund.

XI. Withdrawal Requests for Pooled Fund Investors

The Director of Finance will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Director of Finance at a one dollar net asset value. Any requests to withdraw funds for purposes other than immediate cash flow needs, such as for external investing, are subject to the consent of the Director of Finance. In accordance with California Government Code Sections 27133(h) and 27136, such requests for withdrawals must first be made in writing to the Director of Finance. When evaluating a request to withdraw funds, the Director of Finance will take into account the effect of a withdrawal on the stability and predictability of the Pooled Investment Fund and the interests of other depositors. Any withdrawal for such purposes will be at the market value of the Pooled Investment Fund on the date of the withdrawal.

XII. Limits on Honoraria, Gifts, and Gratuities

In accordance with California Government Code Section 27133(d), this Policy establishes limits for the Director of Finance; individuals responsible for management of the portfolios; and members of the Investment Group and Review Group who direct individual investment decisions, select individual investment advisors and broker/dealers, and conduct day-to-day investment

trading activity. The limits also apply to members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

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

XIII. Terms and Conditions for Outside Investors

Outside investors may invest in the Pooled Investment Fund through California Government Code Section 53684. Their deposits are subject to the consent of the Director of Finance. The legislative body of the local agency must approve the Sacramento County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. Any withdrawal of these deposits must be made in writing 30 days in advance and will be paid based upon the market value of the Pooled Investment Fund. If the Director of Finance considers it appropriate, the deposits may be returned at any time to the local agency.

Appendix A

Comparison and Interpretation of Credit Ratings

Long Term Debt & Individual Bank Ratings				
Rating Interpretation	Moody's	S&P	Fitch	Fitch Individual Bank Rating
<i>Best-quality grade</i>	Aaa	AAA	AAA	A
<i>High-quality grade</i>	Aa1	AA+	AA+	A
	Aa2	AA	AA	A/B
	Aa3	AA-	AA-	B
<i>Upper Medium Grade</i>	A1	A+	A+	B
	A2	A	A	B/C
	A3	A-	A-	B/C
<i>Medium Grade</i>	Baa1	BBB+	BBB+	C
	Baa2	BBB	BBB	C/D
	Baa3	BBB-	BBB-	C/D
<i>Speculative Grade</i>	Ba1	BB+	BB+	D
	Ba2	BB	BB	D
	Ba3	BB-	BB-	D
<i>Low Grade</i>	B1	B+	B+	D/E
	B2	B	B	D/E
	B3	B-	B-	D/E
<i>Poor Grade to Default</i>	Caa	CCC+	CCC	D/E
<i>In Poor Standing</i>	-	CCC	-	D/E
	-	CCC-	-	D/E
<i>Highly Speculative Default</i>	Ca	CC	CC	D/E
	C	-	-	E
<i>Default</i>	-	-	DDD	E
	-	-	DD	E
	-	D	D	E

Short Term / Municipal Note Investment Grade Ratings			
Rating Interpretation	Moody's	S&P	Fitch
<i>Superior Capacity</i>	MIG-1	SP-1+/SP-1	F1+/F1
<i>Strong Capacity</i>	MIG-2	SP-2	F2
<i>Acceptable Capacity</i>	MIG-3	SP-3	F3

Appendix A

Short Term / Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	S&P	Fitch
<i>Superior Capacity</i>	P-1	A-1+/A-1	F1+/F1
<i>Strong Capacity</i>	P-2	A-2	F2
<i>Acceptable Capacity</i>	P-3	A-3	F3

Fitch Support Ratings (related to Fitch Individual Bank Ratings)

Rating	Interpretation
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

Appendix A

Fitch Sovereign Risk Ratings

<i>Rating</i>	<i>Interpretation</i>
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that expectations of default risk are currently low. The capacity for timely payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative. 'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	High default risk. Default is a real possibility.
CC	Very high levels of credit risk. Default of some kind appears probable.
C	Exceptionally high levels of credit risk. Default appears imminent or inevitable.
D	<p>Default. Indicates a default. Default generally is defined as one of the following:</p> <ul style="list-style-type: none"> • Failure to make payment of principal and/or interest under the contractual terms of the rated obligation; • The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of the business of an issuer/obligor; or • The coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

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