

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Notes is exempt from State of California personal income tax. See "Tax Matters" herein with respect to tax consequences relating to the Notes.*

**\$3,903,461**

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**(Sonoma County, California)**  
**2012 General Obligation Bond Anticipation Notes**  
**(Bank Qualified)**

**Dated: Date of Delivery**

**Due: January 1, 2015**

*This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of this issue. 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 and not otherwise defined shall have the meanings set forth herein.*

The Bennett Valley Union School District (Sonoma County, California) 2012 General Obligation Bond Anticipation Notes (the "Notes") are an obligation of the Bennett Valley Union School District (the "District") being issued thereby to finance the costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities in anticipation of proceeds from general obligation bonds (the "Bonds") to be issued pursuant to a duly called election of the registered voters of the District held on November 2, 2010, at which the requisite 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of \$10,600,000 principal amount of general obligation bonds of the District (the "2010 Authorization").

The Notes are payable from proceeds of the future sale of Bonds issued pursuant to the 2010 Authorization, from proceeds of the sale of bond anticipation notes in renewal of the Notes ("Renewal Notes"), or from other funds of the District lawfully available for the purpose of repaying the Notes, including State grants. Interest on the Notes shall also be payable from the *ad valorem* tax lawfully levied to pay principal of and interest on and Maturity Value of such Bonds. The District has covenanted in its resolution authorizing the issuance of the Notes to take all actions required to authorize, sell, and issue, on or before January 1, 2015, Bonds, Renewal Notes or certificates of participation in an aggregate principal amount sufficient to pay the principal of and interest on and Maturity Value of the Notes coming due and payable at maturity. See "The Notes – Security and Sources of Payment" herein.

The Notes will be issued as current interest notes (the "Current Interest Notes") and capital appreciation notes (the "Capital Appreciation Notes"). Interest with respect to the Current Interest Notes accrues the Date of Delivery thereof and payable annually on January 1 of each year, commencing January 1, 2013. The Current Interest Notes will be issued in denominations of \$5,000 principal amount or any integral multiple thereof. The Capital Appreciation Notes are dated the Date of Delivery and accrete interest from such date, compounded semiannually on July 1 and January 1 of each year, commencing on July 1, 2012. The Capital Appreciation Notes will be issued in denominations of \$5,000 Maturity Value or any integral multiple thereof.

Principal of and interest on and Maturity Value of the Notes will be payable in lawful money of the United States of America by the District upon maturity at the office of The Bank of New York Mellon Trust Company, N.A., as the designated registrar, transfer agent, authentication agent and paying agent. The Notes will be issued in fully registered form, and when delivered will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York, which will act as securities depository for the Notes. See "Appendix E – Book-Entry Only System" herein.

**The Notes will not be subject to redemption prior to maturity.**

**Maturity Schedule**

<b>\$3,155,000 Current Interest Notes</b>					
<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Yield</b>	<b>CUSIP<sup>†</sup></b>	
<b>January 1</b>	<b>Amount</b>	<b>Rate</b>			
2015	\$1,000,000	2.00%	1.570%	082185EM7	
2015	2,155,000	4.00	1.570	082185EK1	
<b>\$748,461 Capital Appreciation Notes</b>					
<b>Maturity</b>	<b>Denominational</b>	<b>Approx.</b>	<b>Yield</b>	<b>Maturity</b>	<b>CUSIP<sup>†</sup></b>
<b>January 1</b>	<b>Amount</b>	<b>Accretion</b>		<b>Value</b>	
		<b>Rate</b>			
2015	\$748,461	11.95%	1.850%	\$1,050,000	082185EL9

*The Notes are offered when, as and if delivered and received by the Underwriter, subject to the approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel. It is anticipated that the Notes, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about February 1, 2012.*

**George K. Baum & Company**

Dated: January 18, 2012

<sup>(†)</sup> 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. Neither the Underwriter nor the District is responsible for the selection or correctness of the CUSIP numbers set forth herein.

The information contained herein has been obtained from sources that are believed to be reliable. No representation, warranty or guarantee, however, is made by the Underwriter as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the Appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Underwriter.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Notes shall under any circumstances create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

This Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriter has provided the following sentence for inclusion in this Official Statement: “The Underwriter has reviewed the information in this official statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.”

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve 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 their expectations, or events, conditions or circumstances on which such statements are based, occur.

The District maintains a website. However, the information presented on the District’s website is not incorporated into this Official Statement by any reference, and should not be relied upon in making investment decisions with respect to the Notes.

**BENNETT VALLEY UNION SCHOOL DISTRICT**

**BOARD OF TRUSTEES**

Jeremy Brott, *President*  
Steven Sharpe, *Vice-President*  
Sandra Frieze, *Clerk*  
Katherine Sanchez, *Member*  
David Gouin, *Member*

**DISTRICT ADMINISTRATION**

Susan D. Field, Ed.D., *Superintendent*  
Richard Parde, *Business Manager*

**PROFESSIONAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Stradling Yocca Carlson & Rauth,  
a Professional Corporation  
*San Francisco, California*

**Financial Advisor**

Isom Advisors, a Division of Urban Futures, Inc.  
*Walnut Creek, California*

**Underwriter**

George K. Baum & Company  
*Sacramento, California*

**Paying Agent, Registrar and Transfer Agent**

The Bank of New York Mellon Trust Company, N.A.  
*Los Angeles, California*

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**\$3,903,461**  
**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**(Sonoma County, California)**  
**2012 General Obligation Bond Anticipation Notes**  
**(Bank Qualified)**

**INTRODUCTION**

This Official Statement, which includes the cover page, Table of Contents and Appendices thereto, provides certain information concerning the sale and delivery of the Bennett Valley Union School District (Sonoma County, California) 2012 General Obligation Bond Anticipation Notes, in the aggregate principal amount of \$3,903,461 (the “Notes”). This introduction is not a summary of the Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement.

**The District**

The Bennett Valley Union School District (the “District”) is in Santa Rosa, California the county seat of Sonoma County. The community is located 58 miles north of San Francisco and 20 miles from the Sonoma County coastline. The District was organized in 1951 and today encompasses 20 square miles of both suburban and rural Santa Rosa. The District serves students from kindergarten to grade six in two elementary schools, Strawberry School and Yulupa School. The District’s average daily attendance for fiscal year 2011-12 is expected to be 934 students. The District has a 2011-12 total assessed valuation of \$1,438,217,497. See “Bennett Valley Union School District” herein.

The District is governed by a five member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent, appointed by the Board of Trustees, who is responsible for day-to-day District operations as well as the supervision of the District’s other personnel. Susan D. Field, Ed.D. is the Superintendent of the District. See “Bennett Valley Union School District” herein.

**Purpose of the Notes**

The Notes are being issued to finance the costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities, in anticipation of proceeds from general obligation bonds (the “Bonds”) to be issued by the District pursuant to the 2010 Authorization (defined herein).

**Authority for the Issuance of the Notes**

The Notes are issued under the authority of the State of California Education Code and a resolution adopted by the Board on November 9, 2011 (the “Resolution”). See “The Notes – Authority for Issuance” herein.

**Security and Sources of Payment for the Notes**

The Notes are obligations of the District payable from (i) proceeds of a future sale of Bonds authorized at a duly called election held in the District on November 2, 2010 and thereafter canvassed

pursuant to law, at which the requisite 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of \$10,600,000 principal amount of general obligation bonds of the District (the “2010 Authorization”), (ii) proceeds of the sale of bond anticipation notes in renewal of the Notes (the “Renewal Notes”), or (iii) from other funds of the District lawfully available for the purpose of repaying the Notes, including State grants. Interest on the Current Interest Notes and accreted interest on the Capital Appreciation Notes shall also be payable from the *ad valorem* tax lawfully levied to pay principal of and interest on and Maturity Value (defined herein) of the Bonds. See “The Notes – Security and Sources of Payment” and “Bennett Valley Union School District” herein.

The District has covenanted to take all actions required to authorize, sell, and issue, on or before January 1, 2015, Bonds, Renewal Notes or certificates of participation, or a combination thereof, in an aggregate principal amount which is sufficient to pay the principal of and interest on and Maturity Value of the Notes coming due and payable at maturity. See “The Notes – Risk Factors” herein.

### **Description of the Notes**

***Current Interest Notes and Capital Appreciation Notes.*** The Notes will be issued as current interest notes (the “Current Interest Notes”) and capital appreciation notes (the “Capital Appreciation Notes”). The Current Interest Notes will be dated as of their date of delivery (the “Date of Delivery”) will mature on January 1, 2015, and will bear periodic interest at the rate set forth on the cover page hereof. Interest on the Current Interest Notes will accrue from the Date of Delivery and will be payable annually on January 1 of each year (each, a “Note Payment Date”), commencing January 1, 2013. Interest on the Current Interest Notes is calculated on the basis of a 360-day year of twelve 30-day months.

The Capital Appreciation Notes will be dated as of their Date of Delivery and will mature on January 1, 2015. The Capital Appreciation Notes are payable only at maturity, and will not pay interest on a current basis. The maturity value of a Capital Appreciation Note is equal to its Accreted Value upon the maturity thereof (the “Maturity Value”). The Accreted Value of a Capital Appreciation Note for any date is equal to the sum of its initial principal amount on its Date of Delivery thereof (its “Denominational Amount”) and the interest accreting thereon between the Date of Delivery thereof and such date. Each Capital Appreciation Note accretes in value from its Denominational Amount on the Date of Delivery to its Maturity Value on January 1, 2015. The Capital Appreciation Notes are payable only at maturity according to the amounts set forth in the accreted values as shown in Appendix F attached hereto.

The Notes will be delivered only in fully registered form and, when issued, 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 security depository for the Notes. See “The Notes – General Provisions” and “Appendix E – Book-Entry Only System” herein.

### **Redemption**

The Notes are not subject to redemption prior to their stated maturity dates.

### **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), based on existing statutes, regulations, rulings and judicial decisions and assuming the accuracy and truthfulness of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further

opinion of Bond Counsel, interest (and original issue discount) on the Notes is exempt from State of California personal income tax. See “Tax Matters” herein.

### **Bank Qualified**

The District has designated the Notes as “qualified tax-exempt obligations,” thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution’s interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and beneficial owners of the Notes to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5)(i)(C) promulgated under the Securities Exchange Act of 1934, as amended. See “Certain Legal Matters – Continuing Disclosure” herein and “Appendix D - Form of Continuing Disclosure Certificate” attached hereto.

### **Professionals Involved in the Offering**

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Notes and will receive compensation from the District contingent upon the sale and delivery of the Notes. Isom Advisors, a Division of Urban Futures, Inc., Walnut Creek, California, is acting as financial advisor to the District with respect to the Notes. The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, is acting as the Paying Agent with respect to the Notes.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Copies of documents referred to herein and information concerning the Notes are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the District at 2250 Mesquite Drive, Santa Rosa, California 95405.

This Official Statement contains brief descriptions of, among other things, the District, the Notes and the Resolution pertaining to the Notes, and certain other matters relating to the security for the Notes. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents, and agreements and references herein to the Notes are qualified in their entirety by reference to the form thereof included in the Resolution, respectively. Copies of such documents will be available for inspection at the principal office of the Paying Agent after delivery of the Notes. Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Resolution.

The sale and delivery of the Notes to potential investors is made only by means of the entire Official Statement.

## THE NOTES

### Authority for Issuance

The Notes are being issued under the authority of Title 1, Division 1, Part 10, Chapter 1, Article 3 of the Education Code of the State of California (comprising Sections 15150 *et seq.*), and pursuant to the Resolution adopted by the Board of Trustees of the District on November 9, 2011.

### Purpose of Issue

The Notes are being issued to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, in anticipation of proceeds from the Bonds to be issued by the District pursuant to the 2010 Authorization.

### General Provisions

The Current Interest Notes will be dated as of the Date of Delivery and will mature on January 1, 2015. The Current Interest Notes are issuable in denominations of \$5,000 principal amount, or any integral multiple thereof. The Current Interest Notes will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of DTC, who act as security depository for the Current Interest Notes. Purchasers will not receive certificates representing their interests in the Current Interest Notes.

The Current Interest Notes will bear periodic interest at the rate set forth on the cover page hereof. Interest with respect to the Current Interest Notes accrues from the Date of Delivery, and is payable on each Note Payment Date, commencing January 1, 2013. Interest on the Current Interest Notes will be computed on the basis of a 360-day year of twelve 30-day months. Each Current Interest Note will bear interest from the Note Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 15th day of the month immediately preceding any Note Payment Date to and including such Note Payment Date, in which event it shall bear interest from such Note Payment Date, or unless it is authenticated on or before December 15, 2012, in which event it shall bear interest from the Date of Delivery.

The Capital Appreciation Notes will be dated as of their Date of Delivery and will mature on January 1, 2015. The Capital Appreciation Notes are payable only at maturity, and will not pay interest on a current basis. The Capital Appreciation Notes shall accrete in value from their Denominational Amount to their Maturity Value, at the approximate Accretion Rate per annum set forth on the front cover hereof, compounded semiannually on July 1 and January 1 of each year, commencing July 1, 2012. The Maturity Value of a Capital Appreciation Note is equal to its Accreted Value upon the maturity date. Interest with respect to each Capital Appreciation Note is represented by the amount each Capital Appreciation Note accretes in value from its Denominational Amount to the date for which Accreted Value is calculated. The Accreted Value of a Capital Appreciation Note is calculated by discounting on a 30 day month, 360 day year basis its Maturity Value on the basis of a constant interest rate compounded semiannually on July 1 and January 1, of each year to the date for which an Accreted Value is calculated, and if the date for which Accreted Value is calculated is between July 1 and January 1, by pro rating the Accreted Values to the closest prior or subsequent July 1 and January 1. See the maturity schedule on the front cover hereof and "Appendix F – Accreted Values Table" attached hereto. The Capital Appreciation Notes are issuable in denominations of \$5,000 Maturity Value, or any integral multiple thereof.

## Debt Service Schedule

The following table shows the debt service schedule with respect to the Notes:

Period	<u>Current Interest Notes</u>		<u>Capital Appreciation Notes</u>		Total Annual <u>Debt Service</u>
	Annual Principal <u>Payment</u>	Annual Interest <u>Payment</u> <sup>(1)</sup>	Annual Principal <u>Payment</u> <sup>(2)</sup>	Annual Accreted Interest <u>Payment</u> <sup>(2)</sup>	
7/01/12	--	--	--	--	--
1/01/13	--	\$97,350	--	--	\$97,350
7/01/13	--	--	--	--	--
1/01/14	--	106,200	--	--	106,200
7/01/14	--	--	--	--	--
1/01/15	<u>\$3,155,000</u>	<u>106,200</u>	<u>\$748,461</u>	<u>\$301,539</u>	<u>4,311,200</u>
Total	<u>\$3,155,000</u>	<u>\$309,750</u>	<u>\$748,461</u>	<u>\$301,539</u>	<u>\$4,514,750</u>

<sup>(1)</sup> Interest payments on the Current Interest Notes will be made on annually on January 1 of each year, commencing January 1, 2013.

<sup>(2)</sup> The Capital Appreciation Notes are payable only at maturity, and interest on such Capital Appreciation Notes is compounded semiannually on July 1 and January 1, commencing on July 1, 2012.

## Security and Sources of Payment

The principal amount of the Notes, together with the interest thereon, will be payable from the proceeds of the future sale of Bonds pursuant to the 2010 Authorization, Renewal Notes, or from other funds of the District lawfully available for the purpose of repaying the Notes, including State grants. Interest on the Notes shall also be payable from the *ad valorem* tax lawfully levied to pay principal of and interest on and Maturity Value of such Bonds.

Any Renewal Notes shall be payable at a fixed time not more than five years from the date of the original issuance of the Notes. In the event that the sale of the Bonds pursuant to the 2010 Authorization does not occur prior to the maturity of the Notes or is not sufficient to pay the Notes in full, the District will issue Renewal Notes, or alternatively certificates of participation, to pay the Notes and the interest thereon. The total principal amount of the Notes and any Renewal Notes thereof issued and outstanding may not at any time exceed the total amount of the remaining 2010 Authorization.

The District has covenanted in the Resolution to take all actions required to authorize, sell and issue, on or before the maturity date of the Notes, Bonds, Renewal Notes or certificates of participation, or a combination thereof, in an aggregate principal amount sufficient to pay the principal of and interest on and Maturity Value of the Notes coming due and payable at maturity.

## Risk Factors

*There are certain risks to investors inherent in the purchase of the Notes. The following factors, along with the other information provided in this Official Statement, should be considered by potential investors in evaluating a purchase of Notes. The following, however, do not purport to be an exhaustive listing of risks and other considerations that may be relevant to an investment in the Notes. The following factors are not presented in a priority reflective of their importance or significance to investors.*

**Tax Rate Levy Limitations under Proposition 39.** Proposition 39, including the “Strict Accountability in Local School Construction Bonds Act of 2000,” set forth at Section 15264 *et seq.* of the Education Code, sets forth limits on the ability of school districts to access their general obligation bond authorization. Proposition 39 provides that the District may not issue general obligation bonds unless the combined tax rate for all general obligation bonds issued under the 2010 Authorization is estimated not to

exceed \$30 per \$100,000 of assessed valuation. The District has projected that it should be able to issue additional Bonds under the 2010 Authorization in an amount sufficient to pay off the maturing Notes or any renewal thereof, including both the principal and interest; however, circumstances may change such that compliance with the tax rate maximum established by Proposition 39 would prevent the issuance of the Bonds to pay off the maturity Notes. See “—Slow Growth or Reductions in Assessed Valuation” below. A delay in the ability of the District to access the 2010 Authorization would require the District to identify other sources of funds to pay the maturing Notes.

***Sources of Repayment; Limitation as to Term.*** The Notes are being issued pursuant to the Act, which prescribes the sources of repayment thereof and the maximum term of the Notes. Under the Act, the Notes may have a maximum term of 5 years from the date of initial issuance thereof. Upon maturity, and pursuant to the Resolution, the District has covenanted to deliver Bonds, Renewal Notes or certificates of participation, or a combination thereof, in an amount sufficient to pay the principal of and interest on and Maturity Value of maturing Notes. The Notes will mature on January 1, 2015, and as such will be subject to renewal pursuant to the Act.

Market conditions, reduced then-current levels of assessed valuation throughout the District and other factors could adversely affect the future ability of the District to issue Bonds, Renewal Notes, certificates of participation or other obligations to pay the maturing Notes. At present, assessed valuation levels within the District permit the District to access the amount of Authorization necessary to pay the principal and Maturity Value of and interest on the Notes at maturity. While the District is unable to predict the assessed valuation in the future, the Notes sizing was based on assessed valuation assumptions that should allow for the Notes to be paid at maturity. Assuming the District does not issue additional general obligation bonds under the 2010 Authorization for new construction projects, the District estimates that assessed valuation within the District would have to decline by more than 8% by the maturity date of the Notes in order to prevent the District from issuing general obligation bonds to repay the Notes.

***Slow Growth or Reductions in Assessed Valuation.*** Based on its current projections, the District anticipates being able to issue Bonds under the 2010 Authorization in an amount sufficient to pay the Notes on or before January 1, 2015. However, the District is unable to predict its future assessed valuation, and the District’s expectations are based on estimates, facts and circumstances now known to the District. Economic factors beyond the control of the District, such as successful appeals by property owners for reductions in assessed valuation of their properties, destruction of or damage to real property caused by natural forces, including fire, flood and earthquake, and other factors could cause continued slow growth or even a significant reduction in the assessed valuation within the District as a whole. Those circumstances could prevent the District from issuing general obligation bonds under applicable provisions of the California Constitution in an amount sufficient to pay, and by a date prior to the maturity of, the Notes. In that instance, the District would be obligated and is prepared to pay the maturing Notes from the sale of the Bonds, Renewal Notes or certificates of participation, or a combination thereof. See “—Sources of Repayment; Limitation as to Term,” “District Financial Matters – Assessed Valuations” and “District Financial Matters – Appeals and Reductions of Assessed Valuations” herein.

***Other Factors Limiting the Issuance of District Obligations to Pay the Notes.*** In addition to the slow growth of or reductions to the District’s assessed valuation, other factors could make it difficult or impossible for the District to issue Bonds, Renewal Notes, certificates of participation or other obligations to pay the maturing Notes, including, but not limited to, the general financial condition of the District at the time it institutes proceedings to issue such obligations or the condition of the prevailing municipal securities market. No assurances can be given that the District will be able to issue any such obligations when and as required to provide for the payment of the Notes at maturity.

***Reduction in Allowed Inflationary Rate: Initiatives Affecting Assessed Valuation.*** Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given calendar year, or may be reduced to reflect a reduction in the consumer price index or comparable local data.

Article XIII A was adopted pursuant to the constitutional initiative process in the State. From time to time, other initiative measures are adopted by the voters in California, and it may be possible that a future initiative might alter the taxable value, reduce the permitted property tax rate or broaden property tax exemptions, further eroding the ability of the District to access the 2010 Authorization prior to the final maturity of the Notes. See “Constitutional and Statutory Provisions Affecting District Revenues and Appropriations” herein.

**ESTIMATED SOURCES AND USES OF FUNDS**

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

Sources of Funds

Principal Amount of Notes	\$3,903,461.00
Net Original Issue Premium	<u>407,519.00</u>
<b>Total Sources</b>	<b><u>\$4,310,980.00</u></b>

Uses of Funds

Building Fund	\$3,903,461.00
Debt Service Fund	203,550.00
Costs of Issuance <sup>(1)</sup>	<u>203,969.00</u>
<b>Total Uses</b>	<b><u>\$4,310,980.00</u></b>

<sup>(1)</sup> Reflects all costs of issuance, including but not limited to, demographics and filing fees, printing costs, legal and financial advisory fees, the Underwriter’s discount, rating agency fees, and the costs and fees of the Paying Agent. See “Miscellaneous – Underwriting” herein.

**Application of Note Proceeds**

The proceeds from the sale of the Notes, to the extent of the principal amount thereof and net of costs of issuance, shall be deposited to the credit of the “Bennett Valley Union School District, Election of 2010 General Obligation Bonds, Series B and Bond Anticipation Note Building Fund” (the “Building Fund”), held by the County and kept separate and distinct from all other District and County funds. Such proceeds shall be used to finance the costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities.

Any premium received by the District from the sale of the Notes shall be kept separate and apart in the fund designated as the “Bennett Valley Union School District, Election of 2010 General Obligation Bonds, Series B and Bond Anticipation Note Debt Service Fund” (the “Debt Service Fund”), and such premium shall be used only for payment of principal and interest of the Notes. As needed, proceeds from the sale of certificates of participation and other funds of the District lawfully available for the purpose of repaying the Notes, shall also be deposited into the Debt Service Fund or applied directly to the payment of principal of and interest on and Maturity Value of such Notes. Interest earnings on moneys held in the

Building Fund shall be retained in the Building Fund. Interest earnings on moneys held in the Debt Service Fund shall be retained in the Debt Service Fund.

In accordance with the Resolution and subject to federal tax restrictions, moneys in the Building Fund and the Debt Service Fund may be invested in any one or more investments generally permitted to school districts under the laws of the State of California or as permitted by the Resolution. Moneys in the Building Fund are expected to be invested in the County Treasury Pool. See “Sonoma County Investment Pool” herein.

### **SONOMA COUNTY INVESTMENT POOL**

The Resolution provides that unless the District provides the County Treasurer with written instructions to the contrary, all amounts held in the funds and accounts established under the Resolution, including the Building Fund, the Debt Service Fund and the Rebate Fund previously described, will be invested in the Sonoma County Investment Pool. The District may direct the investment of proceeds in alternative investments provided that the investment quality of such alternative investments is acceptable to the County Treasurer. In addition, in accordance with Education Code Section 41001, substantially all District operating funds are required to be held by the County Treasurer. The County is required to invest such funds in accordance with California Government Code Sections 53601, *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

The information discussed below has been provided by the Treasurer of the County, and the District takes no responsibility for the accuracy or completeness thereof. Further information may be obtained directly from the County Treasurer.

The County Treasurer manages the County’s investment pool (the “County Pool”) in which certain funds of the County and certain funds of other participating entities are invested pending disbursement. Amounts held for the County, school districts and special districts located within the County constitute 99% of the County Pool. The County Treasurer is ex-officio treasurer of each of these participating entities, which therefore are legally required to deposit their cash receipts and revenue in the County treasury. Under State law, withdrawals are allowed only to pay for expenses which have become due. The remaining 1% of the amounts in the County Pool are not legally required to be maintained in the County Pool and can be withdrawn by the depositors for whom these amounts are held, provided such withdrawal will not adversely affect other County Pool participants.

The County Pool is accounted for by the Treasurer at book value, which is based on amortized cost of purchase, including accrued interest added to the purchase price of an investment. The investment portfolio is not marked to market, but the market value of the portfolio is calculated and reported quarterly to the County Board of Supervisors. The latest quarterly market calculations as of September 30, 2011 showed the book value of cash and investments as \$1,319,155,124 with a market value at 100.22% of cost. For the quarter ended September 30, 2011 the average daily investment balance of the County Pool was \$1,343,536,107. The interest rate earned before fees was 0.985%.

The following table summarizes the County’s investment portfolio as of September 30, 2011.

**SONOMA COUNTY’S POOLED INVESTMENTS  
As of September 30, 2011**

<u>Type of Investment</u>	<u>Amortized Cost/ Book Value</u>
Checks and Warrants in Transit	\$2,103,765
Cash in Vault	127,609
Cash in Bank	47,671,609
Treasury Bill Notes	215,369,925
Bankers Acceptances	0
Other Governments	827,686,610
Commercial Paper	0
Corporate Bonds & Notes	30,003,100
Negotiable Certificates of Deposit	1,000,000
Other Government Pools and JPA’s	33,886,885
Money Market Mutual Funds	<u>161,306,159</u>
Total	\$1,319,155,124

Source: County of Sonoma, Office of the Treasurer-Tax Collector.

The weighted average days to maturity is 975 days.

The Government Code requires the County Treasurer to render a Quarterly Report to the County Administrator, the Board of Supervisors, the County Auditor, the Treasury Oversight Committee, and the participants of the Investment Pool.

The Quarterly Report shall state compliance of the portfolio to the County Investment Policy and denote the ability of the pool to meets its pool’s expenditures for the next six months, or provide an explanation as to why sufficient money shall or may not be available.

The County Treasurer has certified that the investments of the Sonoma County Investment Pool are in compliance with the County Investment Policy and has further certified that the pool has sufficient cash flow available to meet all budgeted expenditure requirements for the next six months.

**GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION**

**State Funding of Education**

As a whole, California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in state revenues significantly affect appropriations made by the legislature to school districts.

Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying the average daily attendance (the “A.D.A.”) for such district by a base revenue limit per unit of A.D.A. 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.

Funding of the District’s revenue limit is provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District’s revenue limit and its local property tax revenues.

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

The revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. The following table reflects the District’s enrollment, A.D.A. and the A.D.A. base revenue limit per student for the last seven fiscal years, and a projection for fiscal year 2012-13.

**Enrollment, Average Daily Attendance and Revenue Limit  
Fiscal Years 2005-06 through 2012-13  
Bennett Valley Union School District**

<u>Fiscal Year</u>	<u>Enrollment</u>	<u>Average Daily Attendance</u>	<u>Revenue Limit Per A.D.A.</u> <sup>(1)</sup>
2005-06	962	930	\$4,924
2006-07	941	919	5,294
2007-08	930	919	5,535
2008-09	940	909	5,390
2009-10	960	926	4,732
2010-11	981	935	4,984
2011-12 <sup>(2)</sup>	982	934	4,958
2012-13 <sup>(3)</sup>	982	934	4,365

Note: All amounts are rounded to the nearest whole number.

<sup>(1)</sup> The State’s practice of deficit revenue limit funding, which reduced the amount of revenue limit funds received by school districts, was eliminated effective in fiscal year 2000-01, reinstated beginning in fiscal year 2003-04, eliminated again effective in fiscal year 2006-07, and reinstated again in fiscal year 2008-09.

<sup>(2)</sup> Budgeted.

<sup>(3)</sup> Projected.

Source: Bennett Valley Union School District.

**Revenue Sources**

Major revenue sources of the District are described below.

**Revenue Limit Sources.** In 2008-09, the District received \$4,946,022 from revenue limit sources, accounting for approximately 69% of its General Fund revenue. For 2009-10, the District received \$4,437,690 of revenue limit source income, accounting for approximately 67% of its General Fund revenue. For 2010-11, the District received \$4,724,031 of revenue limit source income, which is approximately 69% of its budgeted General Fund revenue. For 2011-12, the District has projected \$4,394,600 of revenue limit source income, which is approximately 68% of its budgeted General Fund revenue.

**Other State Revenues.** As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District’s revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives other State revenues (“State Sources”). In fiscal year 2009-10, State Sources accounted for approximately 16% of

total General Fund revenues. In 2010-11, State Sources accounted for approximately 16% of total General Fund Revenues and are projected to equal approximately 16% of such revenues in fiscal year 2011-12.

**Federal Revenues.** The federal government provides funding for several District programs, including special education programs, programs under the No Child Left Behind Act and specialized programs such as Drug-Free Schools. The federal revenues, most of which are restricted, were approximately 6.1% of General Fund revenues in fiscal year 2009-10, approximately 5.1% of such revenues in 2010-11, and are projected to equal approximately 6.8% of such revenues in fiscal year 2011-12.

**Other Local Revenues.** In addition to property taxes, the District receives additional local revenues. These other local revenues equaled approximately 11% of General Fund revenues in fiscal year 2009-10, approximately 10% of such revenues in fiscal year 2010-11, and are projected to equal approximately 10% of such revenues in fiscal year 2011-12.

**State Lottery.** In the November 1984 general election, the voters of the State approved a constitutional amendment establishing a State lottery (the "State Lottery"), the net revenues of which are used to supplement money allocated to public education. This amendment stipulated that the funds derived from the State Lottery be used for the education of students and prohibited their use for noninstructional purposes, such as the acquisition of real property, the construction of facilities or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in State Lottery revenues over 1997-98 levels must be restricted to use on instructional material. State Lottery net revenues - gross revenues less prizes and administration expenses - are allocated by computing an amount per A.D.A., which is derived by dividing the total net revenues figures by the total A.D.A. for grades K-12, community colleges, the University of California system and other participating educational institutions. Each district receives an amount equal to its total A.D.A. multiplied by the per A.D.A. figure. Allocations to the District in 2009-10 were approximately 3%, in 2010-11 were approximately 2% of General Fund revenues, and are projected to be approximately 2% of General Fund revenues in 2011-12.

## **Budget Procedures**

The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the

budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

For all dual budget options and for single and dual budget option districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

The District has never had an adopted budget disapproved by the county superintendent of schools nor has it received a negative or qualified certification of any of its Interim Reports.

## General Fund Budget

The District's general fund adopted budgets for fiscal years 2007-08 through 2011-12, and general fund actual results for the fiscal years 2007-08 through 2010-11, and projected totals for fiscal year 2011-12, are set forth in the following table:

### GENERAL FUND BUDGET AND AUDITED ACTUAL RESULTS Fiscal Years Ending June 30, 2008 through 2012 Bennett Valley Union School District

	Adopted Budget <u>2007-08</u>	Audited Actuals <u>2007-08</u>	Adopted Budget <u>2008-09</u>	Audited Actuals <u>2008-09</u>	Adopted Budget <u>2009-10</u>	Audited Actuals <u>2009-10</u>	Adopted Budget <u>2010-11</u>	Audited Actuals <u>2010-11</u>	Adopted Budget <u>2011-12</u>	Projected Totals <sup>(2)</sup> <u>2011-12</u>
<b>REVENUES:</b>										
Revenue Limit Sources:	\$5,042,152	\$5,045,520	\$5,031,259	\$4,946,022	\$4,595,269	\$4,437,690	\$4,469,768	\$4,724,031	\$4,394,600	\$4,394,600
Federal Revenue	217,462	257,758	295,830	539,628	576,596	376,809	448,643	370,090	439,902	442,328
Other State Revenue	1,355,015	1,062,520	1,107,017	1,028,912	1,012,874	1,051,838	1,021,078	1,072,128	1,051,971	1,051,971
Other Local Revenue	<u>735,924</u>	<u>731,696</u>	<u>717,662</u>	<u>694,700</u>	<u>510,304</u>	<u>748,675</u>	<u>521,783</u>	<u>696,353</u>	<u>620,872</u>	<u>620,872</u>
TOTAL REVENUES	7,350,553	7,097,494	7,151,768	7,209,262	6,695,043	6,615,012	6,461,272	6,862,602	6,507,345	6,509,771
<b>EXPENDITURES:</b>										
Certificated Salaries	3,213,208	3,256,944	3,459,360	3,280,474	3,306,832	3,224,125	3,280,569	3,219,295	3,292,303	3,292,303
Classified Salaries	1,168,548	1,211,715	1,216,301	1,213,013	1,092,976	1,162,987	1,192,608	1,146,541	1,250,298	1,184,434
Employee Benefits	1,251,290	1,195,160	1,200,439	1,156,308	1,135,884	1,071,732	1,278,348	1,175,073	1,157,212	1,157,212
Books & Supplies	441,492	392,451	352,325	285,281	255,922	178,281	197,468	170,471	204,654	326,645
Services and Other	1,172,151	774,286	1,078,141	711,670	733,385	741,635	804,875	816,945	768,712	768,712
Operating Expenditures										
Capital Outlay	--	596,081	--	--	--	--	--	5,800	--	--
Other Expenditures	--	<u>77,897</u>	<u>28,592</u>	<u>55,373</u>	<u>137,344</u>	<u>64,740</u>	<u>137,344</u>	<u>76,498</u>	<u>137,344</u>	<u>137,344</u>
TOTAL EXPENDITURES	7,246,689	7,504,534	7,335,158	6,702,119	6,662,343	6,443,500	6,891,212	6,610,623	6,810,523	6,866,650
Excess of Revenues Over (Under)	103,864	(407,040)	(183,390)	507,143	32,700	171,512	(429,940)	251,979	(303,178)	(356,879)
<b>OTHER FINANCING SOURCES/(USES):</b>										
Operating Transfers In	--	--	--	--	--	27,636	--	--	--	--
Other uses	--	--	--	--	--	--	--	(50,403)	--	--
Operating Transfers Out	<u>(345,030)</u>	<u>(25,720)</u>	<u>(45,030)</u>	--	<u>(7,564)</u>	<u>(20,121)</u>	<u>(7,564)</u>	--	<u>(7,564)</u>	<u>(7,564)</u>
TOTAL OTHER FINANCING SOURCES/(USES)	(345,030)	(25,720)	(45,030)	--	(7,564)	7,515	(7,564)	(50,403)	(7,564)	(7,564)
<b>NET CHANGE IN FUND BALANCES</b>	(241,166)	(432,760)	(228,420)	507,143	25,136	179,027	(437,504)	201,576	(310,742)	(364,443)
Fund Balance, July 1	<u>1,659,971</u>	<u>1,659,971</u>	<u>1,227,211</u>	<u>1,227,211</u>	<u>1,734,354</u>	<u>1,734,354</u>	<u>1,930,604<sup>(1)</sup></u>	<u>1,930,604</u>	<u>1,763,658</u>	<u>2,152,643</u>
Fund Balance, June 30	<u>\$1,418,805</u>	<u>\$1,227,211</u>	<u>\$998,791</u>	<u>\$1,734,354</u>	<u>\$1,759,490</u>	<u>\$1,913,381</u>	<u>\$1,493,100</u>	<u>\$2,132,180</u>	<u>\$1,452,916</u>	<u>\$1,788,200</u>

<sup>(1)</sup> As restated, see "Appendix C – 2010-11 Audited Financial Statements of the District – Note 17" attached hereto.

<sup>(2)</sup> As of the District's First Interim Financial Report dated December 14, 2011.

Source: Bennett Valley Union School District.

## Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

## State Budget Measures

**Senate Bill 70.** On March 24, 2011, the Governor signed into law Senate Bill 70 (“SB 70”), which implements several provisions included in the Governor’s proposed budget for fiscal year 2011-12 (the “2011-12 Proposed Budget”). Significant features of SB 70 relating to the funding of school districts include 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 0% 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 extends 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. See “Constitutional and Statutory Provisions Affecting School District Revenues and Appropriations – State Cash Management Legislation” herein.
- SB 70 extends eligibility for supplemental categorical block grants to charter schools that begin operations in fiscal year 2011-12. SB 70 also appropriates \$5 million from the State general fund to the Charter School Revolving Loan Fund.
- 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.

The full text of SB 70 is available at <http://www.leginfo.ca.gov/bilinfo>. However, such information is not incorporated herein by any reference.

**2011-12 Budget.** The 2011-12 Budget Act (the “2011-12 Budget”) was signed into law by the Governor on June 30, 2011. The Department of Finance has released its summary of the 2011-12 Budget (the “Department of Finance Report”). The following information is drawn from the Department of Finance Report.

The 2011-12 Budget seeks to close the \$26.6 billion deficit identified in the Governor’s May revision to the 2011-12 Proposed Budget (the “May Revision”), through a combination of measures totaling \$27.2 billion. Specifically, the 2011-12 Budget includes \$15 billion of expenditure reductions, \$900 million of targeted revenue increases, \$2.9 billion of other measures and a positive adjustment to the State’s revenue outlook totaling \$8.3 billion.

The 2011-12 Budget reports that the State economy has continued to improve, with tax collections approximately \$1.2 billion above the amounts projected by the May Revision. As a result, the 2011-12 Budget projects an additional \$4 billion in revenues during fiscal year 2011-12. Although the 2011-12 Budget does not include any of the Governor’s proposed tax extensions, the administration states that it plans to seek voter approval of a ballot measure, by November of 2012, which would protect public safety realignment and supplement the State’s revenues.

With the implementation of all measures, the 2011-12 Budget assumes, for fiscal year 2010-11, year-end revenues of \$94.8 billion and expenditures of \$91.5 billion. The 2011-12 Budget also assumes the State ended fiscal year 2010-11 with a budget deficit of \$2 billion. For fiscal year 2011-12, the 2011-12 Budget projects total revenues of \$88.5 billion and authorizes total expenditures of \$85.9 billion. The 2011-12 Budget projects that the State will end fiscal year 2011-12 with a \$543 million surplus.

The 2011-12 Budget also includes a series of “trigger” reductions that are authorized to be implemented in the event the State’s revenues are less than forecasted. The first series of reductions, totaling approximately \$600 million, would be implemented by January of 2012 if State revenues fall short of projections by more than \$1 billion. If by January of 2012 revenues are projected to fall short by more than \$2 billion, a second series of reductions totaling approximately \$1.9 billion would be implemented, of which \$1.8 billion relates to K-12 revenue limit funding and home-to-school transportation.

As part of the second series of such trigger reductions, the 2011-12 Budget authorizes a reduction of \$1.5 billion to school district revenue limit funding, and a corresponding reduction to the State-mandated length the school year by seven days. In the event this reduction is implemented, school districts would be permitted to collectively bargain for a shorter school year or accommodate the revenue limit reduction through other means.

Total Proposition 98 funding is decreased in fiscal year 2011-12 to \$48.7 billion, including \$32.8 billion from the State general fund, which reflects a decrease from the prior year of \$1.1 billion. This decrease is a net figure reflective of all budgetary actions taken with respect to the State’s share of Proposition 98 funding, including increases in baseline revenues, redirection of certain sales tax revenues related to the realignment of public safety programs, and the rebenching of the Proposition 98 minimum funding guarantee (discussed below).

The 2011-12 Budget rebenches the Proposition 98 minimum funding guarantee to account for the following: (i) an increase of \$221.8 million, as part of the realignment of public programs from the State

to local governments, to fund the delivery of certain mental health services by school districts, (ii) an increase of \$578.1 million to backfill general fund revenues lost from the suspension of sales and excise taxes on motor vehicle fuels, and (iii) a decrease of \$1.1 billion to reflect the exclusion of most child care programs from Proposition 98. The minimum funding guarantee is also rebenched to account for a \$1.7 billion decrease in State general fund revenues as a result of ABx1 27, a companion bill to the 2011-12 Budget. ABx1 27 authorizes redevelopment agencies to continue operations provided their establishing cities or counties agree to make a specified payment to school districts and county offices of education, which totals \$1.7 billion statewide. Pursuant to ABx1 26 (another companion bill to the 2011-12 Budget), redevelopment agencies whose establishing cities or counties elect not to make such payments will be required to shut down, and any net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts.

The 2011-12 Budget also makes a significant, one-time modification to State budgeting requirements under AB 1200. See “General School District Financial Information – Budget Process” herein. School districts will be required to project the same level of revenue per student in 2011-12 as in 2010-11, as well as maintain staffing and program levels commensurate with such level of funding. A related provision of 2011-12 Budget provides that school districts will only be required to budget for the current year, and will not be required to demonstrate that they can meet their financial obligations for the subsequent two fiscal years (2012-13 and 2013-14).

The 2011-12 Budget also implements other significant measures with respect to K-12 education funding, as follows:

- *Apportionment Deferral.* An additional deferral of \$1.2 billion in education spending in order to maintain programmatic funding at the fiscal year 2010-11 level.
- *Part-Day Preschool.* A decrease of \$62.3 million to reflect a reduction of income eligibility levels to 70% of the State Median Income, and across-the-board reductions to provider contracts.
- *Charter Schools.* \$11 million in supplemental categorical funding to charter schools that began operations between 2008-09 and 2011-12.
- *Clean Technology and Renewable Energy Training.* \$3.2 million of increased funding for clean technology and renewable energy job training, career technical education and the Dropout Prevention Program, each of which is designed to provide at-risk high school students with occupational training in areas such as conservation, renewable energy and pollution reduction.
- *Child Care and Development.* A decrease of \$180.4 million to child care and development programs, including reductions to license-exempt provider rates, reductions of income eligibility levels to 70% of the State Median Income, and across-the-board reductions to provider contracts.
- *CALTIDES.* A decrease of \$2.1 million to reflect elimination of funding for the California Longitudinal Teacher Integrated Data System (“CALTIDES”). Although the CALTIDES program was intended to provide a central State information depository regarding the teaching workforce, the 2011-12 Budget indicates the program is not a critical need.

- *Office of the Secretary of Education.* The 2011-12 Budget projects a budget savings of \$1.6 million through the elimination of the Office of the Secretary of Education.

Additional information regarding the 2011-12 Budget is available from the Department of Finance's website: [www.dof.ca.gov](http://www.dof.ca.gov). However, such information is not incorporated herein by any reference.

***Recent Litigation Regarding State Budgetary Provisions.*** On July 18, 2011, the California Redevelopment Association, the League of California Cities, and the Cities of Union City and San Jose filed petition for a writ of mandate (the "CRA Petition") with the Supreme Court of California alleging that ABx1 26 and ABx1 27 violate the California Constitution, as amended by Proposition 22. See "Constitutional And Statutory Provisions Affecting District Revenues – Proposition 1A and Proposition 22." The petitioners alleged, among other things, that ABx1 26 and ABx1 27 seek to illegally divert tax increment revenue from redevelopment agencies by threatening such agencies with dissolution if payments are not made to support the State's obligation to fund education. The CRA Petition was accompanied by an application for a stay seeking to delay implementation of the provisions of ABx1 26 and ABx1 27 until the claims are adjudicated. On December 29, 2011, the Supreme Court upheld the legality of ABx1 26, reasoning that the Legislature has broad powers to establish or dissolve local agencies as it sees fit. The Court, however, invalidated ABx1 27 on the grounds that the payments required of redevelopment agencies in order to remain in existence could not be characterized as voluntary, and thus violated Proposition 22.

On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the County of San Francisco (the "CSBA Petition"). The petitioners allege that the 2011-12 Budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately \$2.1 billion. See "General School District Financial Information – State Budget Measures – 2011-12 Budget" herein. The CSBA Petition seeks an order from the Court compelling the State Director of Finance, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution.

The District makes no representations regarding the viability of the claims in either the CRA Petition or the CSBA Petition, nor can the District predict whether any of the respective petitioners will be successful. Moreover, the District makes no representations as to how any final decision by the respective courts would affect the State's ability to fund education in fiscal year 2011-12, or in future fiscal years.

***Fiscal Outlook Report.*** On November 16, 2011, the LAO released a report entitled "The 2012-13 Budget: California's Fiscal Outlook" (the "Fiscal Outlook Report"), which includes updated expenditure and revenue projections for fiscal year 2011-12. The following information has been adapted from the Fiscal Outlook Report.

The Fiscal Outlook Report provides the LAO's projections of the State's General Fund revenues and expenditures for fiscal years 2011-12 through 2016-17 under current law, absent any actions to close the projected State budgetary deficit, as further discussed below. The LAO's projections primarily reflect current-law spending requirements and tax provisions, while relying on the LAO's independent assessment of the outlook for the State's economy, demographics, revenues, and expenditures.

The LAO currently forecasts total State revenues of \$84.8 billion, approximately \$3.7 billion less than the \$88.5 billion figure included in the 2011-12 Budget. The LAO also forecasts total expenditures of \$85.3 billion, slightly below the \$85.9 billion included in the 2011-12 Budget. Absent corrective action, the LAO estimates that the State will face a projected year-end deficit of approximately \$3 billion, as compared to the \$543 million year-end surplus assumed by the 2011-12 Budget.

The LAO's estimates with respect to fiscal year 2011-12 are informed in part by the following:

- As a result of the revised revenue forecast, the LAO assumes the implementation of \$2 billion in midyear "trigger" reductions, as required by the 2011-12 Budget. This includes the implementation of all first tier trigger reductions, totaling \$600 million. The LAO also assumes the implementation of approximately \$1.4 billion of second tier trigger reductions, including a \$248 million reduction in home-to-school transportation funding, a \$72 million reduction to community college apportionments, and a \$1.1 billion reduction to K-12 revenue limit funding. The reduction to revenue limit funding reflects a pro-rated implementation of the second tier trigger reductions, based on the LAO's revenue forecast. The final extent of the reductions are determined upon the release of the Department of Finance's December 2011 revenue forecast. See "—Department of Finance Revenue Forecast" herein.
- The LAO's forecast generally assumes that the State will prevail in current, on-going litigation regarding certain provisions of the 2011-12 Budget. See "—Recent Litigation Regarding State Budgetary Provisions" above. However, the LAO assumes that the State will only realize \$1.4 billion of additional general fund revenues from the elimination of redevelopment agencies, rather than the \$1.7 billion figure included in the 2011-12 Budget.
- The Fiscal Outlook Report does not assume the passage of the Governor's proposed tax extensions at the November 2012 election. The LAO notes that, under the provisions of the 2011-12 Budget, if no such ballot measure is passed, the State would be required to provide an additional \$2 billion of settle-up payments to K-12 education, reflecting a like increase to the Proposition 98 minimum funding guarantee for fiscal year 2011-12.
- The LAO also assumes (i) higher Medi-Cal costs of approximately \$400 million, and (ii) that the State will be unable to reduce departmental costs by \$250 million, as projected by the 2011-12 Budget.

Additional information regarding the Fiscal Outlook Report may be obtained from the LAO at [www.lao.ca.gov](http://www.lao.ca.gov). However, such information is not incorporated herein by any reference.

***Department of Finance Revenue Forecast.*** On December 13, 2011, the Department of Finance released its revised revenue forecast for fiscal year 2011-12. The Department of Finance currently estimates total State revenues of \$86.2 billion, or approximately \$2.2 billion lower than the total revenues projected by the 2011-12 Budget. As such, the State Director of Finance has implemented most of the "trigger" reductions approved by the 2011-12 Budget. Specifically, the Director of Finance implemented most of the first tier trigger reductions, totaling \$581 million, including reductions to community college apportionments (\$30 million) and Proposition 98 funding for child care (\$5.9 million). The Director of Finance also implemented the second tier trigger reductions to community college apportionments (\$72 million), and home-to-school transportation funding (\$248 million). Significantly, the Director of Finance elected not to implement the bulk of the \$1.5 billion second tier reduction to school district revenue limit funding, limiting it to \$79.6 million.

Additional information regarding the Department of Finance's revenue forecast may be obtained at [www.dof.ca.gov](http://www.dof.ca.gov). However, such information is not incorporated herein by any reference.

**Proposed 2012-13 Budget.** On January 5, 2012, the Governor released his proposed State budget for fiscal year 2012-13 (the "Proposed Budget"). On January 11, 2012, the LAO released its summary of the Proposed Budget. The following information is drawn from the LAO's summary.

The Proposed Budget estimates that, absent corrective action, the State will end 2011-12 with a total deficit of \$4.1 billion. For fiscal year 2012-13, the Proposed Budget projects that State expenditures will exceed baseline revenues by approximately \$5.1 billion, bringing the total deficit to \$9.2 billion.

To bridge the gap, the Proposed Budget includes \$10 billion of proposed measures affecting both fiscal years 2011-12 and 2012-13. These measures include \$4 billion of expenditure reductions, \$4.6 billion of revenue increases, and \$1.4 billion of other solutions. With the implementation of all measures, the Proposed Budget assumes, for fiscal year 2011-12, year-end revenues of \$85.5 billion and expenditures of \$86.5 billion. The State is also projected to end fiscal year 2011-12 with a budget deficit of \$1.7 billion. For fiscal year 2012-13, the Proposed Budget projects total available revenues of \$94.4 billion and would authorize total expenditures of \$92.6 billion. The State is also projected to end the year with a \$1.1 billion reserve. As with the 2011-12 Budget, the Proposed Budget assumes an accelerated approval process with a target date of March 1 for the Legislature to approve some or all of the Governor's proposals.

The LAO notes that the cornerstone of the Proposed Budget is voter approval of temporary tax increases at the November 2012 election. The Governor proposes to increase personal income tax ("PIT") rates on the State's wealthiest taxpayers by 1%, 1.5% or 2%, depending on filing status and total income, as well as temporary increase of the State sales and use tax by 0.5%. These tax increases are projected to generate an additional \$2.2 billion in fiscal year 2011-12 and \$4.7 billion in fiscal year 2012-13.

The Proposed Budget would also authorize \$5.4 billion in trigger cuts, to be implemented if these proposed tax increases are rejected by the voters. The trigger cuts include (i) a total reduction to the Proposition 98 minimum funding guarantee of \$4.8 billion (including \$2.4 billion in programmatic funding), (ii) a \$200 million reduction to each of the University of California and California State University systems, (iii) a \$125 million reduction to State courts, (iv) a \$15 million reduction to the Department of Forestry and Fire Protection, (v) a \$7 million reduction to Department of Water Resources flood control programs, (vi) a \$1 million reduction to Department of Justice law enforcement programs, and (vii) unallocated reductions to the Department of Fish and Game (\$4 million) and Department of Parks and Recreation (\$2 million). If implemented, these cuts would become effective as of January 1, 2013.

Assuming the passage of the Governor's tax proposals, the Proposition 98 minimum funding guarantee for fiscal year 2011-12 would be set at \$47.6 billion, including \$32.6 billion from the State general fund. For fiscal year 2012-13, the Proposed Budget would set total Proposition 98 funding at \$52.5 billion, including \$37.5 billion from the State general fund. This would represent a net increase of \$4.9 billion (or 10%) from the prior year.

To arrive at these funding levels, the Proposed Budget makes a permanent adjustment, or "rebenching," to the Proposition 98 minimum funding guarantee to reflect a \$1 billion increase in local property taxes resulting from the elimination of redevelopment agencies pursuant to ABx1 26. These increased property taxes would offset State general fund expenditures on K-14 education. The minimum

funding guarantee would also be decreased by \$544 million, primarily by reversing the existing policy that holds the minimum funding guarantee harmless from the elimination of the sales tax on gasoline.

Significant features of the Proposed Budget as it relates to the funding of education include the following:

- *Cost-of-Living Adjustment.* The Proposed Budget would not provide a cost-of-living adjustment for any K-14 program during fiscal year 2012-13.
- *Apportionment Deferral Reduction.* Proposition 98 funding would be increased by \$2.2 billion during fiscal year 2012-13 to restore K-12 State apportionments that are currently subject to a deferral. The Proposed Budget indicates this funding is contingent on the passage of the Governor's proposed tax increases.
- *Categorical Program Flexibility; Weighted Per-Pupil Funding.* To assist with local budget constraints, the Proposed Budget would suspend educational requirements for almost all categorical programs, essentially phasing out most existing categorical programs beginning in 2012-13 (except for certain federally required programs such as special education and child nutrition). The Proposed Budget would also replace the existing revenue limit and categorical program funding models with a single, weighted pupil funding formula, to be phased in over the next five fiscal years. Under this new funding model, school districts would receive an equal base per-pupil amount, plus additional general purpose funding intended to serve disadvantaged students. Schools districts and charter schools with larger disadvantaged student populations would receive supplemental funding. A performance component would also be added, to provide fiscal incentives for school districts to improve or sustain academic performance. School districts would have local discretion in deciding how to spend weighted per-pupil funding.
- *Child Care.* The Proposed Budget would reduce funding for subsidized child care programs by approximately \$450 million, representing a reduction of approximately 30%. The bulk of this reduction (approximately \$300 million), would be implemented by reducing eligibility to families that meet certain work participation requirements. Reductions to child care funding are part of the Proposed Budget's overall plan to restructure the CalWORKs program and reduce State general fund support for this program by approximately \$1.4 billion.
- *K-14 Mandates.* The Proposed Budget also includes a proposal to eliminate 31 of 57 existing K-14 educational mandates. The remaining 26 educational mandates would be suspended, though school districts and community college districts could undertake the activities required by these remaining mandates in exchange for additional funding. Such additional funding would be provided through a new \$200 million block grant, composed of \$178 million in funding for school districts and \$22 million for community college districts. Districts that choose to receive this funding would receive a per-student allocation. The Proposed Budget indicates that an auditing and compliance process will be established to ensure grant recipients undertake the required activities.
- *Non-implementation of Transition Kindergarten Program.* The Proposed Budget would eliminate the requirement that school districts provide an additional year of

education to children that miss the new, September 1 cutoff for enrollment in kindergarten. As a result, the Proposed Budget assumes a savings of \$224 million in fiscal year 2012-13, growing to approximately \$675 million by 2014-15.

The LAO indicates that several of the Governor's proposals have merit, particularly the increased categorical program flexibility, weighted per-pupil funding, and the non-implementation of the transitional kindergarten program. However, the LAO expresses concern regarding several features of the Proposed Budget. The LAO notes that the Proposed Budget's baseline revenue projections are higher than those calculated by the LAO as part of its November 2011 revenue forecast. See "—Fiscal Outlook Report" above. Specifically, the Proposed Budget projects \$1.5 billion more of such revenues in 2011-12, and \$3.2 billion more in 2012-13. The LAO indicates that this variance is due largely to differences in how the LAO and the Department of Finance project PIT collections from high-income taxpayers. Accordingly, the LAO indicates that the Proposed Budget may overstate growth in State revenues in future years, including the projected revenue growth that would result from the Governor's proposed tax increases. With respect to fiscal year 2012-13, the LAO projects that these proposed tax increases would generate \$2.1 billion less than what is assumed by the Proposed Budget.

The LAO also expresses concerns regarding the uncertainty generated by the proposed trigger cuts to education funding. The LAO notes that school districts and community college districts have limited ability to downsize operations midyear, and as such would likely be unable to bare the brunt of the proposed trigger reductions. Districts will therefore be compelled to adopt budgets that assume the trigger reductions are implemented, resulting in the overall programmatic reductions the Proposed Budget seeks to avoid.

Additional information regarding the Proposed Budget is available from the LAO's website: [www.lao.ca.gov](http://www.lao.ca.gov). However, such information is not incorporated herein by any reference.

**Future Actions.** The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures 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 or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools. Continued State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS**

### **Article XIII A of the California Constitution**

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

Article XIII A has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the base year value. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on the Bonds and interest on the Notes. See “District Financial Matters – Assessed Valuations” herein.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b) as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. In addition, Article XIII A requires the approval of two-thirds of all members of the state legislature to change any state taxes for the purpose of increasing tax revenues.

### **Legislation Implementing Article XIII A**

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

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

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

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

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

## **Unitary Property**

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

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

## **Article XIII B of the California Constitution**

Article XIII B of the State Constitution (“Article XIII B”), as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines

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

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

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986/87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

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

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

Article XIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See “–Propositions 98” and “–Proposition 111” below.

### **Article XIIC and Article XIID of the California Constitution**

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

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article 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 community college districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds percent vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds percent vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable

costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity

### **Proposition 98**

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is 34.55% of the State general fund.

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget.

### **Proposition 111**

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990 ("Proposition 111"), which modified the State Constitution to alter the Article XIIB spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

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

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the “change in the cost of living” is now measured by the change in California per capita personal income. The definition of “change in population” specifies that a portion of the State’s spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. “Excess” tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools’ minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts’ base expenditures for calculating their entitlement for State aid in the next year, and the State’s appropriations limit is not to be increased by this amount.
- c. Exclusions from Spending Limit. Two new exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for “qualified capital outlay projects” as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. The latter provisions were necessary to make effective the transportation funding package approved by the legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.
- e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the “first test”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a

“credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Property taxes may only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% 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% of the voters. These provisions require that the tax rate per \$100,000 of taxable property value projected to be 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) when assessed valuation is projected to increase in accordance with Article XIII A of the Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

### **Proposition 1A and Proposition 22**

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

comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 will be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's General Fund costs by approximately \$1 billion annually for several decades.

### **State Cash Management Legislation**

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals have been codified and are expected to be on-going. Legislation enacted with respect to fiscal year 2011-12 provides for additional inter-fiscal year deferrals.

On March 24, 2011, the Governor signed into law Senate Bill 82 ("SB 82"), which extended into fiscal year 2011-12 provisions of existing law designed to effectively manage the State's cash resources. SB 82 authorizes the deferral of State apportionments during fiscal year 2011-12, as follows: (i) \$700 million from July 2011 to September 2011, (ii) \$700 million from July 2011 to January 2012, (iii) \$1.4 billion from August 2011 to January 2012, (iv) \$2.4 billion from October 2011 to January 2012, and (v) \$1.4 billion from March 2012 to April 2012. Collectively, these deferrals are referred to as the "Cash Management Deferrals." SB 82 required the State Department of Education to certify to school districts no later than April 15, 2011 which of the 2011-12 Cash Management Deferrals will be implemented, and in what amounts. On April 15, 2011, the Department of Education released a projected schedule of State apportionments showing that all of the 2011-12 Cash Management Deferrals would be implemented. SB 82 provides for an exemption to the Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed. The District, however, has not applied for an exemption from any of the Cash Management Deferrals.

In the event any of the Cash Management Deferrals are implemented, SB 82 requires that the State Controller, State Treasurer and State Director of Finance review, as necessary but no less than monthly, the actual State general fund cash receipts and disbursements in comparison to the Governor's most recent revenue and expenditure projections. If the Controller, Treasurer and Director of Finance determine that sufficient cash is available to pay the State apportionments being deferred while maintaining a prudent cash reserve, such State apportionments are required to be paid as soon as feasible.

## Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 26, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

## BENNETT VALLEY UNION SCHOOL DISTRICT

### Introduction

The Bennett Valley Union School District (the "District") is in Santa Rosa, California the county seat of Sonoma County. The community is located 58 miles north of San Francisco and 20 miles from the Sonoma County coastline. The District was organized in 1951 and today encompasses 20 square miles of both suburban and rural Santa Rosa. The District serves students from kindergarten to grade six in two elementary schools, Strawberry School and Yulupa School. The District's average daily attendance for fiscal year 2011-12 is expected to be 934 students. The District has a 2011-12 total assessed valuation of \$1,438,217,497.

### Administration

The District is governed by a five-member Board of Trustees (the "Board"), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

#### BENNETT VALLEY UNION SCHOOL DISTRICT Board of Trustees

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jeremy Brott	President	November 2014
Steven Sharpe	Vice-President	November 2014
Sandra Frieze	Clerk	November 2014
Katherine Sanchez	Member	November 2012
David Gouin	Member	November 2012

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Currently, Susan D. Field is the Superintendent of the District and Richard Parde is the Business Manager.

Brief biographies of the Superintendent and the Business Manager follow:

***Susan D. Field, Ed.D., Superintendent:*** Dr. Field began her tenure as Superintendent for Bennett Valley Union School District in July 1994, promoted from her position as principal of Strawberry School, one of the District's schools, which she began in July 1991. She received her Doctorate in Educational Management (EdD) from the University of La Verne in 1992, and her Master of Arts Degree in Education Administration through St. Mary's College's Educational Leadership Program in 1988, where she later served as adjunct faculty from 1994-2001. She earned her Bachelors of Arts (1980), Single Subject and Multiple Subjects teaching credentials (1981) from Humboldt State University. Prior to coming to Bennett Valley Union School District, Dr. Field served as Principal of Oak Hill Middle School in the Konocti Unified School District in Lake County, California from 1988-1990, and as Principal of Windsor Middle School in the the Windsor Union School District in Sonoma County from 1990-1991. Dr. Field

was a teacher for five years at Fortuna Union High School (1983-1988) and for two years at Big Lagoon Elementary School (1981-1983), both in Humboldt County.

**Richard Parde, Business Manager:** Mr. Parde began his tenure as Business Manager for Bennett Valley Union School District in January, 1991. He received his B.A. in Economics from California State University, Chico, his B.S. in Business Administration - Finance also from California State University, Chico, and his A.A. in General Studies from Santa Rosa Junior College. Prior to coming to Bennett Valley Union School District, he served as Controller for Valley Dental Care in Stockton, California for four years, as well as running his own small business as a Accounting Software Consultant. Prior to that, he was Controller for Parde & Son, Inc., a small, family owned construction equipment company in Geyserville, California.

**District Growth**

The total A.D.A. for the 2010-11 fiscal year was 935 students and is expected to be 934 students for the 2011-12 fiscal year. The current student-teacher ratio in the District is 22:8. The following table reflects the A.D.A. and enrollment for the District for the last six fiscal years, and a projection for 2011-12:

**Enrollment and Average Daily Attendance  
Fiscal Years 2005-06 through 2011-12  
Bennett Valley Union School District**

<u>Fiscal Year</u>	<u>Enrollment</u>	<u>Average Daily Attendance</u>
2005-06	962	930
2006-07	941	919
2007-08	930	919
2008-09	940	909
2009-10	960	926
2010-11	981	935
2011-12 <sup>(1)</sup>	982	934

Note: All amounts are rounded to the nearest whole number.

<sup>(1)</sup> Projected.

Source: Bennett Valley Union School District.

**Labor Relations**

As of December 1, 2011, the District employed 53 full-time equivalent and part-time certificated employees and 50 classified, management and supervisory employees. These employees, except management and some part-time employees, are represented by the two bargaining units as noted below:

**BENNETT VALLEY UNION SCHOOL DISTRICT  
District Employees**

<u>Labor Organization</u>	<u>Number of Employees in Organization</u>	<u>Contract Expiration Date</u>
The Bennett Valley Teachers Association	53	June 30, 2011 <sup>(1)</sup>
The California Employees Association	50	June 30, 2011 <sup>(1)</sup>

<sup>(1)</sup> The District continues to work under the terms of the expired contract.

Source: Bennett Valley Union School District.

## Retirement Programs

**STRS.** All full-time certificated employees, as well as certain classified employees, are members of the State Teachers' Retirement System ("STRS"). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. The District is currently required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contribute 8% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 2.541% of teacher payroll.

The District's contributions to STRS for the fiscal years 2008-09, 2009-10 and 2010-11 were \$272,375, \$272,639, and \$269,305, respectively. The District has projected its STRS contribution for fiscal year 2011-12 to be \$288,857.

**PERS.** Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provision are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. The District is currently required to contribute to PERS at an actuarially determined rate, which is 10.923% of eligible salary expenditures for fiscal year 2011-12, while participants contribute 7% of their respective salaries.

The District's contribution to PERS is capped at 13.02% of gross expenditures for any given fiscal year. To the extent the District's contribution rate to PERS is less than 13.02%, the State will reduce the District's revenue limit for that year by the difference between the maximum contribution rate and the District's actual contribution rate. Alternatively, if the District's contribution rate is greater than 13.02%, the State is required to provide additional revenue limit allocations to the District to make up the difference.

The District's contributions to PERS for the fiscal years fiscal years 2008-09, 2009-10 and 2010-11 were \$86,537, \$86,566 and \$92,410, respectively. The District has projected its PERS contribution for fiscal year 2011-12 to be \$111,419.

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

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

**FUNDED STATUS**  
**STRS (Defined Benefit Program) and PERS**  
**As of a June 30, 2010 Valuation Date**  
**(Dollar Amounts in Millions) <sup>(1)</sup>**

<u>Plan</u>	<u>Accrued Liability</u>	Value of Trust <u>Assets</u>	Unfunded <u>Liability</u>
Public Employees Retirement Fund (PERS)	\$55,307	\$38,435 <sup>(2)</sup>	\$(16,872)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	196,315	140,291 <sup>(3)</sup>	(56,024)

<sup>(1)</sup> Amounts may not add due to rounding.

<sup>(2)</sup> Reflects market value of assets as of June 30, 2010.

<sup>(3)</sup> Reflects actuarial value of assets as of June 30, 2010.

*Source: CalPERS State & Schools Actuarial Valuation; CalSTRS Defined Benefit Program Actuarial Valuation.*

Unlike PERS, STRS contribution rates for participant employers, employees and the State are set by statute and do not currently vary from year-to-year based on actuarial valuations. In recent years, the combined employer, employee and State contributions to STRS have been significantly less than actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of STRS has increased significantly. This unfunded liability is expected to continue to increase in the absence of legislation requiring additional or increased contributions. The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make larger contributions to STRS in the future. The District can also provide no assurances that the District's required contributions to PERS will not increase in the future.

**Other Post-Employment Benefits**

The District provides post-retirement healthcare benefits to all employees who retire at age fifty-five with ten years of service. District contributions are limited to a maximum of \$6,000 per year based upon years of service and end at age 65. Benefits are discontinued for retirements after June 30, 2014 and for employees hired after the 2008-09 school year. These benefits are paid as the expense is incurred.

As of July 1, 2009, the District's most recent actuarial valuation date (the "Actuarial Study") with respect to its liability in connection with such post-employment health care benefits, the plan was unfunded. The Actuarial Study, dated as of July 1, 2009, determined that the actuarial accrued liability with respect to the District's Post-Employment Benefits is \$234,372, and that actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability of \$201,467. The Actuarial Study also concluded that the annual required contribution ("ARC") as of July 1, 2009, was \$22,915. The ARC is the annual amount that would be necessary to fund the OPEB in accordance with the Governmental Accounting Standards Board's Statements No. 43 and 45.

As of June 30, 2011, the District has a net OPEB Asset of \$27,316. For more information regarding the District's Other Post-Employment Benefits see "Appendix C – 2010-11 Audited Financial Statements of the District – Note 8" attached hereto.

## **Joint Ventures**

The District participates in three joint ventures under joint powers agreements (“JPAs”). The first is with the Redwood Empire Schools’ Insurance Group (“RESIG”) for property and liability, and workers’ compensation. The District also participates in the Self-Insured Schools of California (“SISC”) for medical, prescription drugs, behavioral health, dental, and vision coverage and West County Transportation Agency for pupil transportation. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for coverage for its members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of the their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

## **DISTRICT FINANCIAL MATTERS**

The District’s general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2011, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 2250 Mesquite Drive, Santa Rosa, California 95405. The audited financial statements for the fiscal year ended June 30, 2011 are included in Appendix C hereto.

For fiscal years ended June 30, 2003 and later, the District has implemented GASB Statements Nos. 34 and 35. Among the changes implemented under these revised accounting rules is a change in the financial reporting format. While historical total revenue and expenditures figures are comparably consistent to prior years, the breakdown of revenues and expenditures follows functional categories rather than object-oriented categories. The following table reflects the District’s general fund revenues, expenditures and changes in fund balance for fiscal years 2006-07 through 2010-11 under the revised reporting format.

## Comparative Financial Statements

The following table reflects the District's revenues, expenditures and fund balances for fiscal years 2006-07 through 2010-11:

### GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES Fiscal Years 2006-07 through 2010-11 Bennett Valley Union School District

	Audited Actuals 2006-07	Audited Actuals 2007-08	Audited Actuals 2008-09	Audited Actuals 2009-10	Audited Actuals 2010-11
<b>REVENUES:</b>					
Revenue Limit Sources:					
State Apportionment	\$1,735,461	\$1,758,576	\$1,611,240	\$1,095,268	\$1,502,220
Local Taxes	<u>3,223,435</u>	<u>3,286,944</u>	<u>3,334,782</u>	<u>3,342,422</u>	<u>3,221,811</u>
TOTAL REVENUE LIMIT SOURCES	4,958,896	5,045,520	4,946,022	4,437,690	4,724,031
Federal Revenue	247,808	257,758	539,628	376,809	370,090
State Revenue	1,364,889	1,062,520	1,028,912	1,051,838	1,072,128
Local Revenue	<u>664,811</u>	<u>641,605</u>	<u>633,032</u>	<u>668,497</u>	<u>617,512</u>
TOTAL REVENUES	7,236,404	7,007,403	7,147,594	6,534,834	6,783,761
<b>EXPENDITURES:</b>					
Instruction	4,997,981	5,134,468	4,985,545	4,852,760	5,005,255
Instructional Library and Technology	57,099	67,341	71,916	1,579	747
School Site Administration	310,304	333,229	358,955	363,017	357,179
Home-To-School Transportation	98,933	--	--	--	--
Food Services	--	--	--	--	--
Other Pupil Services	19,325	21,587	22,318	21,228	30,536
Data Processing Services	4,733	4,862	5,906	6,021	4,674
Other General Administration	551,530	612,518	619,136	629,826	632,305
Plant Services	594,207	654,893	582,970	504,330	495,030
Facilities Acquisition and Construction	53,805	597,739	--	--	8,400
Debt Service:					
Principal Retirement	--	--	--	--	--
Interest and Issuance Costs	--	--	--	8,679	50,403
Other Outgo	<u>28,047</u>	<u>77,897</u>	<u>55,373</u>	<u>56,060</u>	<u>76,497</u>
TOTAL EXPENDITURES	6,715,964	7,504,534	6,702,119	6,443,500	6,661,026
Excess of Revenues Over (Under) Expenditures	520,440	(497,131)	445,475	91,334	122,735
<b>OTHER FINANCING SOURCES/(USES):</b>					
Operating Transfers In	94,999	90,091	61,668	107,814	78,841
Operating Transfers Out	(351,599)	(25,720)	--	(20,121)	--
Other Financing Sources/(Uses)	--	--	--	--	--
TOTAL OTHER FINANCING SOURCES/(USES)	(256,600)	64,371	61,668	87,693	78,841
<b>NET CHANGE IN FUND BALANCES</b>	263,840	(432,760)	507,143	179,027	201,576
Fund Balance, July 1	<u>1,396,131</u>	<u>1,659,971</u>	<u>1,227,211</u>	<u>1,734,354</u>	<u>1,930,604<sup>(1)</sup></u>
Fund Balance, June 30	<u>\$1,659,971</u>	<u>\$1,227,211</u>	<u>\$1,734,354</u>	<u>\$1,913,381</u>	<u>\$2,132,180</u>

<sup>(1)</sup> As restated, see "Appendix C – 2010-11 Audited Financial Statements of the District – Note 17" attached hereto.  
Source: Bennett Valley Union School District

## ***Ad Valorem Property Taxation***

District property taxes are assessed and collected by the County at the same time and on the same rolls as special district property taxes. Assessed valuations are the same for both the District and the County's taxing purposes.

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. For assessment and collection purposes, 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 public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." A supplemental roll is developed when property changes hands or new construction is completed. Each county levies and collects all property taxes for property falling within that county's taxing boundaries.

Property taxes on the secured roll are due in two installments, November 1 and February 1 of the calendar year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment plus a \$10 cost on the second installment. Property on the secured roll with delinquent taxes is sold to the State on or about June 30 of the calendar year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a \$15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and is then subject to sale by the tax-collecting authority of the relevant county.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if they are not paid by August 31. In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien may be recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the assessee; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the assessee; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the assessee; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

## Assessed Valuations

The assessed valuation of property in the District is established by the tax assessing authority for the county in which such property is located, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the “full cash value” of the property, as defined in Article XIII A of the California Constitution. For a discussion of how properties currently are assessed, see “Constitutional And Statutory Provisions Affecting District Revenues And Appropriations” herein.

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

Property within the District has a total assessed valuation for fiscal year 2011-12 of \$1,438,217,497. Shown in the following table are the assessed valuations for the District for the period 2003-04 through 2011-12.

The following table represents the nine-year history of assessed valuations in the District:

**ASSESSED VALUATIONS**  
**Fiscal Year 2003-04 through 2011-12**  
**Bennett Valley Union School District**

	<u>Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2003-04	\$1,113,292,458	--	\$16,128,045	\$1,129,420,503
2004-05	1,194,559,562	--	17,062,837	1,211,622,399
2005-06	1,293,375,450	--	16,414,679	1,309,790,129
2006-07	1,396,046,855	--	17,849,263	1,413,896,118
2007-08	1,490,181,562	--	18,748,141	1,508,929,703
2008-09	1,523,969,237	--	21,457,283	1,545,426,520
2009-10	1,480,536,168	--	21,685,764	1,502,221,932
2010-11	1,441,887,515	--	16,392,955	1,458,280,470
2011-12	1,422,999,375	--	15,218,122	1,438,217,497

*Source: California Municipal Statistics, Inc.*

Economic and other factors beyond the District’s control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District. Any such reduction would result in a corresponding increase in the annual tax rate levied by the County to pay the debt service with respect to the Notes. See “The Notes – Security and Sources of Payment” herein.

## Appeals and Reductions of Assessed Valuations

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

application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See “Constitutional and Statutory Provisions Affecting District Revenues and Appropriations – Article XIII A of the California Constitution” herein.

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

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

### Assessed Valuation by Land Use

The following table shows the assessed valuation and parcels by land use in the District for fiscal year 2011-12.

**ASSESSED VALUATION AND PARCELS BY LAND USE**  
**Fiscal Year 2011-12**  
**Bennett Valley Union School District**

	2011-12 <u>Assessed Valuation</u> <sup>(1)</sup>	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
<b>Non-Residential:</b>				
Agricultural	\$100,506,579	7.06%	95	2.37%
Commercial	18,110,771	1.27	20	0.50
Industrial	10,539,083	0.74	2	0.05
Recreational	63,068	0.00	3	0.07
Government/Social/Institutional	1,691,038	0.12	8	0.20
Miscellaneous	<u>232,968</u>	<u>0.02</u>	<u>39</u>	<u>0.97</u>
Subtotal Non-Residential	\$131,143,507	9.22%	167	4.16%
<b>Residential:</b>				
Single Family Residence	\$687,680,137	48.33%	2,132	53.13%
Condominium/Townhouse	135,199,014	9.50	702	17.49
Rural Residential	363,327,482	25.53	680	16.94
2-4 Residential Units	30,224,448	2.12	78	1.94
5+ Residential Units/Apartments	59,619,510	4.19	17	0.42
Vacant Residential	<u>15,805,277</u>	<u>1.11</u>	<u>237</u>	<u>5.91</u>
Subtotal Residential	\$1,291,855,868	90.78%	3,846	95.84%
<b>Total</b>	<b>\$1,422,999,375</b>	<b>100.00%</b>	<b>4,013</b>	<b>100.00%</b>

<sup>(1)</sup> Local secured assessed valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

## **Tax Levies, Collections and Delinquencies**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed.

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty (i.e., interest) to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning December 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The County levies and collects all property taxes for property falling within its taxing boundaries. The County levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within the County's taxing boundaries.

### **Alternative Method of Tax Apportionment – Teeter Plan**

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County administering any penalties and interest ultimately collected as prescribed in the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The Teeter Plan is applicable to all secured tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections. As adopted by the County, the Teeter Plan includes Mello-Roos Community Facilities Districts and special assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

The *ad valorem* property tax to be levied to pay principal of, interest on and Maturity Value of the Bonds will be subject to the Teeter Plan, beginning in the first year of such levy in fiscal year 2011-12. The District will receive 100% of the *ad valorem* property tax levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences

on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

### Principal Taxpayers

The following table lists the 20 largest local secured taxpayers in the District in terms of their 2011-12 secured assessed valuations.

**20 LARGEST LOCAL SECURED TAXPAYERS**  
**Fiscal Year 2011-12 Assessed Valuations**  
**Bennett Valley Union School District**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2011-12 Assessed Valuation</u>	<u>% of Total</u> <sup>(1)</sup>
1.	Core Sonoma Ridge LLC	Apartments	\$23,398,800	1.64%
2.	Jackson Family Investments III LLC	Winery	14,842,278	1.04
3.	Barbara Banke and Jess Jackson Jr., Trust	Vineyards	13,075,102	0.92
4.	HIC Partnership	Apartments	10,467,245	0.74
5.	James and Dena Ratto	Residential	6,568,710	0.46
6.	Carrington & Codding	Shopping Center	6,007,670	0.42
7.	Simkalo Investments LLC	Residential	4,416,443	0.31
8.	Dyke Shaffer	Agricultural	4,365,160	0.31
9.	Michael J. Collins, Trust	Agricultural	4,200,000	0.30
10.	Russell A. and Colene R. Johnson, Trust	Residential	4,189,532	0.29
11.	Nahum Guzik, Trust	Residential	4,119,415	0.29
12.	Redwood Equities Investments LLC	Apartments	4,099,845	0.29
13.	Marc Daniel Stolman	Apartments	4,075,980	0.29
14.	Robert T. and Tina I. Yahng	Residential	4,013,446	0.28
15.	Joseph A. and Priscilla Vivio	Vineyards	3,962,032	0.28
16.	Ricky and Wendy Tigner	Vineyards	3,831,232	0.27
17.	Kirk H. and Patricia M. Veale	Residential	3,725,089	0.26
18.	Edwin J. and Gloria A. Mack	Vineyards	3,446,896	0.24
19.	Barbara A. and Edmund N. Pascoe, Trust	Vineyards	3,322,186	0.23
20.	Derek F. Covert and Mary C. Connick, Trust	Residential	<u>2,998,351</u>	<u>0.21</u>
			\$129,125,412	9.07%

<sup>(1)</sup> 2011-12 Local Secured Assessed Valuation: \$1,422,999,375.  
Source: California Municipal Statistics, Inc.

## Typical Tax Rates

The following table summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within the District during the period from fiscal year 2006-07 to fiscal year 2011-12.

**Summary of Ad Valorem Tax Rates  
Fiscal Years 2006-07 through 2011-12  
Typical Total Tax Rates (TRA 153-000 / 2011-12 AV: \$498,652,051)  
Bennett Valley Union School District**

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Sonoma Joint Community College District	.025000	.025000	.025000	.025000	.021000	.021000
Santa Rosa High School District	.054200	.053000	.049000	.049000	.049000	.057900
Bennett Valley Union School District	.007500	.007000	.007000	.007000	.007000	.029800
WS Dam/ Russian River Project	<u>.007000</u>	<u>.007000</u>	<u>.007000</u>	<u>.007000</u>	<u>.007000</u>	<u>.007000</u>
Total	1.093700%	1.092000%	1.088000%	1.088000%	1.084000%	1.115700

Source: California Municipal Statistics, Inc.

## DISTRICT DEBT STRUCTURE

### Long-Term Debt

**Long-Term Debt.** A schedule of changes in long-term debt 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>
Compensated Absences	\$70,394	\$108,634	\$70,394	\$108,634
General Obligation Bonds:				
Current Interest	--	5,360,000	--	5,360,000
Capital Appreciation	2,031,271	500,747	140,000	2,392,018
Unamortized Bond Premium	--	<u>119,200</u>	--	<u>119,200</u>
Totals	<u>\$2,101,665</u>	<u>\$6,088,581</u>	<u>\$210,394</u>	<u>\$7,979,852</u>

**General Obligation Bonds.** In 1996 the District issued \$1,499,900.70 of Bennett Valley Union School District (Sonoma County, California) General Obligation Bonds Election of 1995, Series 1996 (the "1996 Bonds"). On March 22, 2011, the District issued \$5,729,810.50 of Bennett Valley Union School District (Sonoma County, California) General Obligation Bonds Election of 2010, Series 2011 (the "Series 2011 Bonds").

The following table shows the combined debt service schedule with respect to the total outstanding general obligation debt of the District:

**TOTAL OUTSTANDING BONDED DEBT  
Bennett Valley Union School District**

Period Ending <u>August 1</u>	Election of 1995, <u>Series 1996</u>	Election of 2010 <u>Series 2011</u>	Total Annual <u>Debt Service</u>
2012	\$175,000.00	\$402,157.50	\$577,157.50
2013	200,000.00	344,250.00	544,250.00
2014	225,000.00	367,000.00	592,000.00
2015	250,000.00	314,000.00	564,000.00
2016	285,000.00	337,500.00	622,500.00
2017	320,000.00	359,500.00	679,500.00
2018	360,000.00	380,500.00	740,500.00
2019	405,000.00	374,250.00	779,250.00
2020	450,000.00	393,000.00	843,000.00
2021	--	410,500.00	410,500.00
2022	--	451,750.00	451,750.00
2023	--	465,500.00	465,500.00
2024	--	480,187.50	480,187.50
2025	--	490,750.00	490,750.00
2026	--	500,000.00	500,000.00
2027	--	532,125.00	532,125.00
2028	--	556,500.00	556,500.00
2029	--	579,450.00	579,450.00
2030	--	605,037.50	605,037.50
2031	--	628,000.00	628,000.00
2032	--	668,337.50	668,337.50
2033	--	500,000.00	500,000.00
2034	--	750,000.00	750,000.00
2035	--	<u>700,000.00</u>	<u>700,000.00</u>
Totals	<u>\$2,670,000.00</u>	<u>\$11,590,295.00</u>	<u>\$14,260,295.00</u>

*Source: Bennett Valley Union School District.*

**Statement of Direct and Overlapping Debt**

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

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

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
Statement of Direct and Overlapping Bonded Debt**

2011-12 Assessed Valuation: \$1,438,217,497

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u> <sup>(1)</sup>	<u>Debt 11/1/11</u>
Sonoma County Joint Community College District	2.418%	\$4,778,644
Santa Rosa High School District	6.165	8,008,027
<b>Bennett Valley Union School District</b>	<b>100.000</b>	<b>6,449,895</b> <sup>(2)</sup>
City of Santa Rosa Wastewater Improvement Bonds	5.282	<u>335,935</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$19,572,501</b>
Less: City of Santa Rosa Wastewater Improvement Bonds		<u>335,935</u>
<b>TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$19,236,566</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Sonoma County General Fund Obligations	2.445%	\$ 975,517
Sonoma County Pension Obligations	2.445	12,602,875
Sonoma County Office of Education Certificates of Participation	2.445	55,502
Sonoma County Joint Community College District General Fund Obligations	2.418	47,756
Santa Rosa High School District Certificates of Participation	6.165	377,052
City of Santa Rosa Certificates of Participation	5.277	1,453,022
City of Santa Rosa Pension Obligations	5.277	<u>2,215,021</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$17,726,745</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		 <b>\$37,299,246</b> <sup>(3)</sup>
<b>NET COMBINED DEBT</b>		<b>\$36,963,311</b>

(1) Based on 2010-11 ratios.

(2) Excludes issue to be sold.

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

Ratios to 2011-12 Assessed Valuation:

<b>Direct Debt (\$6,449,895)</b> .....	<b>0.45%</b>
Total Gross Direct and Overlapping Tax and Assessment Debt.....	1.36%
Total Net Direct and Overlapping Tax and Assessment Debt .....	1.34%
Gross Combined Total Debt .....	2.59%
Net Combined Total Debt.....	2.57%

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

Source: California Municipal Statistics, Inc.

## TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Notes is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Notes is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Notes may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

The difference between the issue price of a Note (the first price at which a substantial amount of the Notes of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Note constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Note Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Note Owner will increase the Note Owner's basis in the Note. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Note is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Notes is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Notes to assure that interest (and original issue discount) on the Notes will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The District has covenanted to comply with all such requirements.

The amount by which a Note Owner's original basis for determining loss on sale or exchange in the applicable Note (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Note premium, which must be amortized under Section 171 of the Code; such amortizable Note premium reduces the Note Owner's basis in the applicable Note (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Note premium may result in a Note Owner realizing a taxable gain when a Note is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Note to the Owner. Purchasers of the Notes should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Note premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Notes will be selected for audit by the IRS. It is also possible that the market value of the Notes might be affected as a result of such an audit of the Notes (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Notes to the extent that it adversely affects the exclusion from gross income of interest on the Notes or their market value.

It is possible that subsequent to the issuance of the Notes there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Notes or the market value of the Notes. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the Notes. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Notes. No assurance can be given that subsequent to the issuance of the Notes such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the Notes, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Notes.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Notes permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Notes for federal income tax purposes with respect to any Note if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Notes is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Notes and the accrual or receipt of interest (and original issue discount) with respect to the Notes may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Notes, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Notes.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix B.

## **CERTAIN LEGAL MATTERS**

### **Legal Opinion**

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, will render an opinion with respect to the Notes substantially in the form attached hereto as Appendix B. Copies of such approving opinion will be available at the time of delivery of the Notes. The payment of fees of bond counsel is contingent upon the closing of the Notes transaction.

### **Continuing Disclosure**

The District has covenanted for the benefit of Owners and Beneficial Owners of the Notes to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (the District's fiscal year ends on June 30), commencing with the report for the 2011-12 fiscal year and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be

contained in the notice of material events is set forth in “Appendix D - Form of Continuing Disclosure Certificate” hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5)(i)(C) promulgated under the Securities Exchange Act of 1934, as amended. The District has, in the past, failed to file certain portions of its required annual reports in a timely manner as required by its prior continuing disclosure obligations. The District has since filed all such reports, and is currently in compliance with all of its existing continuing disclosure obligations.

### **Information Reporting Requirements**

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (“TIPRA”). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date of this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

### **Financial Statements**

The financial statements with supplemental information for the year ended June 30, 2011, the independent auditor’s report of the District, and the related statements of activities and of cash flows for the year then ended, and the report dated December 5, 2011 of Stephen Roatch Accountancy Corporation (the “Auditor”), are included in this Official Statement as Appendix C. In connection with the inclusion of excerpts from the financial statements and the report of the Auditor thereon in Appendix C to this Official Statement, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

### **Absence of Material Litigation**

At the time of delivery of and payment for the Notes, the District will certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the District threatened, against the District in any material respect affecting the existence of the District or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Notes.

### **RATINGS**

The Notes have been given a rating of “MIG-1” by Moody’s Investors Service (“Moody’s”). Moody’s has also affirmed the District long-term general obligation bond rating of “Aa3.” The ratings reflect only the view of Moody’s, and any explanation of the significance of such ratings should be obtained from the rating agency at the following address: Moody’s Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, NY 10007. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of the rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Notes.



## APPENDIX A

### GENERAL AND ECONOMIC DATA FOR THE CITY OF SANTA ROSA AND THE COUNTY OF SONOMA

*The following information concerning the City of Santa Rosa and Sonoma County is included only for the purpose of supplying general information regarding the community. The Notes are not a debt of the City of Santa Rosa nor Sonoma County.*

#### **General**

***City of Santa Rosa.*** The City of Santa Rosa (“Santa Rosa”) is located in the central portion of Sonoma County, covers an area of about 35 square miles. The City is centered at the crossroads of U.S. Highway 101 and State Route 12.

Incorporated in 1868, the City became a charter city in 1923. The City operates under a council-manager form of government, with a City Council comprised of five members elected at large to serve overlapping four-year terms. The City Council, which acts as the city’s legislative and policy-making body, also selects the City Manager. As the City’s chief administrator, the City Manager is responsible for implementing the policies established by the City Council.

***County of Sonoma.*** The County of Sonoma (“Sonoma”) is the northernmost of the nine counties which constitute the greater metropolitan San Francisco Bay Area. Sonoma encompasses 1,598 square miles and is bordered on the south by Marin County and San Pablo Bay (a branch of San Francisco Bay), on the north by Mendocino County, on the east by Lake and Napa counties, and on the west by the Pacific Ocean.

Sonoma is renowned for its agricultural products and for its natural beauty. Wine and orchard crops account for the largest share of agricultural production in the County. Sonoma’s Pacific beaches, Russian River, and redwood forests attract visitors from throughout the world. Several electronics manufacturers are located in Sonoma.

Sonoma is a general law county governed by a five-member Board of Supervisors with the county seat located at the City of Santa Rosa.

## Population

The following table shows the population in the City of Santa Rosa, the County of Sonoma and the State of California for the years 2000 through 2011:

### POPULATION City of Santa Rosa, County of Sonoma, State of California 2000-2011

<u>Year</u>	<u>City of Santa Rosa</u>	<u>County of Sonoma</u>	<u>State of California</u>
2000	147,595	458,614	33,873,086
2001	149,691	462,958	34,256,789
2002	152,461	465,726	34,725,516
2003	154,855	467,139	35,163,609
2004	156,245	469,103	35,570,847
2005	157,175	469,734	35,869,173
2006	158,365	469,751	36,116,202
2007	159,716	471,469	36,399,676
2008	162,657	474,819	36,704,375
2009	165,405	478,622	36,966,713
2010	167,522	482,961	37,223,900
2011	168,856	487,125	37,510,766

*Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2000-2010, with 2010 Benchmark and Sacramento, California, May 2010 and State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2010 and 2011. Sacramento, California, May 2011.*

## Employment and Industry

The labor force and distribution of employment in the Santa Rosa-Petaluma Metropolitan Statistical Area (the "MSA") is presented in the following table:

### CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Santa Rosa-Petaluma MSA 2006-2010

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Civilian Labor Force	255,500	258,900	261,200	258,100	254,200
Employment	245,300	247,700	246,300	233,000	227,600
Unemployment	10,200	11,200	14,900	25,100	26,600
Unemployment Rate	4.0%	4.3%	5.7%	9.7%	10.5%
Wage and Salary Employment					
Total All Industries	194,900	196,200	192,000	178,300	174,100
Agricultural	5,700	5,800	5,800	5,800	5,600
Non-Agricultural					
Construction	14,700	14,400	12,800	9,800	8,900
Manufacturing	22,900	22,000	22,000	20,200	19,700
Trade, Transportation and Utilities	35,500	36,300	35,100	32,100	31,600
Wholesale Trade	7,500	7,800	7,700	6,700	6,600
Information	3,200	3,000	2,800	2,600	2,500
Financial Activities	9,700	9,300	8,500	7,700	7,600
Professional and Business Services	22,100	23,100	22,900	19,700	21,300
Government	30,700	31,100	30,400	30,200	26,700

Source: *State of California Employment Development Department*

## Major Employers

The largest employers in the City and the County are shown in the following tables:

### MAJOR EMPLOYERS City of Santa Rosa 2010

<u>Employer</u>	<u>Employees</u>
County of Sonoma	5,260
Kaiser Permanente	2,209
Santa Rosa Junior College	2,019
St. Joseph Health System	1,818
Santa Rosa City Schools	1,740
City of Santa Rosa	1,270
Medtronic Cardio Vascular	960
Sutter Medical Center of Santa Rosa	857
Amy's Kitchen	850
Agilent Technologies	817

*Source: City of Santa Rosa.*

### MAJOR EMPLOYERS County of Sonoma 2010

<u>Employer</u>	<u>Employees</u>
Kaiser Foundation Hospital	2,400
St. Joseph Health System	1,781
Agilent Technologies	1,350
Medtronic Cardio Vascular	1,200
Sutter Medical Center of Santa Rosa	1,097
Safeway, Inc.	1,082
Amy's Kitchen	900
River Rock Casino	660
Wal-Mart Stores, Inc.	650
Kendall-Jackson Wine Estate	640
AT&T	597
Mary's Pizza Shack	575
Washington Mutual	560
Lucky	552
Pacific, Gas & Electric Company	500
Wells Fargo & Company	492
State Farm Insurance Group	475
Hansel Auto Group	472
JDS Uniphase Corporation	433
Korbel	426
Exchange Bank	415
The Home Depot U.S.A., Inc.	392
Petaluma Acquisitions	375
G&G Supermarket	350

*Source: North Bay Business Journal Book of Lists, Sonoma County, February 2010.*

## Personal Income

The following table summarizes per capita personal income for the Santa Rosa-Petaluma MSA, the State of California and the United States for 1999 to 2009.

### PER CAPITAL PERSONAL INCOME Santa Rosa-Petaluma MSA, State of California, and United States of America 1999-2009

Year	Santa Rosa- Petaluma MSA	% Annual Change	State of California	% Annual Change	United States of America	% Annual Change
1999	\$33,401	--	\$30,679	--	\$28,333	--
2000	37,694	12.0%	33,398	8.9%	30,318	7.0%
2001	37,766	0.2	33,890	1.5	31,145	2.7
2002	37,964	0.5	34,045	0.5	31,462	1.0
2003	38,779	2.2	34,977	2.7	32,271	2.6
2004	40,400	4.2	36,904	5.5	33,881	5.0
2005	42,345	4.8	38,767	5.1	35,424	4.6
2006	45,960	8.5	41,567	7.2	37,698	6.4
2007	47,929	4.3	43,402	4.4	39,392	4.5
2008	47,755	-0.4	43,852	1.0	40,166	2.0
2009	not available	n/a	42,325	(3.7)	39,138	(2.6)

Note: Per capita personal income was computed using Census Bureau midyear population estimates. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Building Activity

The following chart summarizes building activity valuations for the City of Santa Rosa and the County of Sonoma for the period from 2006 through 2010.

### BUILDING PERMIT VALUATIONS AND PERMITS ISSUED City of Santa Rosa 2006-2010

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Valuation (In \$000s)					
Residential	\$163,681	\$157,576	\$47,140	\$29,073	\$44,520
Nonresidential	<u>72,454</u>	<u>69,214</u>	<u>66,892</u>	<u>22,253</u>	<u>44,016</u>
Total Valuation	\$236,135	\$226,790	\$114,032	\$51,326	\$88,536
New Dwelling Units (#)					
Single-Family	45	367	152	94	86
Multi-Family	<u>0</u>	<u>495</u>	<u>24</u>	<u>0</u>	<u>138</u>
Total	45	862	176	94	224

Note: Totals may not add to sums due to rounding.

Source: Construction Industry Research Board.

**BUILDING PERMIT VALUATIONS AND PERMITS ISSUED  
County of Sonoma  
2006-2010**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Valuation (In \$000s)					
Residential	\$486,518	\$368,707	\$209,410	\$144,097	\$142,778
Nonresidential	<u>227,775</u>	<u>217,326</u>	<u>180,381</u>	<u>68,579</u>	<u>90,035</u>
Total Valuation	\$714,293	\$586,033	\$389,791	\$212,676	\$232,813
New Dwelling Units (#)					
Single-Family	1,361	904	546	359	280
Multi-Family	<u>601</u>	<u>622</u>	<u>45</u>	<u>71</u>	<u>190</u>
Total	1,962	1,526	591	430	470

Note: Totals may not add to sums due to rounding.  
Source: Construction Industry Research Board.

**Taxable Sales**

A summary of historic taxable sales within the City of Santa Rosa and the County of Sonoma for years 2006 through 2010 are shown in the following tables.

**TAXABLE SALES  
City of Santa Rosa  
2006-2010  
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2006	2,138	\$2,478,832	5,092	\$2,995,739
2007	2,067	\$2,429,588	4,995	\$2,945,933
2008	2,089	\$2,216,633	4,971	\$2,705,824
2009	2,928	\$1,944,429	4,596	\$2,326,477
2010 <sup>(1)</sup>	3,073	\$1,444,774	4,778	\$1,741,898

<sup>(1)</sup> Figures are for first three quarters of 2010.  
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**TAXABLE SALES  
County of Sonoma  
2006-2010  
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2006	6,532	\$5,500,588	17,612	\$7,894,595
2007	6,352	\$5,404,597	17,638	\$7,877,195
2008	6,581	\$5,009,164	17,764	\$7,639,109
2009	10,645	\$4,413,001	16,810	\$6,263,829
2010 <sup>(1)</sup>	10,997	\$3,331,691	17,303	\$4,744,863

<sup>(1)</sup> Figures are for first three quarters of 2010.  
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

## APPENDIX B

### PROPOSED FORM OF OPINION OF BOND COUNSEL

*Upon issuance and delivery of the Notes, Stradling Yocca Carlson & Rauth, Bond Counsel, proposes to render its final approving opinion with respect to the Notes substantially in the following form.*

February 1, 2012

Board of Trustees  
Bennett Valley Union School District

Members of the Board of Trustees:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of \$3,903,461 Bennett Valley Union School District 2012 General Obligation Bond Anticipation Notes (the "Notes"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination as bond counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Notes pursuant to Title 1, Division 1, Part 10, Chapter 1, Article 3 of the Education Code of the State of California (comprising Sections 15150 *et seq.*), and pursuant to a resolution adopted by the Board of Trustees of the Bennett Valley Union School District (the "District") on November 9, 2011 (the "Resolution").
2. The Notes constitute valid and binding obligations of the District, payable from proceeds of the sale of a portion of certain general obligation bonds (the "Bonds") authorized at a duly called election held in the District on November 2, 2010 and thereafter canvassed pursuant to law, or from other funds of the District lawfully available for the purpose of repaying the Notes, including State grants. Interest on the Notes shall also be payable from the *ad valorem* tax lawfully levied to pay principal of and interest on the Bonds.
3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be further noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.
4. Interest on the Notes is exempt from State of California personal income tax.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Notes permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to the Notes if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Notes.

The opinions expressed herein as to the exclusion from gross income of interest on the Notes are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Notes to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the Notes there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Notes or the market value of the Notes. No assurance can be given that subsequent to the issuance of the Notes such changes or interpretations will not occur.

The rights of the owners of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' 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.

Respectfully submitted,

Stradling Yocca Carlson & Rauth

**APPENDIX C**

**2010-11 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**

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**BENNETT VALLEY UNION SCHOOL DISTRICT  
COUNTY OF SONOMA  
SANTA ROSA, CALIFORNIA**

**AUDIT REPORT**

**JUNE 30, 2011**

BENNETT VALLEY UNION SCHOOL DISTRICT

JUNE 30, 2011

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BENNETT VALLEY UNION SCHOOL DISTRICT

JUNE 30, 2011

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## FINANCIAL SECTION

**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Bennett Valley Union School District  
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bennett Valley Union School District, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Bennett Valley Union School 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 the 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.

The financial statements referred to above include only the primary government of Bennett Valley Union School District, which consists of all funds that comprise the District's legal entity. The financial statements do not include financial data of the various exempt organizations that qualify as legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the District's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Bennett Valley Union School District, as of June 30, 2011, and the respective changes in its financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Bennett Valley Union School District, as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, on our consideration of Bennett Valley Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's discussion and analysis on pages 3 through 13, the budgetary comparison information on page 43, and the schedule of funding progress on page 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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 Bennett Valley Union School District's basic financial statements. The combining fund financial statements, supplementary schedules listed in the table of contents, and the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 5, 2011

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

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This section of Bennett Valley Union School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 and 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 19, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

**FINANCIAL HIGHLIGHTS**

- The District's financial status declined slightly during the course of the year, as total net assets decreased 4.1%.
- On the Statement of Activities, total current year expenses and special item losses exceeded total current year revenues by \$264,875.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balance, total current year revenues and other financing sources exceeded total current year expenditures and other financing uses by \$5,518,591.
- Capital assets, net of depreciation, decreased \$71,841 due to the current year addition of \$372,075 of capital improvements, the disposition of capital assets with a book value of \$89,216, and the current year recognition of \$354,700 of depreciation expense.
- Total long-term liabilities increased \$5,878,187, due primarily to the current year issuance of \$5,729,811 of general obligation bonds.
- The District's P-2 ADA increased from 920 ADA in fiscal year 2009-10, up to 935 ADA in fiscal year 2010-11, an increase of 1.6%.
- During fiscal year 2010-11, the District's General Fund produced an operating surplus of \$201,576, and recognized a \$266,785 increase in its available reserves.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 4% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2010-11, General Fund expenditures and other financing uses totaled \$6,661,026. At June 30, 2011, the District has available reserves of \$2,088,946 in the General Fund, which represents a reserve of 31.4%.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

---

**THE FINANCIAL REPORT**

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and management's discussion and analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
  - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
  - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
  - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

**Reporting the District as a Whole**

The District as a whole is reported in the Government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net assets of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

---

**THE FINANCIAL REPORT (CONCLUDED)**

**Reporting the District as a Whole (Concluded)**

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

*Governmental Activities:*

The basic services provided by the District, such as regular and special education, administration, and transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of local revenues and state and federal programs.

*Business-type Activities:*

The District does not provide any services that should be included in this category.

**Reporting the District's Most Significant Funds**

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

*Governmental Funds:*

The major governmental funds of Bennett Valley Union School District are the General Fund and Building Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

*Proprietary Funds:*

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District has no funds of this type.

*Fiduciary Funds:*

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate fiduciary statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

GOVERNMENTAL ACTIVITIES

The District's net assets decreased from \$6,397,513 at June 30, 2010, down to \$6,132,638 at June 30, 2011, a decrease of 4.1%.

<b><u>Comparative Statement of Net Assets</u></b>		
	Governmental Activities	
	2010	2011
<b><u>Assets</u></b>		
Deposits and Investments	\$ 2,113,726	\$ 7,582,507
Receivables	779,656	1,121,784
OPEB Asset	13,018	27,316
Unamortized Bond Issuance Costs	0	225,684
Capital Assets, net	5,951,611	5,879,770
Total Assets	8,858,011	14,837,061
<b><u>Liabilities</u></b>		
Current	568,531	987,402
Long-term	1,891,967	7,717,021
Total Liabilities	2,460,498	8,704,423
<b><u>Net Assets</u></b>		
Invested in Capital Assets		
- Net of Related Debt	5,299,908	4,598,757
Restricted for Capital Projects	93	187,612
Restricted for Debt Service	(879,417)	(843,699)
Restricted for Educational Programs	103,443	38,234
Restricted for Other Purposes *	18,018	32,316
Unrestricted *	1,855,468	2,119,418
Total Net Assets	\$ 6,397,513	\$ 6,132,638
<i>Table includes financial data of the combined governmental funds</i>		
<i>* Prior year balances have been adjusted to ensure comparability between fiscal years.</i>		

The deficit balance presented above for Restricted for Debt Service represents the difference between the obligation for accumulated accreted interest on the District's outstanding capital appreciation bonds and the amount available in the Bond Interest and Redemption Fund. This deficit will be eliminated by future property tax collections.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year expenses and special item loss exceeded total current year revenues by \$264,875.

<b><u>Comparative Statement of Changes in Net Assets</u></b>		
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2011</u>
<b><u>Program Revenues</u></b>		
Charges for Services	\$ 103,616	\$ 87,283
Operating Grants & Contributions	854,970	788,922
Capital Grants & Contributions	28	0
<b><u>General Revenues</u></b>		
Taxes Levied	3,449,502	3,326,055
Federal & State Aid	2,091,399	2,533,087
Interest & Investment Earnings	19,096	21,487
Miscellaneous	391,179	394,447
<b>Total Revenues</b>	<b><u>6,909,790</u></b>	<b><u>7,151,281</u></b>
<b><u>Expenses</u></b>		
Instruction	5,116,334	5,255,489
Instruction-Related Services	389,988	377,750
Pupil Services	175,206	178,635
General Administration	669,246	711,007
Plant Services	538,562	524,005
Interest on Long-Term Debt	124,515	203,431
Other Outgo	69,018	82,102
<b>Total Expenses</b>	<b><u>7,082,869</u></b>	<b><u>7,332,419</u></b>
<b>Changes in Net Assets</b>		
Before Special Item	(173,079)	(181,138)
Special Item Loss	0	(83,737)
<b>Change in Net Assets</b>	<b><u>\$ (173,079)</u></b>	<b><u>\$ (264,875)</u></b>

*Table includes financial data of the combined governmental funds*

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

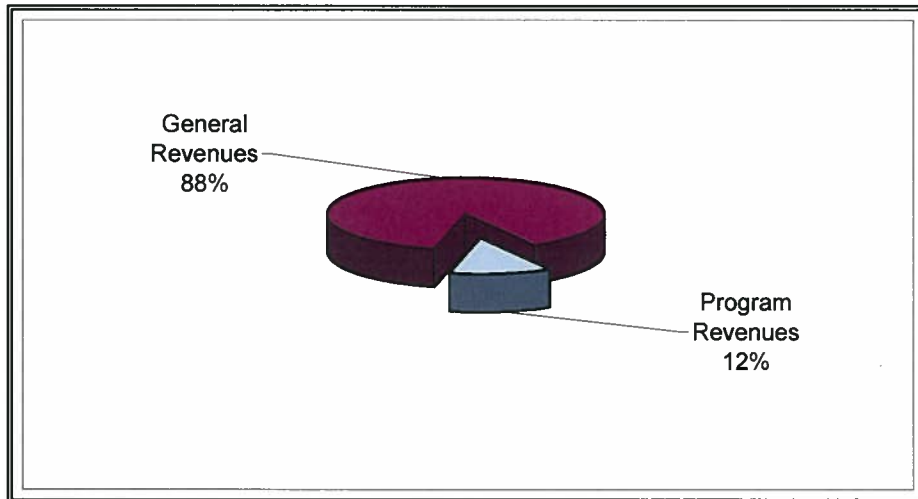
**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2010	2011	2010	2011
	Instruction	\$ 5,116,334	\$ 5,255,489	\$ 4,341,013
Instruction-Related Services	389,988	377,750	389,988	377,750
Pupil Services	175,206	178,635	(3,971)	4,121
General Administration	669,246	711,007	669,246	711,007
Plant Services	538,562	524,005	538,562	524,005
Interest on Long-Term Debt	124,515	203,431	124,515	203,431
Other Outgo	69,018	82,102	64,902	79,024
<b>Totals</b>	<b>\$ 7,082,869</b>	<b>\$ 7,332,419</b>	<b>\$ 6,124,255</b>	<b>\$ 6,456,214</b>

*Table includes financial data of the combined governmental funds*

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$6,456,214 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed. Further detail is available on page 15 of this report.



Program revenues financed 12% of the total cost of providing the services listed above, while the remaining 88% was financed by the general revenues of the District.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

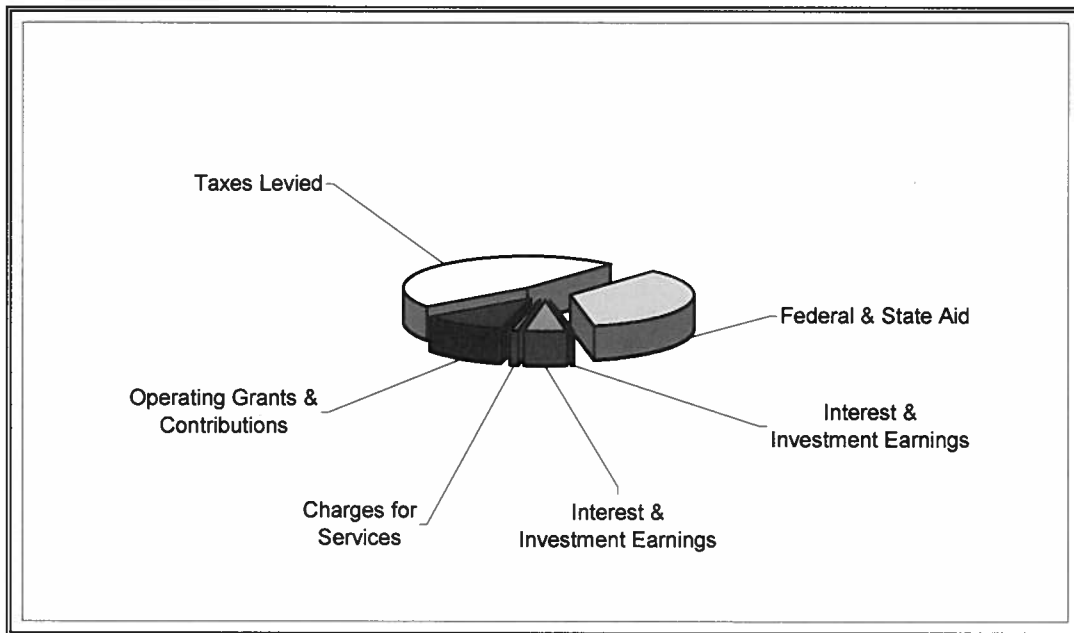
(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

<b><u>Summary of Revenues For Governmental Functions</u></b>				
	FYE 2010 Amount	Percent of Total	FYE 2011 Amount	Percent of Total
<b><u>Program Revenues</u></b>				
Charges for Services	\$ 103,616	1.50%	\$ 87,283	1.22%
Operating Grants & Contributions	854,970	12.37%	788,922	11.03%
Capital Grants & Contributions	28	0.00%	0	0.00%
<b><u>General Revenues</u></b>				
Taxes Levied	3,449,502	49.92%	3,326,055	46.51%
Federal & State Aid	2,091,399	30.27%	2,533,087	35.42%
Interest & Investment Earnings	19,096	0.28%	21,487	0.30%
Miscellaneous	391,179	5.66%	394,447	5.52%
<b>Total Revenues</b>	<b>\$ 6,909,790</b>	<b>100.00%</b>	<b>\$ 7,151,281</b>	<b>100.00%</b>

*Table includes financial data of the combined governmental funds*



**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

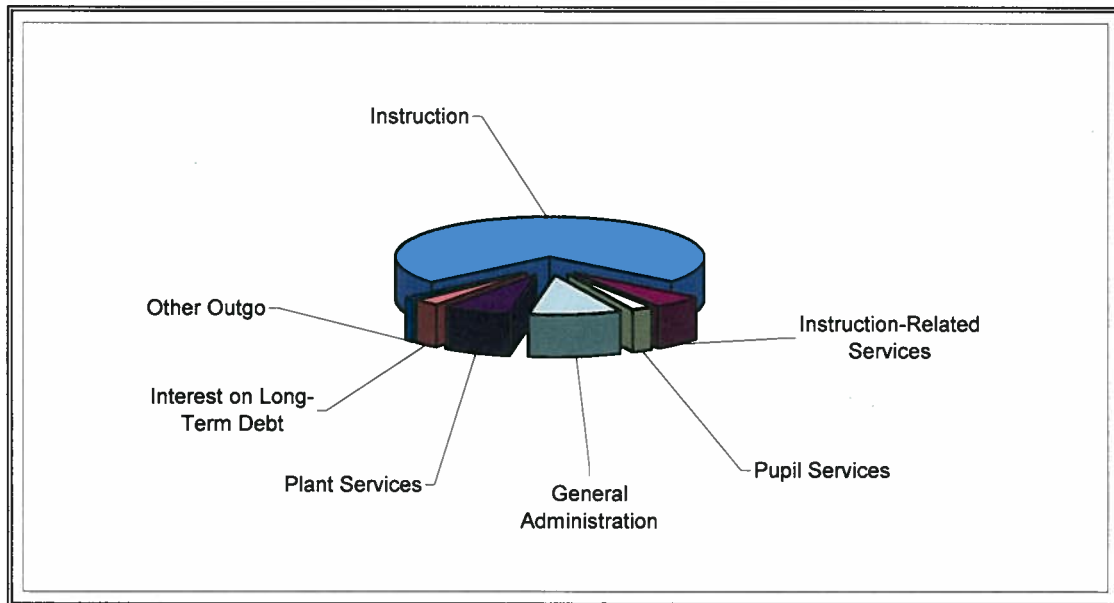
**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

**Schedule of Expenses For Governmental Functions**

	<u>FYE 2010 Amount</u>	<u>Percent of Total</u>	<u>FYE 2011 Amount</u>	<u>Percent of Total</u>
<b><u>Expenses</u></b>				
Instruction	\$ 5,116,334	72.24%	\$ 5,255,489	71.67%
Instruction-Related Services	389,988	5.51%	377,750	5.15%
Pupil Services	175,206	2.47%	178,635	2.44%
General Administration	669,246	9.45%	711,007	9.70%
Plant Services	538,562	7.60%	524,005	7.15%
Interest on Long-Term Debt	124,515	1.76%	203,431	2.77%
Other Outgo	69,018	0.97%	82,102	1.12%
<b>Total Expenses</b>	<b>\$ 7,082,869</b>	<b>100.00%</b>	<b>\$ 7,332,419</b>	<b>100.00%</b>

*Table includes financial data of the combined governmental funds*



**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

<b><u>Comparative Schedule of Capital Assets</u></b>		
	Governmental Activities	
	2010	2011
Land	\$ 270,428	\$ 270,428
Buildings and Improvements	12,424,005	12,206,405
Furniture and Equipment	53,805	53,805
Work-in-Progress	0	372,075
Subtotals	12,748,238	12,902,713
Less: Accumulated Depreciation	(6,796,627)	(7,022,943)
Capital Assets, net	<u>\$ 5,951,611</u>	<u>\$ 5,879,770</u>

Capital assets, net of depreciation, decreased \$71,841 due to the current year addition of \$372,075 of capital improvements, the disposition of capital assets with a book value of \$89,216, and the current year recognition of \$354,700 of depreciation expense.

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	Governmental Activities	
	2010	2011
Compensated Absences	\$ 70,394	\$ 108,634
General Obligation Bonds	2,031,271	7,752,018
Unamortized Bond Premium	0	119,200
Totals	<u>\$ 2,101,665</u>	<u>\$ 7,979,852</u>

Total long-term liabilities increased \$5,878,187, due primarily to the current year issuance of \$5,729,811 of general obligation bonds.

The general obligation bonds are financed by the local taxpayers and represent 97% of the District's total long-term liabilities. The District has satisfied all debt service requirements on its bonded debt and continues to maintain an excellent credit rating on its debt issues.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)**

**GOVERNMENTAL ACTIVITIES (CONCLUDED)**

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**FINANCIAL ANALYSIS OF DISTRICT'S FUNDS**

<b><u>Comparative Schedule of Fund Balances</u></b>			
	Fund Balances * June 30, 2010	Fund Balances June 30, 2011	Increase (Decrease)
General	\$ 1,930,604	\$ 2,132,180	\$ 201,576
Building	0	5,195,224	5,195,224
Cafeteria	103,701	139,106	35,405
Bond Interest and Redemption	313,021	399,018	85,997
Capital Facilities	93	97	4
Foundation	187,130	187,515	385
Totals	\$ 2,534,549	\$ 8,053,140	\$ 5,518,591

*\* Prior year balances have been adjusted to ensure comparability with the current year GASB Statement No. 54 financial statement presentation.*

The fund balance of the General Fund increased \$201,576, while the combined fund balances of all other District funds increased \$5,317,015. The significant increase in the fund balance of the Building Fund was due primarily to the current year issuance of \$5,729,811 of general obligation bonds, the proceeds of which remained largely unspent as of June 30, 2011.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The budget adjustments made during the year fell into the following categories:

- Budget revisions to the adopted budget required after approval of the State budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

**BENNETT VALLEY UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

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**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

- Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California. The District anticipates no change of ADA during fiscal year 2011-12.
- The District will be actively involved in construction activities throughout fiscal year 2011-12 as the Measure J bond proceeds are used finance the repair, construction, and replacement of school classrooms and facilities.
- Due to the unprecedented nature of the current State and Federal fiscal crisis, the amount of funding that will be available to the District remains uncertain. As a result, management will need to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Business Manager, Bennett Valley Union School District, 2250 Mesquite Drive, Santa Rosa, CA 95405.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Deposits and Investments (Note 2)	\$ 7,582,507
Receivables (Note 4)	1,121,784
OPEB Asset (Note 1J)	27,316
Unamortized Bond Issuance Costs	225,684
Capital Assets: (Note 6)	
Land	270,428
Buildings and Improvements	12,206,405
Furniture and Equipment	53,805
Work-in-Progress	372,075
Less: Accumulated Depreciation	(7,022,943)
Total Assets	14,837,061
<b><u>Liabilities</u></b>	
Accounts Payable and Other Current Liabilities	543,724
Deferred Revenue (Note 1J)	180,847
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences	108,634
General Obligation Bonds	
Capital Appreciation	149,248
Unamortized Bond Premium	4,949
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 7)	
Current Interest	5,360,000
Capital Appreciation	2,242,770
Unamortized Bond Premium	114,251
Total Liabilities	8,704,423
<b><u>Net Assets</u></b>	
Investment in Capital Assets, Net of Related Debt	4,598,757
Restricted:	
For Capital Projects	187,612
For Debt Service	(843,699)
For Educational Programs	38,234
For Other Purposes	32,316
Unrestricted	2,119,418
Total Net Assets	\$ 6,132,638

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**BENNETT VALLEY UNION SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b><u>Governmental Activities</u></b>					
Instruction	\$ 5,255,489	\$ 187	\$ 698,426		\$ (4,556,876)
Instruction-Related Services:					
Instructional Library and Technology	1,640				(1,640)
School Site Administration	376,110				(376,110)
Pupil Services:					
Food Services	146,481	87,096	87,418		28,033
Other Pupil Services	32,154				(32,154)
General Administration:					
Data Processing Services	4,922				(4,922)
Other General Administration	706,085				(706,085)
Plant Services	524,005				(524,005)
Interest on Long-Term Debt	203,431				(203,431)
Other Outgo	82,102		3,078		(79,024)
Total Governmental Activities	<u>\$ 7,332,419</u>	<u>\$ 87,283</u>	<u>\$ 788,922</u>	<u>\$ 0</u>	<u>(6,456,214)</u>
<b><u>General Revenues</u></b>					
Taxes Levied for General Purposes					3,221,812
Taxes Levied for Debt Service					104,243
Federal and State Aid - Unrestricted					2,533,087
Interest and Investment Earnings					21,487
Miscellaneous					394,447
Total General Revenues					<u>6,275,076</u>
<b><u>Special Item</u></b>					
Loss from Disposition of Portable Classrooms					<u>(83,737)</u>
Change in Net Assets					(264,875)
Net Assets - July 1, 2010					6,397,513
Net Assets - June 30, 2011					<u>\$ 6,132,638</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**BENNETT VALLEY UNION SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>General</u>	<u>Building</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Deposits and Investments (Note 2)	\$ 1,552,348	\$ 5,332,631	\$ 697,528	\$ 7,582,507
Receivables (Note 4)	1,093,070		28,714	1,121,784
Due from Other Funds (Note 5)	62,777			62,777
<b>Total Assets</b>	<b><u>\$ 2,708,195</u></b>	<b><u>\$ 5,332,631</u></b>	<b><u>\$ 726,242</u></b>	<b><u>\$ 8,767,068</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 395,168	\$ 74,630	\$ 506	\$ 470,304
Due to Other Funds (Note 5)		62,777		62,777
Deferred Revenue (Note 1J)	180,847			180,847
<b>Total Liabilities</b>	<b><u>576,015</u></b>	<b><u>137,407</u></b>	<b><u>506</u></b>	<b><u>713,928</u></b>
Fund Balances: (Note 10)				
Nonspendable	5,000			5,000
Restricted	38,234	5,195,224	586,630	5,820,088
Assigned			139,106	139,106
Unassigned	2,088,946			2,088,946
<b>Total Fund Balances</b>	<b><u>2,132,180</u></b>	<b><u>5,195,224</u></b>	<b><u>725,736</u></b>	<b><u>8,053,140</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 2,708,195</u></b>	<b><u>\$ 5,332,631</u></b>	<b><u>\$ 726,242</u></b>	<b><u>\$ 8,767,068</u></b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**BENNETT VALLEY UNION SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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**Total Fund Balances - Governmental Funds** \$ 8,053,140

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Contributions to OPEB plans that are in excess of the actuarial determined annual OPEB expense, result in OPEB Assets that are not financial resources and therefore are not reported as assets in governmental funds. The amount of OPEB Assets recognized at year-end was: 27,316

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The amount that capital assets exceed accumulated depreciation was:

Capital Assets	\$ 12,902,713	
Accumulated Depreciation	(7,022,943)	
		5,879,770

Unamortized debt issuance costs: In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are amortized over the life of the debt. Unamortized debt issuance costs at the end of the period was: 225,684

Unamortized bond premiums: In governmental funds, bond premiums are recognized as revenues in the period they are received. In the government-wide statements, premiums are amortized over the life of the debt. Unamortized premiums at year-end was: (119,200)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences	108,634	
General Obligation Bonds - Current Interest	5,360,000	
General Obligation Bonds - Capital Appreciation	2,392,018	
		(7,860,652)

Unmatured interest on long-term debt: In governmental funds, interest 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. The additional liability for unamatured interest owed at the end of the period was: (73,420)

**Total Net Assets - Governmental Activities** \$ 6,132,638

**BENNETT VALLEY UNION SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>			<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>District</u>	<u>Component Unit</u>	<u>Building</u>		
<b><u>Revenues</u></b>					
Revenue Limit Sources:					
State Apportionment	\$ 1,502,220				\$ 1,502,220
Local Taxes	3,221,811				3,221,811
<b>Total Revenue Limit Sources</b>	<b>4,724,031</b>				<b>4,724,031</b>
Federal Revenue	370,090			\$ 79,079	449,169
State Revenue	1,072,128			5,389	1,077,517
Local Revenue	617,512	\$ 78,841	\$ 8,625	201,065	906,043
<b>Total Revenues</b>	<b>6,783,761</b>	<b>78,841</b>	<b>8,625</b>	<b>285,533</b>	<b>7,156,760</b>
<b><u>Expenditures</u></b>					
Instruction	5,005,255				5,005,255
Instructional Library and Technology	747			810	1,557
School Site Administration	357,179				357,179
Food Services				139,108	139,108
Other Pupil Services	30,536				30,536
Data Processing Services	4,674				4,674
Other General Administration	632,305				632,305
Plant Services	495,030				495,030
Facilities Acquisition and Construction	8,400		365,588	687	374,675
Debt Service:					
Principal Retirement				140,000	140,000
Interest and Issuance Costs	50,403		177,624	312	228,339
Other Outgo	76,497			3,262	79,759
<b>Total Expenditures</b>	<b>6,661,026</b>	<b>0</b>	<b>543,212</b>	<b>284,179</b>	<b>7,488,417</b>
Excess of Revenues Over (Under) Expenditures	122,735	78,841	(534,587)	1,354	(331,657)
<b><u>Other Financing Sources (Uses)</u></b>					
Operating Transfers In	78,841				78,841
Operating Transfers Out		(78,841)			(78,841)
Other Sources			5,729,811	120,437	5,850,248
<b>Total Other Financing Sources (Uses)</b>	<b>78,841</b>	<b>(78,841)</b>	<b>5,729,811</b>	<b>120,437</b>	<b>5,850,248</b>
Net Change in Fund Balances	201,576	0	5,195,224	121,791	5,518,591
Fund Balances - July 1, 2010 (As Reclassified - Note 17)	1,930,604	0	0	603,945	2,534,549
<b>Fund Balances - June 30, 2011</b>	<b>\$ 2,132,180</b>	<b>\$ 0</b>	<b>\$ 5,195,224</b>	<b>\$ 725,736</b>	<b>\$ 8,053,140</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Net Change in Fund Balances - Governmental Funds** **\$ 5,518,591**

Amounts reported for governmental activities in the statement of activities are different due to the following:

Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. The amount that capital outlays exceeded depreciation expense during the year was:

Capital Outlays	\$ 372,075	
Depreciation Expense	<u>(354,700)</u>	17,375

Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss was: (89,216)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: (5,729,811)

Debt issue costs are recognized as expenditures in the period they are incurred in governmental funds. In the government-wide statements, these costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and debt issue costs amortized for the current period were:

Cost of Issuance	228,027	
Cost of Issuance Amortized	<u>(2,343)</u>	225,684

Bond premiums are recognized as Other Financing Sources in the period they are received in governmental funds. In the government-wide statements, premiums are amortized over the life of the debt. The difference between premiums recognized in the current period and the premiums amortized for the current period were:

Bond premiums	(120,437)	
Bond premiums amortized	<u>1,237</u>	(119,200)

In the statement of activities, certain operating expenses-compensated absences, and other post employment benefits are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the amounts earned exceeded the amounts used by: (23,942)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt

General Obligation Bonds		140,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The amount that accrued interest on outstanding long-term liabilities increased during the year was: (73,420)

Accreted interest on capital appreciation bonds is not recognized as an expenditure in the governmental fund financial statements until paid. In the statement of activities, however, accreted interest is recognized as an expense as the capital appreciation bonds accrete in value. The amount of accreted interest recognized in the current year was: (130,936)

<b>Change in Net Assets of Governmental Activities</b>		<b><u>\$ (264,875)</u></b>
--------------------------------------------------------	--	----------------------------

**BENNETT VALLEY UNION SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011**

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	<b>Agency Funds</b>	<b>Total Fiduciary Funds</b>
<b><u>Assets</u></b>		
Deposits and Investments (Note 2)	\$ 36,190	\$ 36,190
Total Assets	36,190	36,190
<b><u>Liabilities</u></b>		
Due to Student Groups	36,190	36,190
Total Liabilities	36,190	36,190
<b><u>Net Assets</u></b>		
Restricted	0	0
Total Net Assets	\$ 0	\$ 0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The Bennett Valley Union School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Education elected by registered voters of the District, which comprises an area in Sonoma County. The District was established in 1853 and serves students in kindergarten through grade six.

The District prepares its financial statements in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) and complies with the policies and procedures of the Department of Education's *California School Accounting Manual*.

The District is also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements.

B. Reporting Entity

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under GASB Statement No. 14 (GASB 14), *The Financial Reporting Entity*. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship. The District has determined that there are no entities, with financial activities that benefited the District, during fiscal year 2010-11, which should be included within its financial reporting entity under GASB 14.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance to determine whether certain organizations for which the District is not financially accountable should be reported as component units based on the nature and significance of the component units' relationship with the District. The District has determined that various exempt organizations meet the criteria set forth in GASB 39. However, audited financial statements were not available from any of the component units for inclusion in the District's financial statements. Accordingly, only the combined financial activities of the component units that flow through the District are presented on page 18 under the caption "Component Units."

The District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Implementation of New Accounting Pronouncements

In March of 2009, the GASB issued GASB Statement No. 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definition*, with required implementation for the District during the year ended June 30, 2011. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 provides for fund balance classifications such as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The effect of implementing GASB 54 resulted in a reclassification of the beginning fund balances as of July 1, 2010, due to the Deferred Maintenance Fund no longer meeting the fund definition of a special revenue fund. Further detail on the reclassification is described in Note 17.

D. Basis of Presentation

*Government-wide Financial Statements:*

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity, within the governmental and business type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basis of Presentation (Concluded)**

*Fund Financial Statements:*

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

**E. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

**Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Basis of Accounting (Concluded)**

**Deferred Revenue:**

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**Expenses/Expenditures:**

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**F. 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 equity or retained earnings, 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 maintains the following fund types:

*General Fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

*Special Revenue Funds* - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

*Debt Service Funds* - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*Capital Projects Funds* - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Fund Accounting (Concluded)**

The District's accounts are organized into major, non-major, and fiduciary funds as follows:

**Major Governmental Funds:**

*General Fund* is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund. The financial activities of the General Fund have been divided into two separate columns on the Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances. The first column reflects revenues received from *District* sources along with all expenditures of the General Fund. The second column reflects revenues received for General Fund purposes that are provided by *Component Units*. This presentation has been included to illustrate the District's heavy reliance on community support for providing its educational programs.

*Building Fund* is used to account for proceeds from the sale of the Measure J general obligation bonds and the expenditure of those funds for the repair, construction, and replacement of school classrooms and facilities.

**Non-major Governmental Funds:**

*Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's cafeteria program.

*Bond Interest and Redemption Fund* is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

*Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provision of the California Environmental Quality Act (CEQA).

*Foundation Fund* is used to account for a permanently restricted donation, the earnings this donation generates, and any expenditures made using such proceeds.

**Fiduciary Funds:**

*Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains three student body funds, which are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

**G. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Budgets and Budgetary Accounting (Concluded)**

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on Page 43.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account (See Note 3).

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**I. 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 when the commitments are paid. All encumbrances are liquidated at June 30.

**J. Assets, Liabilities and Equity**

**1. Deposits and Investments**

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

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

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Assets, Liabilities and Equity (Continued)**

**1. Deposits and Investments (Concluded)**

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

**2. Other Postemployment Benefit (OPEB) Assets**

This asset represents District contributions to the OPEB plan in excess of the current year OPEB expense. Further details on the OPEB plan are disclosed in Note 8.

Reported assets are equally offset by a net assets reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

**3. Capital Assets**

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported 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 outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings and Improvements	25-50
Furniture and Equipment	20

**4. Deferred Revenue**

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

**5. Compensated Absences**

All vacation pay is accrued when incurred in the government-wide financial statements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating 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 when the employee retires.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

6. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs, when applicable, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

7. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4706 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement.

8. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**J. Assets, Liabilities and Equity (Concluded)**

**8. Fund Balance Classification (Concluded)**

*Nonspendable Fund Balance* consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

*Committed Fund Balance* consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

*Assigned Fund Balance* consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision making authority or a body or official that has been given the authority to assign funds. In accordance with board policy, the Chief Business Official has been given this authority.

*Unassigned Fund Balance* consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. In accordance with board policy, the District intends to maintain a Reserve for Economic Uncertainties of at least 4% of the General Fund's annual total expenditures and other financing uses. In the event that the fund balance drops below 4%, it shall be recovered at a rate of no less than 1% each year.

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2011, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 1,000	\$ 36,190
Cash in Revolving Fund	5,000	
County Pool Investments	<u>7,576,507</u>	<u>                    </u>
Total Deposits and Investments	<u>\$ 7,582,507</u>	<u>\$ 36,190</u>

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**Cash on Hand and in Banks**

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

**Cash in Revolving Fund**

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

**County Pool Investments**

County pool investments consist of District cash held by the Sonoma County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

**General Authorization**

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

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

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 7,576,507	\$ 7,584,084	\$ 4,508,768	\$ 3,067,739

Credit Risk

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 7,576,507	\$ 7,584,084			\$ 7,576,507

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2011, the District does not have any investments that are held by counterparties.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)**

Custodial Credit Risk - Deposits

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

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

There was no excess of expenditures over appropriations during fiscal year 2010-11.

**NOTE 4 - RECEIVABLES**

Accounts receivable at June 30, 2011, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 79,107	\$ 26,195	\$ 105,302
State Government	838,634	602	839,236
Local Governments	80,502		80,502
Miscellaneous	<u>94,827</u>	<u>1,917</u>	<u>96,744</u>
Totals	<u>\$ 1,093,070</u>	<u>\$ 28,714</u>	<u>\$ 1,121,784</u>

**NOTE 5 - INTERFUND ACTIVITIES**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)**

**A. Due From/Due To Other Funds**

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

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 62,777	
Building		\$ 62,777
Totals	<u>\$ 62,777</u>	<u>\$ 62,777</u>

All interfund receivables and payables are scheduled to be paid within one year.

**B. 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 fiscal year 2010-11 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General - District	\$ 78,841	
General - Component Unit		\$ 78,841
Totals	<u>\$ 78,841</u>	<u>\$ 78,841</u>

Transfer of \$78,841 contribution from General Fund - Component Unit to General Fund - District to support educational programs.

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2011, is shown below:

	<u>Balances July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2011</u>
Land	\$ 270,428			\$ 270,428
Buildings and Improvements	12,424,005		\$ 217,600	12,206,405
Furniture and Equipment	53,805			53,805
Work-in-Progress	0	\$ 372,075		372,075
Totals at Historical Cost	<u>12,748,238</u>	<u>372,075</u>	<u>\$ 217,600</u>	<u>12,902,713</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,785,866	352,010	128,384	7,009,492
Furniture and Equipment	10,761	2,690		13,451
Total Accumulated Depreciation	<u>6,796,627</u>	<u>354,700</u>	<u>128,384</u>	<u>7,022,943</u>
Governmental Activities				
Capital Assets, net	<u>\$ 5,951,611</u>	<u>\$ 17,375</u>	<u>\$ 89,216</u>	<u>\$ 5,879,770</u>

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)**

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 264,532
Instructional Library and Technology	83
School Site Administration	18,931
Food Services	7,373
Other Pupil Services	1,618
Data Processing Services	248
Other General Administration	35,540
Plant services	<u>26,375</u>
 Total Depreciation Expense	 <u>\$ 354,700</u>

**NOTE 7 - GENERAL OBLIGATION BONDS**

In March 2011, the District issued Election of 2010 General Obligation Bonds, Series 2011 in the amount of \$5,729,811, which consisted of \$5,360,000 of current interest bonds and \$369,811 of capital appreciation bonds.

The bonds were issued to finance the cost of repairs, construction, and replacement of school classrooms and facilities, and to pay certain costs of issuance associated with the sale of the bonds.

The outstanding general obligation debt of the District as of June 30, 2011 was as follows:

**A. Current Interest Bonds**

<u>Date</u> <u>Of</u> <u>Issue</u>	<u>Interest</u> <u>Rate %</u>	<u>Maturity</u> <u>Year</u>	<u>Amount of</u> <u>Original</u> <u>Issue</u>	<u>Outstanding</u> <u>July 1, 2010</u>	<u>Issued</u> <u>Current</u> <u>Year</u>	<u>Redeemed</u> <u>Current</u> <u>Year</u>	<u>Outstanding</u> <u>June 30, 2011</u>
2011	3.00-5.50	2033	\$ 5,360,000	\$ 0	\$ 5,360,000	\$ 0	\$ 5,360,000

The outstanding obligation for current interest bonds at June 30, 2011, was as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 0	\$ 232,008	\$ 232,008
2013	35,000	269,775	304,775
2014	75,000	268,125	343,125
2015	100,000	265,500	365,500
2016	50,000	263,250	313,250
2017-2021	575,000	1,256,250	1,831,250
2022-2026	1,225,000	1,043,438	2,268,438
2027-2031	2,100,000	617,112	2,717,112
2032-2036	1,200,000	64,837	1,264,837
 Totals	 <u>\$ 5,360,000</u>	 <u>\$ 4,280,295</u>	 <u>\$ 9,640,295</u>

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONTINUED)**

**B. Capital Appreciation Bonds**

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Date of Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2010</u>	<u>Issued &amp; Accreted Interest Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2011</u>
5/10/96	5.85-6.50	8/1/20	\$ 994,901	\$ 2,031,271	\$ 123,625	\$ 140,000	\$ 2,014,896
3/22/11	7.13-7.29	8/1/35	369,811	0	377,122		377,122
<b>Totals</b>			<b>\$ 1,364,712</b>	<b>\$ 2,031,271</b>	<b>\$ 500,747</b>	<b>\$ 140,000</b>	<b>\$ 2,392,018</b>

The outstanding obligation for the Series 1996 capital appreciation bonds at June 30, 2011, was as follows:

<u>Year Ended June 30</u>	<u>Rate %</u>	<u>Amount of Original Issue (Principal)</u>	<u>Accreted Interest</u>	<u>Totals</u>
2012	6.20	\$ 59,406	\$ 89,842	\$ 149,248
2013	6.25	64,692	99,032	163,724
2014	6.30	68,946	106,821	175,767
2015	6.35	72,259	113,309	185,568
2016	6.40	74,725	118,584	193,309
2017-2021	6.40-6.50	439,462	707,818	1,147,280
<b>Totals</b>		<b>\$ 779,490</b>	<b>\$ 1,235,406</b>	<b>\$ 2,014,896</b>

The annual requirements to amortize the Series 1996 capital appreciation bonds as of June 30, 2011, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 59,406	\$ 90,594	\$ 150,000
2013	64,692	110,308	175,000
2014	68,946	131,054	200,000
2015	72,259	152,741	225,000
2016	74,725	175,275	250,000
2017-2021	439,462	1,380,538	1,820,000
<b>Totals</b>		<b>\$ 779,490</b>	<b>\$ 2,040,510</b>

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)**

**B. Capital Appreciation Bonds (Concluded)**

The outstanding obligation for the Series 2011 capital appreciation bonds at June 30, 2011, was as follows:

Year Ended <u>June 30</u>	<u>Rate %</u>	Amount of Original Issue (Principal)	Accreted Interest	<u>Totals</u>
2012		\$ 0	\$ 0	\$ 0
2013		0	0	0
2014		0	0	0
2015		0	0	0
2016		0	0	0
2017-2021		0	0	0
2022-2026		0	0	0
2027-2031		0	0	0
2032-2036	7.13-7.29	369,811	7,311	377,122
Totals		<u>\$ 369,811</u>	<u>\$ 7,311</u>	<u>\$ 377,122</u>

The annual requirements to amortize the Series 2011 capital appreciation bonds as of June 30, 2011, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 0	\$ 0	\$ 0
2013	0	0	0
2014	0	0	0
2015	0	0	0
2016	0	0	0
2017-2021	0	0	0
2022-2026	0	0	0
2027-2031	0	0	0
2032-2036	369,811	1,580,189	1,950,000
Totals	<u>\$ 369,811</u>	<u>\$ 1,580,189</u>	<u>\$ 1,950,000</u>

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

From an accrual accounting perspective, the cost of post employment healthcare benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

*Plan Descriptions:* The District offers medical, prescription drug, behavioral health, dental, and vision benefits to its eligible retirees through the Self-Insured Schools of California (SISC), a joint powers authority. The medical plans include three SISC Blue Cross Prudent Buyer Options (100-B\$20, 90-E\$20, 80-G\$30) and a High Deductible Health Plan (HDHP-B), with prescription drug coverage carved out and provided through Medco plans ("7-25") and ("CS5-15-35"), and behavioral care provided through PacifiCare. The District also offers two Kaiser HMO options ("High" and "Low") through the Redwood Empire Schools Insurance Group (RESIG). Dental coverage is provided through Delta Dental, and vision coverage through the Vision Service Plan (both purchased through California's Valued Trust ("CVT"). All coverages are self-insured or otherwise offered on a pooled basis by SISC, RESIG or CVT.

Certificated and Certificated Management employees may retire with District-paid healthcare benefits after the later of age 55 and 10 years of full-time equivalent service. District contributions are limited to \$6,000 per year and end at age 65.

Benefits are discontinued for retirements after June 30, 2014 and for employees hired after the 2008-09 school year. For retirements between July 1, 2009 and June 30, 2014, the \$6,000 cap is multiplied by a percentage according to the following table:

Full-time Equivalent Service	Contract Year of Retirement				
	2009-10	2010-11	2011-12	2012-13	2013-14
20+ years	100%	80%	60%	40%	20%
15-19 years	80%	60%	40%	20%	0%
10-14 years	60%	40%	20%	0%	0%

Classified, Confidential and Board Members are not entitled to District-paid retiree health benefits. The District had nineteen active employees and two retired employees as of July 1, 2009, the effective date of the triennial OPEB valuation.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

*Funding Policy:* The District currently pays for post employment healthcare benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

*Annual OPEB Cost and Net OPEB Obligation/(Asset):* The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan (including implicit subsidy), and changes in the District's Net OPEB Obligation/(Asset) that resulted in a Net OPEB Asset of \$27,316 for the year ended June 30, 2011.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

*Annual OPEB Cost and Net OPEB Obligation/(Asset)/(Concluded)*

Calculation of the ARC under the Projected Unit Cost Method:

Service cost at end of year	\$ 9,809
Amortization of UAAL with interest to end of year	<u>13,106</u>
Annual required contribution (ARC)	22,915
Interest on Net OPEB Obligation	(651)
Adjustment to ARC	<u>847</u>
Annual OPEB cost (expense)	23,111
Contributions for the fiscal year	<u>(37,409)</u>
Increase in Net OPEB Obligation/(Asset)	(14,298)
Net OPEB Obligation/(Asset) - June 30, 2010	<u>(13,018)</u>
Net OPEB Obligation/(Asset) - June 30, 2011	<u><u>\$ (27,316)</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 last three fiscal years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
June 30, 2011	\$ 23,111	161.9%	\$ (27,316)
June 30, 2010	22,915	156.8%	(13,018)
June 30, 2009	n/a	n/a	n/a

*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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)**

In the July 1, 2009, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses). The medical trend rate was 7 percent graded down by 1 percent per year to an ultimate of 5 percent for fiscal years beginning 2011 and thereafter. The dental trend rate was 4 percent per year for all future years. These assumptions reflect an implicit 3 percent general inflation assumption.

**NOTE 9 - LONG-TERM LIABILITIES**

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

	<u>Balances</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2011</u>	<u>Due within</u> <u>One Year</u>
Compensated Absences	\$ 70,394	\$ 108,634	\$ 70,394	\$ 108,634	\$ 108,634
General Obligation Bonds:					
Current Interest	0	5,360,000		5,360,000	
Capital Appreciation	2,031,271	500,747	140,000	2,392,018	149,248
Unamortized Bond Premium	0	119,200		119,200	4,949
<b>Totals</b>	<b>\$ 2,101,665</b>	<b>\$ 6,088,581</b>	<b>\$ 210,394</b>	<b>\$ 7,979,852</b>	<b>\$ 262,831</b>

**NOTE 10 - FUND BALANCES**

The fund balances as of June 30, 2011 are as follows:

	<u>General</u> <u>Fund</u>	<u>Building</u> <u>Fund</u>	<u>Non- Major</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Nonspendable	\$ 5,000			\$ 5,000
Restricted	38,234	\$ 5,195,224	\$ 586,630	5,820,088
Assigned			139,106	139,106
Unassigned:				
Economic Uncertainties	266,441			266,441
Other	1,822,505			1,822,505
<b>Total Fund Balances</b>	<b>\$ 2,132,180</b>	<b>\$ 5,195,224</b>	<b>\$ 725,736</b>	<b>\$ 8,053,140</b>

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 11 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA**

The District was the recipient of on-behalf payments made by the State of California to the California State Teachers' Retirement System (CalSTRS) for K-12 Education. These payments consist of state general fund contributions to CalSTRS of \$139,287 (4.267% of salaries subject to CalSTRS).

**NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS**

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

**A. California State Teachers' Retirement System (CalSTRS)**

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$269,305, \$272,639, and \$272,375, respectively, and equal 100% of the required contributions for each year.

**B. 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, CA 95811.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)**

**B. California Public Employees' Retirement System (CalPERS) (Concluded)**

Funding Policy

Active plan members are required to contribute 7.0% 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 2010-11 was 10.707%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$92,410, \$86,566, and \$86,537, respectively, and equal 100% of the required contributions for each year.

**C. Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District contributes 6.2% of an employee's gross earnings. In addition, the employees were required to contribute 6.2% of their gross earnings from July 2010 through December 2010 and 4.2% from January 2011 through June 2011.

**NOTE 13 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010-11, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years.

**NOTE 14 - JOINT VENTURES**

The District participates in three joint ventures under joint powers agreements (JPAs) with the Redwood Empire Schools' Insurance Group (RESIG) for property & liability, and workers' compensation; Self-Insured Schools of California (SISC) for medical, prescription drugs, behavioral health, dental, and vision coverage, and West County Transportation Agency for pupil transportation. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provides coverage or services for its members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPAs.

The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

**A. State and Federal Allowances, Awards and Grants**

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

**B. Litigation**

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

**C. Construction Commitments**

As of June 30, 2011, the District has the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Measure J - Preconstruction / Architecture	<u>\$ 402,856</u>	2011-12

**NOTE 16 - ECONOMIC DEPENDENCY**

During the year, the District received \$78,841 from various exempt organizations, the District's legally separate component units that are subject to voluntary public contributions to the organizations.

**NOTE 17 - RECLASSIFICATION OF FUND BALANCES**

The beginning fund balances of the General Fund and the Deferred Maintenance Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54, as follows:

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>
Fund Balances - July 1, 2010 (as originally stated)	\$ 1,913,381	17,223
Reclassification of Fund Balances	<u>17,223</u>	<u>(17,223)</u>
Fund Balances - July 1, 2010 (as restated)	<u>\$ 1,930,604</u>	<u>\$ 0</u>

**SUPPLEMENTARY INFORMATION SECTION**

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
Revenue Limit Sources:				
State Apportionment	\$ 1,260,729	\$ 1,503,572	\$ 1,502,220	\$ (1,352)
Local Sources	3,209,039	3,213,895	3,221,811	7,916
Total Revenue Limit Sources	4,469,768	4,717,467	4,724,031	6,564
Federal Revenue	448,643	554,596	370,090	(184,506)
Other State Revenue	1,021,078	1,065,265	1,072,128	6,863
Other Local Revenue	521,783	673,933	696,353	22,420
Total Revenues	6,461,272	7,011,261	6,862,602	(148,659)
<b><u>Expenditures</u></b>				
Certificated Salaries	3,280,569	3,281,454	3,219,295	62,159
Classified Salaries	1,192,608	1,205,383	1,146,541	58,842
Employee Benefits	1,278,348	1,196,109	1,175,073	21,036
Books and Supplies	197,468	220,273	170,471	49,802
Services and Other				
Operating Expenditures	804,875	1,064,929	816,945	247,984
Capital Outlay		5,800	5,800	
Other Expenditures	137,344	137,344	76,498	60,846
Total Expenditures	6,891,212	7,111,292	6,610,623	500,669
Excess of Revenues Over (Under) Expenditures	(429,940)	(100,031)	251,979	352,010
<b><u>Other Financing (Uses)</u></b>				
Operating Transfers Out	(7,564)	(10,164)		10,164
Other Uses		(50,404)	(50,403)	1
Total Other Financing (Uses)	(7,564)	(60,568)	(50,403)	10,165
Net Change in Fund Balances	(437,504)	(160,599)	201,576	\$ 362,175
Fund Balances - July 1, 2010 (As Reclassified - Note 17)	1,930,604	1,930,604	1,930,604	
Fund Balances - June 30, 2011	\$ 1,493,100	\$ 1,770,005	\$ 2,132,180	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**BENNETT VALLEY UNION SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>Cafeteria</u>	<u>Bond Interest and Redemption</u>	<u>Capital Facilities</u>	<u>Foundation</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Assets</u></b>					
Deposits and Investments	\$ 110,898	\$ 399,018	\$ 97	\$ 187,515	\$ 697,528
Receivables	28,714				28,714
Total Assets	<u>\$ 139,612</u>	<u>\$ 399,018</u>	<u>\$ 97</u>	<u>\$ 187,515</u>	<u>\$ 726,242</u>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Accounts Payable	\$ 506				\$ 506
Total Liabilities	<u>506</u>				<u>506</u>
Fund Balances:					
Restricted		\$ 399,018	\$ 97	\$ 187,515	586,630
Assigned	139,106				139,106
Total Fund Balances	<u>139,106</u>	<u>399,018</u>	<u>97</u>	<u>187,515</u>	<u>725,736</u>
Total Liabilities and Fund Balances	<u>\$ 139,612</u>	<u>\$ 399,018</u>	<u>\$ 97</u>	<u>\$ 187,515</u>	<u>\$ 726,242</u>

**BENNETT VALLEY UNION SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Cafeteria</u>	<u>Bond Interest and Redemption</u>	<u>Capital Facilities</u>	<u>Foundation</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Revenues</u></b>					
Federal Revenue	\$ 79,079				\$ 79,079
State Revenue	4,108	\$ 1,281			5,389
Local Revenue	91,326	104,591	\$ 3,953	\$ 1,195	201,065
Total Revenues	<u>174,513</u>	<u>105,872</u>	<u>3,953</u>	<u>1,195</u>	<u>285,533</u>
<b><u>Expenditures</u></b>					
Instructional Library and Technology				810	810
Food Services	139,108				139,108
Facilities Acquisition and Construction			687		687
Debt Service:					
Principal Retirement		140,000			140,000
Interest and Issuance Costs		312			312
Other Outgo			3,262		3,262
Total Expenditures	<u>139,108</u>	<u>140,312</u>	<u>3,949</u>	<u>810</u>	<u>284,179</u>
Excess of Revenues Over (Under) Expenditures	35,405	(34,440)	4	385	1,354
<b><u>Other Financing Sources</u></b>					
Other Sources		120,437			120,437
Net Change in Fund Balances	35,405	85,997	4	385	121,791
Fund Balances - July 1, 2010	<u>103,701</u>	<u>313,021</u>	<u>93</u>	<u>187,130</u>	<u>603,945</u>
Fund Balances - June 30, 2011	<u>\$ 139,106</u>	<u>\$ 399,018</u>	<u>\$ 97</u>	<u>\$ 187,515</u>	<u>\$ 725,736</u>

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
6/30/10	\$ 0	\$ 201,467	\$ 201,467	0%	\$ 677,500	29.7%

SEE NOTES TO SUPPLEMENTARY INFORMATION

**BENNETT VALLEY UNION SCHOOL DISTRICT  
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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ORGANIZATION

The Bennett Valley Union School District was established in 1853 and comprises an area located in Sonoma County. There were no changes in the boundaries of the District during the current year. The District currently operates two elementary schools.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
David Gouin	President	November 2012
Jeremy Brott	Vice President	November 2014
Steven Sharpe	Clerk	November 2014
Katherine Sanchez	Member	November 2012
Sandra Frieze	Member	November 2014

ADMINISTRATION

Dr. Susan Field  
Superintendent

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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	Second Period <u>Report</u>	Annual <u>Report</u>
<u>Elementary</u>		
Kindergarten	139.88	139.57
First through Third	406.97	406.06
Fourth through Sixth	376.67	374.95
Special Education - SDC	10.43	10.41
Special Education - Nonpublic	0.87	0.79
	<u>934.82</u>	<u>931.78</u>
Totals		

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Adjusted 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>Adjusted 1986-87 Minutes Required</u>	<u>2010-11 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	32,400	31,500	36,000	35,000	44,395	178	N/A	In Compliance
Grade 1	47,700	46,375	50,400	49,000	51,095	178	N/A	In Compliance
Grade 2	47,700	46,375	50,400	49,000	51,095	178	N/A	In Compliance
Grade 3	47,700	46,375	50,400	49,000	51,095	178	N/A	In Compliance
Grade 4	52,280	50,828	54,000	52,500	54,173	178	N/A	In Compliance
Grade 5	52,280	50,828	54,000	52,500	54,173	178	N/A	In Compliance
Grade 6	52,280	50,828	54,000	52,500	54,173	178	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 79,079
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I - Basic Grant	84.010	14329	105,758
NCLB: ARRA - Title I Basic Grant	84.389	15005	8,390
ARRA State Fiscal Stabilization Fund	84.394	25008	78,734
NCLB: Title II - Improving Teacher Quality	84.367	14341	21,852
NCLB: Title II - Enhancing Education Through Technology	84.318	14334	2,038
NCLB: Title III - Immigration Education Program	84.365	14346	6,394
NCLB: Title III - Limited English Proficient	84.365	10084	1,809
NCLB: Title IV - Drug Free Schools	84.186	14347	567
NCLB: Title V - Innovative Education Strategies	84.298	14354	2,303
Special Education Cluster:			
IDEA Part B Local Assistance	84.027	13379	137,978
ARRA IDEA Part B local Assistance	84.391	15003	68,049
U.S. Department of Health and Human Services:			
Passed through CDE:			
Medi-Cal Administrative Activities	93.778	10013	14,574
Total			<u>\$ 527,525</u>

**BENNETT VALLEY UNION SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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	General Fund	Deferred Maintenance Fund
June 30, 2011 Annual Financial and Budget Report Fund Balances	\$ 2,132,162	\$ 18
Reclassification Increasing (Decreasing) Fund Balances:		
Reclassification of Fund Balances	18	(18)
June 30, 2011 Audited Financial Statements Fund Balances	\$ 2,132,180	\$ 0

Auditor's Comments

The fund balances of the General Fund and Deferred Maintenance Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2011.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	GENERAL FUND			
	(Budget)* 2011-12	2010-11	2009-10 ***	2008-09***
Revenues and Other Financial Sources	\$ 6,507,345	\$ 6,862,602	\$ 6,625,729	\$ 7,240,582
Expenditures	6,810,523	6,610,623	6,443,500	6,743,209
Other Uses and Transfers Out	7,564	50,403	3,050	0
Total Outgo	6,818,087	6,661,026	6,446,550	6,743,209
Change in Fund Balance	(310,742)	201,576	179,179	497,373
Ending Fund Balance	\$ 1,821,438	\$ 2,132,180	\$ 1,930,604	\$ 1,751,425
Available Reserves	\$ 1,771,095	\$ 2,088,946	\$ 1,822,161	\$ 1,096,023
Reserve for Economic Uncertainties **	\$ 275,724	\$ 266,441	\$ 258,545	\$ 271,901
Available Reserves as a Percentage of Total Outgo	26.0%	31.4%	28.3%	16.3%
Total Long-Term Liabilities	\$ 7,717,021	\$ 7,979,852	\$ 2,101,665	\$ 2,085,309
Average Daily Attendance at P-2	935	935	920	909

\* The amounts reported for the 2011-12 budget are presented for analytical purposes only and have not been audited.

\*\* Reported balances are a component of available reserves.

\*\*\* Prior year balances have been adjusted to ensure comparability with the current year GASB Statement No. 54 financial statement presentation.

The fund balance of the General Fund increased \$380,755 (21.7%) over the past two years. The fiscal year 2011-12 budget projects a decrease in fund balance of \$310,742 (15.3%). For a district this size, the state recommends available reserves of at least 4% of total general fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses of \$497,373, \$179,179, and \$201,576 during fiscal years 2008-09, 2009-10, and 2010-11, respectively.

Average daily attendance has increased 26 ADA over the past two years. No change in ADA is anticipated during fiscal year 2011-12.

Total long-term liabilities have increased \$5,894,543 over the past two years due primarily to the current year issuance of \$5,729,811 of general obligation bonds.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES**

**A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

**B. Combining Statements**

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

**C. Schedule of Funding Progress**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, the District is required to present a Schedule of Funding Progress which shows the funding progress of the District's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

**D. 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.

**E. Schedule of Instructional Time**

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

**F. Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)**

**G. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the Annual Financial and Budget Report to the audited financial statements.

**H. Schedule of Financial Trends and Analysis**

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

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Bennett Valley Union School District (the “District”) in connection with the issuance of \$3,903,461 of the District’s 2012 General Obligation Bond Anticipation Notes (the “Notes”). The Notes are being executed pursuant to a Resolution of the Board of Trustees of the District, adopted on November 9, 2011 (the “Resolution”). The District covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Notes and in order to assist the Participating Underwriter in complying with the Rule.

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

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

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

“Dissemination Agent” shall mean the District, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

“Holders” shall mean registered owners of the Notes.

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

“Participating Underwriter” shall mean George K. Baum & Company, or any of the original underwriters of the Notes required to comply with the Rule in connection with offering of the Notes.

“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org/>, 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.

“Rule” shall mean 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” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (presently ending June 30), commencing with the report for the 2011-12 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than 30 days (nor more than 60 days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than 15 Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repository to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to each Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repository of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing all the Repository to which it was provided.

SECTION 4. Content and Form of Annual Reports. (a) The District's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the last completed fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. 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) outstanding District indebtedness;
- (iv) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repository 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..

(b) The Annual Report shall be filed in an electronic format accompanied by identifying information prescribed by the Municipal Securities Rulemaking Board.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes in a timely manner not in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.
2. tender offers.
3. defeasances.
4. rating changes.
5. the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).
6. unscheduled draws on the debt service reserves reflecting financial difficulties.
7. unscheduled draws on credit enhancement reflecting financial difficulties.
8. substitution of the credit or liquidity providers or their failure to perform.
9. bankruptcy, insolvency, receivership or similar event of the District. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

1. non-payment related defaults.
2. modifications to rights of Noteholders.
3. optional, contingent or unscheduled Note calls.
4. unless described under Section 5(a)(5) above, adverse tax opinions, material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes.
5. release, substitution or sale of property securing repayment of the Notes.
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
7. Appointment of a successor or additional trustee or paying agent with respect to the Notes or the change of name of such a trustee or paying agent.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(c) hereof would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(c).

**SECTION 6. 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 Notes. If such termination occurs prior to the final maturity of the Notes, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a) and 5(b), as applicable.

**SECTION 7. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent (or substitute 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. The Dissemination Agent may resign upon 15 days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. 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 and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by

the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Notes; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next 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(a), 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 9. 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 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. 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 Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

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

Dated: February 1, 2012

**BENNETT VALLEY UNION SCHOOL  
DISTRICT**

By: \_\_\_\_\_  
Superintendent

## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*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 or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration

in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices, if any, will be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Notes called for redemption or of any other action premised on such notice. Redemption of portions of the Notes by the District will reduce the outstanding principal amount of Notes held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Notes held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Notes for the Beneficial Owners. Any such selection of Notes to be redeemed will not be conducted by the District or the Paying Agent.

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

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

NEITHER THE DISTRICT, THE UNDERWRITER NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF NOTES FOR PREPAYMENT.

Neither the District, the Underwriter nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE NOTES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

The foregoing description concerning DTC and DTC's book entry system is based solely on information provided by DTC, which the District believes to be reliable, but the District takes no responsibility for the accuracy thereof and no representation is made herein as to the accuracy or completeness of such information.

**BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF NOTES AND WILL NOT BE RECOGNIZED BY THE PAYING AGENT AS OWNERS THEREOF UNDER THE TERMS OF THE RESOLUTION, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.**

**THE DISTRICT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS.**

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**APPENDIX F**  
**ACCRETED VALUES TABLE**

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**BENNETT VALLEY UNION SCHOOL DISTRICT**  
**(Sonoma County, California)**  
**2012 General Obligation Bond Anticipation Notes**  
**(Bank Qualified)**

**Table of Accreted Values**

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Settlement	2/1/2012
Maturity Date	1/1/2015
Denominational Amount	\$748,461
Maturity Value	\$1,050,000
Accretion Rate	11.9500120%
Reoffering Yield	1.850%
Price	71.282%

<b>Period Ending</b>	<b>Accreted Value Per \$5,000</b>
2/1/2012	\$3,564.10
7/1/2012	3,740.70
1/1/2013	3,964.21
7/1/2013	4,201.07
1/1/2014	4,452.08
7/1/2014	4,718.09
1/1/2015	5,000.00

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