

NEW ISSUE

DTC BOOK-ENTRY ONLY

CUSIP* NO. 621196WT7

RATING

See "RATING" herein

S&P Rating: "SP-1+"

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on each Note is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$14,000,000

**MT. DIABLO UNIFIED SCHOOL DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
2008 TAX AND REVENUE ANTICIPATION NOTES**

Dated: Date of Delivery**Due: November 20, 2009**

The Mt. Diablo Unified School District 2008 Tax and Revenue Anticipation Notes (the "Notes") are being issued to finance seasonal cash flow requirements of the Mt. Diablo Unified School District (the "District") during the fiscal year ending June 30, 2009 (the "Fiscal Year"). The Notes will be initially issued in book-entry form only through the book-entry system of The Depository Trust Company, New York, New York ("DTC"). See "THE NOTES—DTC Book-entry Only" herein.

The Notes, in accordance with California law, represent the general obligation of the District, but are payable solely from taxes, income, revenue, cash receipts, and other moneys received by or accruing to the General Fund of the District during the Fiscal Year and legally available for the payment of the Notes. The Notes are equally and ratably secured by a pledge of an amount equal to the aggregate principal amount of the Notes, together with an amount sufficient to pay the interest thereon, from the Unrestricted Revenues (defined herein) to be received by the District in the months during the Fiscal Year as described herein (the "Pledged Revenues"). The Notes, to the extent not paid from Pledged Revenues, are payable only from any other taxes, income, revenues, cash receipts and moneys of the District lawfully available therefore.

The Notes are legal investments for commercial banks in California and are eligible to secure deposits of public moneys in California.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE NOTES. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Notes will be dated November 20, 2008, and will mature on November 20, 2009. The coupon interest rate and the reoffering yield for the Notes are set forth below. Principal of and interest on the Notes will be paid at maturity by wire transfer to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Notes. The Notes are not subject to redemption prior to maturity.

MATURITY SCHEDULE

<u>AMOUNT</u>	<u>MATURITY</u>	<u>COUPON INTEREST RATE</u>	<u>REOFFERING YIELD</u>
\$14,000,000	November 20, 2009	2.75%	1.24%

The Notes are being purchased for re-offering by Commerce Capital Markets, Inc. as underwriter of the Notes (the "Underwriter"). The Notes will be offered when, as and if executed and delivered and received by the Underwriter, subject to the approval as to their legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. It is anticipated that the Notes, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about November 20, 2008.

This Official Statement is Dated November 6, 2008

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE DISTRICT TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED HEREIN, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DISTRICT. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL NOR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE NOTES BY A PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE AN OFFER, SOLICITATION OR SALE.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE NOTES STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, PROJECTIONS, FORECASTS OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM SOURCES WHICH ARE BELIEVED TO BE RELIABLE, BUT NO INFORMATION IS GUARANTEED AS TO ACCURACY OR COMPLETENESS, AND ANY INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DISTRICT SINCE THE DATE HEREOF.

THIS OFFICIAL STATEMENT IS SUBMITTED WITH RESPECT TO THE SALE OF THE NOTES REFERRED TO HEREIN AND MAY NOT BE REPRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE, UNLESS AUTHORIZED IN WRITING BY THE DISTRICT. ALL SUMMARIES OF THE DOCUMENTS AND LAWS ARE MADE SUBJECT TO THE PROVISIONS THEREOF AND DO NOT PURPORT TO BE COMPLETE STATEMENTS OF ANY OR ALL SUCH PROVISIONS.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE DISTRICT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

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

RGUD DEC 1 08

\$14,000,000
MT. DIABLO UNIFIED SCHOOL DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
2008 TAX AND REVENUE ANTICIPATION NOTES

DISTRICT BOARD OF EDUCATION

April Treece, President
Richard W. Allen, Vice President
Gary L. Eberhart, Member
Linda K. Mayo, Member
Paul Strange, Member

DISTRICT ADMINISTRATION

Gary McHenry, Superintendent
Alan Young, Ed.D., Associate Superintendent Educational Services
Mildred Browne, Ed. D., Assistant Superintendent Special Education/Student Services
Rose Lock, Assistant Superintendent Elementary Education
Richard Nicoll, Ph.D., Assistant Superintendent Administrative Services
Gail Isserman, Assistant Superintendent Personnel Services

Mt. Diablo Unified School District
1936 Carlotta Drive
Concord, California 94519-9989
(925) 682-8000

FINANCIAL ADVISOR

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1228 N Street, Suite 13
Sacramento, California 95814-5609
(916) 444-5100

BOND COUNSEL

Quint & Thimmig LLP
575 Market Street, Suite 3600
San Francisco, California 94105
(415) 765-1550

PAYING AGENT

Contra Costa County Treasurer-Tax Collector
County Finance Building
625 Court Street, Room 102
Martinez, California 94553
(925) 957-2850

\$14,000,000
MT. DIABLO UNIFIED SCHOOL DISTRICT
 (CONTRA COSTA COUNTY, CALIFORNIA)
 2008 TAX AND REVENUE ANTICIPATION NOTES

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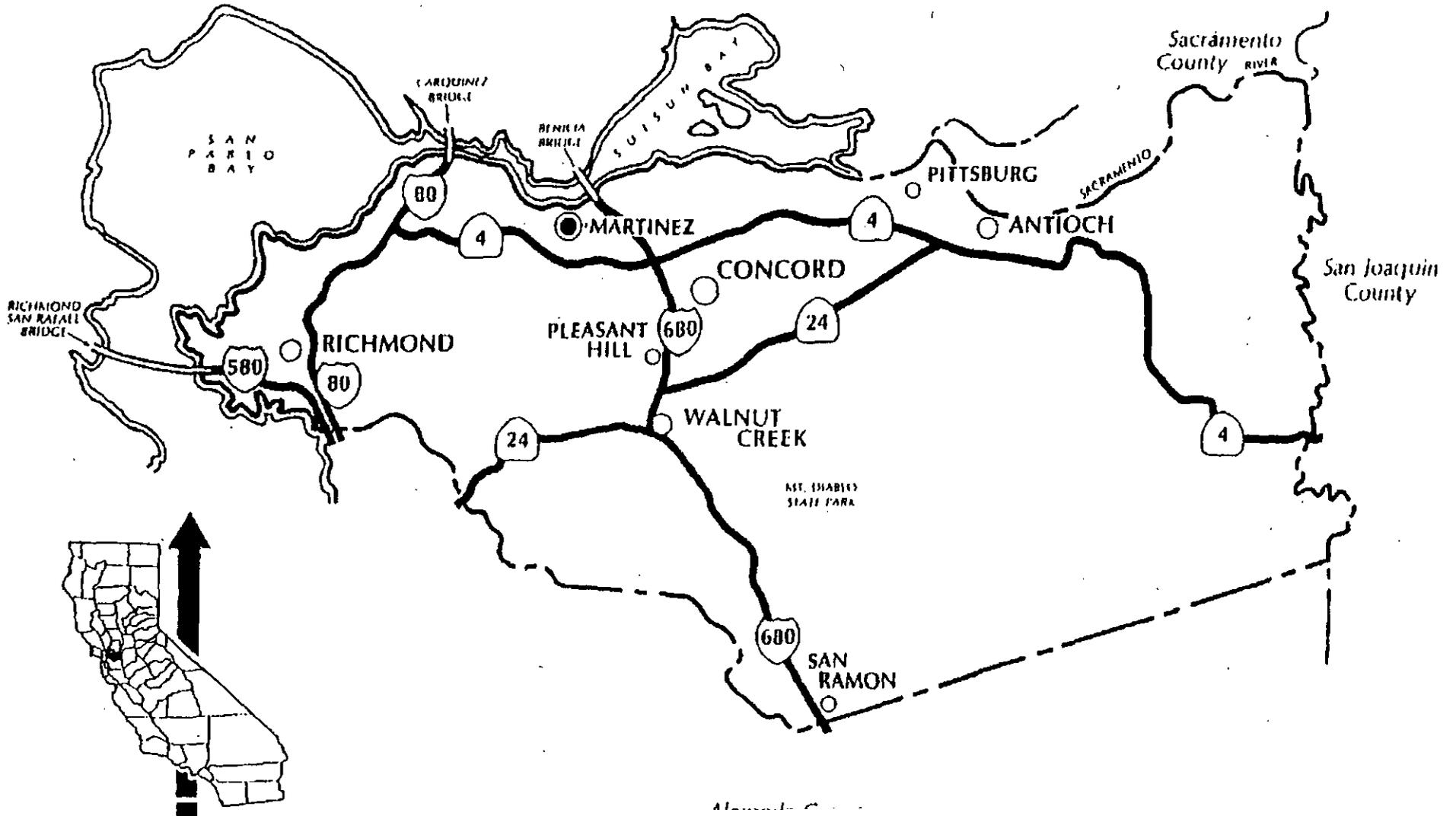
APPENDIX C—FORM OF OPINION OF BOND COUNSEL

CONTRA COSTA COUNTY

Solano County

Sacramento County
SACRAMENTO RIVER

San Joaquin County



OFFICIAL STATEMENT

\$14,000,000

MT. DIABLO UNIFIED SCHOOL DISTRICT (CONTRA COSTA COUNTY, CALIFORNIA) 2008 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page and attached appendices, is to provide certain information concerning the sale and delivery of the Mt. Diablo Unified School District 2008 Tax and Revenue Anticipation Notes (the "Notes") issued in the aggregate principal amount of \$14,000,000.

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

General

This Official Statement has been prepared under the direction of the Mt. Diablo Unified School District (the "District") in order to furnish information with respect to the sale and delivery of the Notes. At the request of the District, the Notes have been authorized pursuant to a resolution (the "Resolution") of the Board of Supervisors (the "County Board") of the County of Contra Costa (the "County") adopted on October 28, 2008, on the behalf of the District.

The Notes will be issued in full conformity with the Constitution and laws of the State of California (the "State"), including Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the State Government Code (the "Law"), and under such statute the Notes represents the general obligation of the District, but are payable solely from taxes, income, revenue, cash receipts and other moneys of the District attributable to the fiscal year commencing on July 1, 2008, and ending on June 30, 2009 (the "Fiscal Year"), and legally available therefor.

The proceeds of the Notes will be used for current General Fund expenditures of the District, including but not limited to current expenses, capital expenditures and the discharge of other obligations or indebtedness of the District. The Notes are not subject to redemption prior to their stated maturity date.

Professionals Involved

Government Financial Strategies inc., Sacramento, California has acted as financial advisor with respect to the sale and delivery of the Notes. See "FINANCIAL ADVISOR" herein. All proceedings in connection with the issuance of the Notes are subject to the approving legal opinion of Quint & Thimmig LLP, Bond Counsel, San Francisco, California.

Other Information

This Official Statement may be considered current only as of the dated date affixed to the cover page hereto, and the information contained herein is subject to change. Brief descriptions of the Notes, the security for the Notes and the District are included in this Official Statement together with summaries of certain provisions of the Resolution. Such descriptions do not purport to be comprehensive or definitive. All references made herein to the authorizing Resolution adopted by the County Board on October 28, 2008, are qualified in their entirety by reference to such document, and references herein to the Notes are qualified in their entirety by reference to the form thereof delivered to the purchaser.

Information concerning this Official Statement, the Notes, the District or any other information relating to the sale and delivery of the Notes, including the Resolution and audited financial statements of the District, are available for public inspection and may be obtained by contacting the District at the address and telephone number set forth on page "iii" of this Official Statement, or by contacting the District's financial advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100, facsimile telephone (916) 444-5109.

THE NOTES

Authority for Issuance

The Notes are issued under the authority of the Law and pursuant to the Resolution.

Purpose of Issue

Issuance of the Notes will provide moneys to meet the District's General Fund expenditures during the Fiscal Year, including but not limited to current expenses, capital expenditures and the discharge of other obligations or indebtedness of the District.

Borrowing is necessary during the Fiscal Year because the District's General Fund expenditures are expected to occur in relatively level amounts throughout a given fiscal year while receipts are expected to follow an uneven pattern, primarily as a result of an uneven pattern of State and federal apportionments and secured property tax installment payments. Receipts from these three sources account for a significant portion of the District's total annual revenues. As a result, the District's General Fund cash balance is projected to be sufficiently diminished during a portion of the Fiscal Year to require the issuance of the Notes. The Notes are intended to minimize the likelihood of a cash deficit position occurring within the General Fund during the Fiscal Year.

Description of the Notes

The Notes are being issued as fully registered Notes, without coupons, and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Notes. Individual purchases of the Notes will be made in book-entry form only and only in authorized denominations: \$1,000 principal amount or any integral multiple thereof. So long as Cede & Co. is the registered owner of the Notes, principal amount, premium, if any, and interest on the Notes will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such amounts to the Direct or Indirect Participants, as hereinafter defined, for subsequent disbursement to the Beneficial Owners of the Notes. See "THE NOTES—DTC Book-Entry Only" herein.

The Notes will be dated November 20, 2008, and will mature on November 20, 2009. Principal of and the final interest payment on the Notes will be paid, at maturity, at the rate of interest stated on the cover page hereof. Interest on the Notes is computed on the basis of a 360-day year consisting of twelve 30-day months. The Notes will not be subject to redemption prior to their stated maturity date.

DTC Book-Entry Only

The following information concerning DTC and DTC's book-entry-only system has been obtained from DTC. The District takes no responsibility for the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The following description includes the procedures and record-keeping with respect to beneficial ownership interest in each Note, payment of principal and interest, other payments with respect to each Note to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Notes with other related transactions by and between DTC, the Participants, and the Beneficial Owners. However, DTC, the Participants, and the Beneficial Owners should not rely on the following with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.

The DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org

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 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 will, however, be 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 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 entity 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 transmission to them of notices of significant events with respect to the Notes, such as redemptions,

tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Notes may wish ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners, the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Trustee, on payable date in accordance with the respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standard 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 Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor security depository). In that event, Note certificates will be printed and delivered.

Security for the Notes and Available Sources of Repayment

The Notes and the interest thereon are a general obligation of the District, but are payable solely from taxes, income, revenue, cash receipts and other moneys received by the District during the Fiscal Year and legally available for the payment of current expenses and other obligations of the District (the "Unrestricted Revenues"). Certain Unrestricted Revenues to be received by the District have been specifically pledged, as hereinafter described, to the total repayment of the Notes and the interest thereon.

As security for the timely payment of the Notes and the interest thereon, the Resolution requires the County, on the behalf of the District, to transfer the Pledged Revenues, as defined below, during the months such moneys are received, to a special repayment fund designated the "Mt. Diablo Unified School District (Contra Costa County, California) 2008 Tax and Revenue Anticipation Notes Repayment Fund" (the "Repayment Fund"). The County has committed to deposit in the Repayment Fund an amount equal to 25% of the aggregate principal amount of the Notes from the Unrestricted Revenues to be received by the District in January 2009, (ii) an amount equal to 25% of the aggregate principal amount of the Notes from the Unrestricted Revenues to be received by the District in March 2009, (iii) an amount equal to 25% of the aggregate principal amount of the Notes from the Unrestricted Revenues to be received by the District in April 2009, and (iv) an amount equal to 25% of the aggregate principal amount of the Notes, together with an amount sufficient to pay the interest thereon, from the Unrestricted Revenues to be received by the District in May 2009, together, if necessary, with an amount sufficient (net of anticipated earnings) on the moneys in the District's Repayment Fund) to satisfy and to make up any deficiency therein. The amounts pledged by the County for deposit into the Repayment Fund from the Unrestricted Revenues are referred to as "Pledged Revenues". The principal of the Notes and the interest thereon will constitute a first lien and charge against, and will be payable from, the District's Pledged Revenues.

In the event that there are insufficient unrestricted moneys received by the District to permit the deposit in the Repayment Fund of the full amount of the Pledged Revenues to be deposited in any month on the last business day of such month, then the amount of any deficiency shall be satisfied and made up from any Unrestricted Revenues of the District.

On the maturity date of the Notes, the County Treasurer-Tax Collector (the "Treasurer"), acting as paying agent on the Notes, will apply moneys in the Repayment Fund to pay the principal of and the interest on the Notes, as required. Until the Notes and all interest thereon are paid or until provision has been made for the payment of the Notes at maturity with interest to maturity, the moneys in the Repayment Fund will be applied only for the purpose for which such Repayment Fund has been created, although they may be invested in legal investments, as permitted by the Government Code of the State, subject to the limitations contained in the Resolution. See "THE NOTES—Investment of Operating Funds, Note Proceeds, and Repayment Funds" herein. Any moneys in the District's Repayment Fund after payment of all amounts due, or after provision for such payment has been made, will be transferred to the General Fund of the District.

The table below provides details as to the projected sources and amounts of Unrestricted Revenues for the Fiscal Year available for Note repayment.

2008-09 Projected Unrestricted Revenues Mt. Diablo Unified School District

Revenue Limit Sources	\$187,797,179
Federal Revenue	146,016
Other State Revenue	16,766,187
Other Local Revenue	2,847,571
Note Proceeds	<u>14,207,452</u>
Total Unrestricted Revenues	221,764,403

The District maintains certain segregated and special purpose funds outside of the General Fund. These other District funds are not pledged to the payment of the Notes and are generally restricted in purpose. However, these other District funds could be accessed by the General Fund on a temporary basis through action of the District's Board of Education (the "District Board"), if needed and to the extent monies are available therein. Any transfer between funds generally is repaid to the account of origination prior to the close of the fiscal year. The District is projecting cash balances in other District funds, in aggregate, as set forth below.

Other Funds Cash Balances Mt. Diablo Unified School District

Fund	Estimated Balance as of June 30, 2008	Projected Balance as of June 30, 2009
Deferred Maintenance	\$4,299,216	\$4,299,216
Capital Facilities Fund	2,427,241	2,487,241
Adult Education Fund	<u>1,700,183</u>	<u>1,439,076</u>
	\$8,426,640	\$8,225,533

The opinion of Bond Counsel with respect to the Notes, attached hereto as "APPENDIX C", is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditors' rights. Bankruptcy of the County or the District could affect the security of the owners of Notes, the ability of an owner to be paid in a timely manner, or both. If the County were to file for bankruptcy, the District may be unable to order payment of the Notes from moneys held by the County in the fund set aside for such payment. If the District were to file for bankruptcy, the Treasurer may be enjoined from applying set-aside funds to payment of the Notes, or from setting aside any further moneys of the District for such payment.

Investment of Operating Funds, Note Proceeds, and Repayment Funds

State law establishes that the treasurer of each county is *ex officio* treasurer of all school districts in the county. Although separately accounted for, substantially all District funds are held and invested on a pooled basis with other funds held by the Treasurer in the County Pooled Investment Fund (the "County Pool"). This pooled investment fund consists primarily of operating funds of the County and local agencies (including other school districts, community colleges and special districts) and is otherwise invested at the direction of a County Pool participant.

The proceeds received from the sale of the Notes will be deposited in a fund to be held on behalf of the District by the Treasurer, separate and distinct from all other County and District funds and accounts designated the "Mt. Diablo Unified School District (Contra Costa County, California) 2008 Tax and Revenue Anticipation Notes Proceeds Fund" (the "Proceeds Fund").

The Resolution stipulates that moneys held in the Proceeds Fund and Repayment Fund shall be invested by the Treasurer in one or more investments generally permitted to school districts under the laws of the State, consistent with the investment policy of the County and the Resolution (the "Proceeds Fund Permitted Investments"). Specifically, this includes: (a) the County Pool; (b) at the request of the District, in specific investments permitted under section 53601 of the California Government Code; (c) in the sole discretion of the District, (i) the Local Agency Investment Fund maintained by the Treasurer of the State; and (ii) investment agreements with financial institutions with senior unsecured credit ratings in one of the two highest rating categories (without regard to any refinement or gradation of such rating category by a plus or minus or a numeral) from one or more nationally recognized statistical rating organizations then rating the Notes.

Sources and Uses of Funds

The sources and uses of funds in connection with the sale and delivery of the Notes are projected as set forth in the exhibit below.

**Sources And Uses Of Funds
Mt. Diablo Unified School District
2008 Tax and Revenue Anticipation Notes**

SOURCES OF FUNDS

Par Amount of Notes	\$14,000,000
Original Issue Premium	208,740
TOTAL SOURCES OF FUNDS	<u>\$14,208,740</u>

USES OF FUNDS

Proceeds Fund	\$14,207,452
Underwriter's Discount	<u>1,288</u>
TOTAL USES OF FUNDS	<u>\$14,208,740</u>

CONTRA COSTA COUNTY INVESTMENT FUND

The information set forth under this section relating to the County Pool has been obtained from the office of the Treasurer and is believed to be reliable but is not guaranteed as to accuracy or completeness. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Contra Costa, Office of the Treasurer-Tax Collector, 625 Court Street, Room 102, Martinez, California 94553, Telephone (925) 957-2850, Facsimile Telephone (925) 957-2899, or by accessing the Treasurer's website: <http://www.co.contra-costa.ca.us/>.

State law requires that all moneys of the County, school districts, and certain special districts be held in the County treasury by the Treasurer. The Treasurer has the authority to implement and oversee the investment of funds held in the County Pool in accordance with State Government Code Section 53600 et seq. The moneys on deposit are predominantly derived from local government revenues consisting of property taxes, State and federal funding and other fees and charges. The Treasurer accepts funds only from agencies located within the County. Funds held in the County Pool are invested by the Treasurer in accordance with State law and the County's investment policy, which is prepared by the Treasurer and approved by the County Board.

The current investment policy was adopted by the County Board in June 2008. The policy statement sets forth the Treasurer's investment objectives, which are, in order of importance, safety of principal, liquidity, and yield. In addition, the County's investment policy describes the instruments eligible for inclusion in the investment portfolio and the limitations applicable to each type. An Investment Oversight Committee meets quarterly to advise the County on any future changes in investment policy as well as to regularly monitor and report on the investment performance of the County Pool.

The total County Pool equaled \$2,102,463,812 on June 30, 2008. The fair value was \$2,106,747,668, which was 100.2% of cost. As of that date, the weighted average maturity of the County Pool was 118.13 days. More than 90% of the County Pool, or over 1.895 billion, have been invested in securities that will mature in less than a year. A detailed description of the composition, cost, par value and market value of the County Pool is provided in the following table.

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Composition of County Pool as of June 30, 2008
Contra Costa County

INVESTMENT TYPE	COST	PAR VALUE	FAIR VALUE	PORTFOLIO % OF COST
A. Investments Managed by Treasurer's Office				
U.S. Treasuries (STRIPS, Bills, Notes)	\$22,596,478	\$23,178,000	\$23,836,648	1.08%
U.S. Agencies				
Federal Agriculture	\$9,299,880	\$9,013,000	\$9,281,180	0.45%
Federal Farm Credit Banks	28,409,495	28,530,000	28,773,703	1.35%
Federal Home Loan Banks	131,617,778	131,218,000	132,445,970	6.26%
Federal National Mortgage Association	64,167,837	63,997,000	64,739,837	3.05%
Federal Home Loan Mortgage Corporation	31,828,859	31,578,758	32,142,113	1.51%
Municipal Bonds	<u>2,130,094</u>	<u>2,125,000</u>	<u>2,129,005</u>	0.10%
Subtotal	\$267,453,943	\$266,461,758	\$269,511,808	12.72%
Money Market Instruments				
Repurchase Agreement	\$293,755,000	\$293,755,000	\$293,755,000	13.97%
Bankers Acceptance	59,633,806	60,000,000	59,834,508	2.84%
Commercial Paper	369,221,894	370,278,000	369,903,585	17.56%
Negotiable Certificates of Deposit	165,000,000	165,000,000	165,013,923	7.85%
Corporate Notes	42,285,050	41,286,000	41,270,666	2.01%
Time Deposit	<u>1,543,077</u>	<u>1,543,077</u>	<u>1,551,314</u>	0.07%
Subtotal	\$931,438,827	\$931,862,077	\$931,328,996	44.30%
TOTAL	\$1,221,489,248	\$1,221,501,835	\$1,224,677,452	58.10%
B. Investments Managed by Outside Contractors				
Local Agency Investment Fund	\$420,692,095	\$420,692,095	\$420,671,153	20.01%
Other				
Redevelopment Agency	28,771	28,771	28,830	0.00%
Other	671,307	671,307	671,307	0.03%
Wells Fargo Asset Management (324-131235)	45,209,575	45,209,575	45,364,000	2.15%
Columbia Management Group (Bank of America)	38,712,693	38,712,693	38,841,823	1.84%
Caltrust	70,999,660	70,999,660	71,149,463	3.38%
Guaranteed Investment Contract	189,418,308	189,418,308	190,101,485	9.01%
Subtotal	<u>\$345,040,314</u>	<u>\$345,040,314</u>	<u>\$346,156,909</u>	16.41%
TOTAL	\$765,732,410	\$765,732,410	\$766,828,062	36.42%
C. Cash	\$115,242,155	\$115,242,155	\$115,242,155	5.48%
GRAND TOTAL (FOR A, B, & C)	\$2,102,463,812	\$2,102,476,399	\$2,106,747,668	100.00%

Source: County of Contra Costa, Treasurer-Tax Collector

MT. DIABLO UNIFIED SCHOOL DISTRICT

General Information

The District is a political subdivision of the State and was established on July 1, 1949 after a successful unification election in the previous December by the original Mt. Diablo Unified School District and the twelve elementary feeder school districts within its boundaries. The District encompasses some 150 square miles and is located 30 miles northeast of San Francisco. The boundaries of the District include the cities of Concord, Pleasant Hill and Clayton, portions of Walnut Creek, Lafayette, Pittsburg and Martinez and the unincorporated areas of Bay Point and Pacheco. The District is traversed east-west by State Highway 4

North-south via Interstate 680, a main route between northern and southern San Francisco Bay Area cities. The region is also served by the Bay Area Rapid Transit District, which has four stations and one terminal in the area.

The District operates 32 elementary schools, 10 middle schools and six high schools, with 13 alternative school programs and an adult education program. In addition, one charter school operates within the District. A majority of the District's schools were built prior to 1959.

The Board of Education and Key Administrative Personnel

The District Board governs all activities related to public education within the jurisdiction of the District. The District receives funding from local, State and federal government sources, and the District Board must ensure compliance with the concomitant requirements of these funding source entities. The District Board consists of five members. Each District Board member is elected by the public for a four-year term of office and elections for the District Board are held every two years. The District Board has the decision-making authority and is accountable for all fiscal matters relating to the District. The Superintendent of the District is appointed by the District Board and reports to the District Board. The Superintendent is responsible for managing the District's day-to-day operations and supervising the work of other key District administrators. The current members of the District Board and key administrative personnel are set forth on page "iii" of this Official Statement.

**Board Member Information
Mt. Diablo Unified School District**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
April Treece	President	December 2008
Richard W. Allen	Vice President	December 2010
Gary L. Eberhart	Member	December 2008
Linda K. Mayo	Member	December 2010
Paul Strange	Member	December 2010

Average Daily Attendance

Student enrollment of a public school district in The State determines to a large extent what the school district will receive in terms of funding for program, facilities and staff needs. Average daily attendance ("ADA") is a measurement of the enrollment 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. See "STATE FUNDING OF PUBLIC EDUCATION" herein. Set forth in the exhibit below is the District's Period 2 ADA for grades kindergarten through twelve (excluding special education ADA reported by county offices) and Period 2 ADA for adult education.

**Average Daily Attendance
Mt. Diablo Unified School District**

<u>Year</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09*</u>
K-12	34,347	34,240	33,523	33,106	33,097
Adult	2,154	2,229	2,150	2,319	2,398
TOTAL	36,501	36,469	35,673	35,425	35,495

* Estimate

Teacher-to-Pupil Ratios

Set forth below are the teacher-to-pupil ratios for the District as identified in the District's 2008-09 Adopted Budget.

Teacher-to-Pupil Ratios Mt. Diablo Unified School District

<u>High Schools</u>	<u>Ratio</u>
Enrollment 0 – 799	27.5 to 1
Enrollment 800 – 999	28.9 to 1
Enrollment 1000 and over	30.5 to 1
Continuation High School	25.0 to 1
<u>Middle Schools</u>	<u>Ratio</u>
Enrollment 0 – 599	28.5 to 1
Enrollment 600 and over	29.5 to 1
<u>Elementary Schools</u>	<u>Ratio</u>
Kindergarten*	30.0 to 1
Grades 1 – 3	19.75 to 1
Grades 4 – 6	31.5 to 1

*The District participates in the kindergarten class size reduction program, whereby all elementary schools within the District to reduce kindergarten class size to 20 to 1.

Charter Schools

There is currently one charter school operating within the District, Eagle Peak Montessori Charter School, currently serving grades one through six. To the extent charter schools draw students from District schools and reduce District enrollment, charter schools can adversely affect District revenues. The District is required to accommodate charter school students originating in District in facilities comparable to those provided to regular District students.

Employee Relations

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

The District has four recognized bargaining units which represent its employees: (i) the Mt. Diablo Education Association ("MDEA"), which represents teachers, nurses, librarians and other non-management certificated employees; (ii) the California School Employees Association ("CSEA"), which represents para-professional employees; (iii) the Public Employees Union Local #1, ("Local #1") which represents two distinct groups: a) the maintenance and operations group including craftsman, custodians, bus drivers and food service personnel, and b) the clerical, secretarial and technical group; and, (iv) the Mt. Diablo School Psychologists Association ("MDSPA"), which represents the District's psychologists.

Set forth in the following table are the District's bargaining units, number of employees by full-time equivalents ("FTE") based on reported figures in the District's Fiscal Year budget, and contract status.

Not represented in the following table is the Diablo Management Association. The Diablo Management Association is comprised of employees in the management group, confidential group, supervisory group, and other similar groups, with a total of 208 FTE. This association has no bargaining power. In addition, the District has approximately 100 other full-time employees, including certain supervisory employees, charter school employees, interns, etc.

Bargaining Units, Number Of Employees, And Contract Status Mt. Diablo Unified School District

<u>UNITS</u>	<u># OF FTE</u>	<u>STATUS</u>
MDEA	1,843	Contract expired 6/30/07 currently in negotiations
CSEA	624	Contract expired 6/30/07 currently in negotiations
LOCAL #1	787	Contract expired 6/30/07 currently in negotiations
MDSPA	35	Contract expired 6/30/07 currently in negotiations

As shown above, all of the contracts are still in negotiation. The District does not expect a significant impact on the budget after reaching agreement with each bargaining unit.

Pension Plans

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

STRS operates under the State Education Code sections commonly known as the State Teachers' Retirement Law. Membership is mandatory for all certificated employees of public schools within the State meeting the eligibility requirements. STRS provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty-five.

All full-time classified employees of the District participate in PERS, which provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and District resolution. For a more complete description of the District's pension plan and annual contribution requirements, see APPENDIX A" attached hereto.

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. The pronouncement requires public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

ASB Statement No. 45 ("GASB 45") was effective for the District beginning fiscal year 2007-08.

ASB 45 provides that agencies should establish a reserve fund and annually transfer sufficient funds to this reserve in order to pay for retiree other post-employment benefits ("OPEB"), for the period of time agreed in union contracts. Employees who are eligible to receive OPEB while in retirement must meet specific criteria, i.e., age and years with the District.

The District provides post employment health care benefits in the form of subsidized health insurance, in accordance with the District's employment contracts, to qualifying employees until age 65. Expenditures for OPEB are recognized on a pay-as-you-go basis. The District estimates actual OPEB expenditures in fiscal year 2007-08 of \$2,205,137, and has budgeted \$3,622,891 for fiscal year 2008-09.

In early 2008, in accordance with GASB 45, Total Compensation Systems, Inc. completed an actuarial study identifying the District's OPEB liability. The study determined the District's OPEB unfunded actuarial accrued liability ("UAAL") as of May 1, 2008 to be \$71,018,299. The District has no plans to fund its UAAL.

DISTRICT FINANCIAL INFORMATION

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual, which must be used by all school districts within the State pursuant to Section 41010 of the State Education Code. The District's basic financial statements consist of government-wide statements and fund-based financial statements. Government-wide statements, consisting of a statement of net assets and a statement of activities, report all the assets, liabilities, revenue and expenses of the District and are accounted for using the economic resources measurement focus and accrual basis of accounting. The fund-based financial statements consist of a series of statements that provide information about the District's major and non-major funds. Governmental funds, including the District's General Fund, special revenues funds, capital project funds and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See "NOTE 1" in "APPENDIX A" herein for a further discussion of applicable accounting policies.

The District's independent auditor for the fiscal year ended June 30, 2007 is Perry Smith LLP Accountants, Sacramento, California. The financial statements of the District as of and for the fiscal year ended June 30, 2007, are set forth in "APPENDIX A" attached hereto. The auditor has not performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter.

Budget and Financial Reporting Process

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

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

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

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

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

The governing board must submit a budget to the County Superintendent by July 1, and a publicized opportunity for public participation in the budget process is required by law. There are two options for budget adoption. School districts may adopt their budgets by July 1 and then revise and readopt them by September 1 after a public hearing. Alternatively, school districts may decide, by the previous October 31, to hold public hearings before adopting their budgets by July 1. School districts choosing this option revise their revenues and expenditures after the State budget act is adopted, without a second public hearing. All school districts must perform a criteria and standards review before budget adoption. In addition, those school districts on the alternative schedule for adoption must repeat the review before their revision only if the July 1 budget was disapproved. Legislation requires criteria and standards for stringent review of school districts' finances, focusing primarily on prediction

verage daily attendance, operating deficit, and reserves. The legislation also dictates when and how outside committees, or an appointed Paying Agent in emergency situations, must work with school districts. This oversight is part of an effort to reduce the number of districts in financial trouble and to increase the responsible use of tax dollars.

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

Each school district is required by the State Education Code to file these two interim reports each year by not later than December 5 and March 15. The county offices of education must then, within 30 days, evaluate the interim reports and forward their comments to the State Department of Education and the State Controller's Office. Included in the report is a certification by the president of the governing board of each school district that classifies the District according to its ability to meet its financial obligations. The certifications are grouped into three categories: positive certification, which designates that the District will be able to meet its financial obligations for the remainder of the fiscal year and the following two years; a qualified certification, which means that the District may not be able to meet its financial obligations for the remainder of the fiscal year and following two years if certain events occur; and a negative certification, which signifies that the District will not be able to meet its financial obligations for the remainder of the fiscal year or of the following year.

Financial Statements

Figures presented in summarized form herein have been gathered from the District's financial statements. The audited financial statements of the District for the fiscal year ending June 30, 2007, have been included in this Official Statement. See APPENDIX C" herein. Audited financial statements for all prior fiscal years are on file with the District and available for public inspection during normal business hours. Copies of financial statements relating to any year are available to prospective investors and their representatives upon request by contacting the District at the address and telephone number set forth on page "iii" of this Official Statement, or by contacting the District's financial advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California, 95814-5609, Tel. (916) 444-5100.

The District received positive certifications for both interim reports for fiscal years 2004-05, 2005-06, and 2006-07. In fiscal year 2007-08 the District received a positive certification for its first interim report and a qualified certification for its second interim report.

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

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**General Fund Activity For The Fiscal Years Indicated
Mt. Diablo Unified School District**

	2004-05 <u>Audited</u>	2005-06 <u>Audited</u>	2006-07 <u>Audited</u>	2007-08 <u>Unaudited Actuals</u>	2008-09 <u>Adopted Budget</u>
BEGINNING BALANCE	\$19,190,623	\$19,742,322	\$23,848,500	\$33,796,506	\$33,607,694
REVENUES					
Revenue Limit Sources	\$172,585,436	\$178,689,734	\$192,760,661	\$195,343,584	\$193,888,600
Federal Revenue	17,000,599	18,076,778	17,109,636	15,661,622	14,374,900
Other State Revenues	51,646,376	56,161,530	71,324,192	72,174,046	64,932,200
Other Local Revenues	10,578,961	13,571,905	13,614,529	11,162,493	6,640,000
TOTAL REVENUES	\$251,811,372	\$266,499,947	\$294,809,018	\$294,341,745	\$279,835,800
EXPENDITURES					
Certificated Salaries	\$125,738,482	\$130,692,909	\$138,048,012	\$139,432,821	\$134,620,000
Classified Salaries	41,031,155	40,962,035	44,260,173	45,670,549	43,995,200
Employee Benefits	42,624,593	45,344,736	48,253,241	50,831,039	52,872,400
Books and Supplies	9,421,700	10,486,240	15,547,678	15,443,407	13,925,300
Services & Other Op. Expn.	28,542,316	33,088,023	36,607,043	40,055,224	36,994,800
Capital Outlay	1,940,235	861,138	6,777,532	5,900,302	3,080,800
Other Outgo	1,867,889	875,190	1,310,925	1,263,363	1,455,600
Transfers of Indirect/Direct	n/a	n/a	n/a	(2,105,147)	(641,300)
Debt Service	125,688	109,218	41,258	n/a	n/a
TOTAL EXPENDITURES	\$251,292,058	\$262,419,489	\$290,845,862	\$296,491,557	\$286,302,800
FINANCING SOURCES (USES)	\$32,385	\$25,720	\$5,984,850	\$1,961,001	(\$1,608,000)
NET INCREASE (DECREASE)	\$551,699	\$4,106,178	\$9,948,006	(\$188,812)	(\$8,075,400)
ENDING BALANCE	\$19,742,322	\$23,848,500	\$33,796,506	\$33,607,694	\$25,532,200

Revenues

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

Revenue Limit Sources. Since fiscal year 1973-74, school districts have operated under general purpose revenue limit established by the State Legislature. In general, the state revenue limit for a school district is calculated by multiplying a "revenue limit" per student by the school district's student enrollment measured in ADA. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all school districts of the same type within the State. The District's base revenue limit per unit of ADA was \$5,779.67 in fiscal year 2007-08, and is budgeted to be \$6,108.67 before application of a 0.94640 deficit factor in the Fiscal Year 2008-09.

Revenue limit sources account for approximately 66.0% of total General Fund revenues in fiscal year 2007-08, and are budgeted to be approximately 69.3% of General Fund revenues in the Fiscal Year. Funding of the District's revenue limit is accomplished by a mix of a) local taxes (composed predominantly of property taxes, and including miscellaneous taxes and community redevelopment funds, if any) and b) State apportionments of basic and equalization aid. The District estimates receiving \$106,152,854 from local taxes (including charter schools in-lieu taxes) and \$87,557,612 in State Aid in the Fiscal Year for revenue limit funding.

Federal Sources. The federal government provides funding for several District programs. These federal revenues, most of which are restricted, were 5.3% of General Fund revenues in fiscal year 2007-08, and are budgeted to be 5.1% of General Fund revenues in the Fiscal Year.

Other State Sources. In addition to apportionment revenues, the State provides funding for several District programs. These Other State revenues, most of which are restricted, were 24.4% of General Fund revenues in fiscal year 2007-08, and are budgeted to be 23.2% of General Fund revenues in the Fiscal Year. Included in Other State Sources are proceeds received from the State from the State Lottery.

Other Local Sources. In addition to property taxes, the District receives additional local revenues. Revenues from Other Local sources were 3.8% of General Fund revenues in fiscal year 2007-08, and are budgeted to be 2.4% of General Fund revenues in the Fiscal Year.

Expenditures

Employee salaries and benefits account for approximately 79.6% of the District's General Fund expenditures in fiscal year 2007-08, and are budgeted to be 80.9% of general fund expenditures in the Fiscal Year. The District employs 2,029 FTE certificated employees, of which 2,002 FTE are paid from the General Fund, and 1,246 FTE classified employees, of which 1,076 FTE are paid from the General Fund.

Short Term Borrowings

The District has in the past issued short-term tax and revenue anticipation notes payable from the General Fund of the District. Proceeds from the issuance of notes by the District during previous fiscal years have been used to reduce inter-fund dependency and to provide the District with greater overall efficiency in the management of its funds. The District has never defaulted on any of its short-term borrowings.

**Ten-Year History of Short Term Cash-Flow Financing Program
Mt. Diablo Unified School District**

<u>Date of Issuance</u>	<u>Amount of Notes</u>	<u>S&P Rating</u>
October 29, 1997	\$13,800,000	SP 1+
October 29, 1998	\$14,600,000	SP 1+
October 20, 1999	\$16,800,000	SP 1+
October 31, 2000	\$15,500,000	SP 1+
November 26, 2002	\$15,000,000	SP 1+
November 18, 2003	\$22,000,000	SP 1+
October 27, 2004	\$23,000,000	SP 1+
October 27, 2005	\$38,000,000	SP 1+
November 21, 2006	\$26,000,000	SP 1+
November 29, 2007	\$10,000,000	SP 1+

Capitalized and Bonded Lease Obligation

The District's has made use of various capital lease arrangements in the past under agreements which provide for title of items and equipment being leased to pass to the lessee district upon expiration of the lease period. Under each such agreement, the board has promised to annually appropriate the amounts necessary to make all future lease payments from available revenues. All lease and capitalized lease obligations of the District as of June 30, 2007, are payable from the general fund and are set forth in "APPENDIX A" attached hereto. Since then, the District has entered into one additional lease purchases to finance energy efficiency improvements to its facilities with a 15-year term and level debt service, as shown in the following table.

**Lease Purchases
Mt. Diablo Unified School District**

<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding as of June 30, 2008</u>	<u>Debt Service in Fiscal Year 2008-09</u>
September 21, 2006	September 2021	\$6,015,131.00	\$5,727,425.20	\$563,136.56
September 11, 2007	September 2022	\$3,900,000.00	\$3,900,000.00	\$363,643.34

The District has one series certificates of participation outstanding, as shown in the following table.

**Certificates of Participation
Mt. Diablo Unified School District**

<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding as of June 30, 2008</u>	<u>Debt Service in Fiscal Year 2008-09</u>
April 21, 1998	December 1, 2019	\$7,760,000.00	\$5,890,000.00	\$477,582.88

Long Term Borrowings

In a general obligation held on March 2, 2002, voters approved, under Measure "C", a \$250,000,000 General Obligation Issuance. The following table sets forth the District's issuances under Measure "C", which has been exhausted following the issuance of 2006 General Obligation Bonds.

**General Obligation Bonds
Mt. Diablo Unified School District**

<u>Authorization</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding as of June 30, 2008</u>	<u>Debt Service in Fiscal Year 2008</u>
Election of 2002	June 20, 2002	August 1, 2026	\$69,400,000.00	\$46,030,000.00	\$3,761,012.50
Election of 2002	June 10, 2004	July 1, 2029	\$121,000,000.00	\$112,305,000.00	\$8,658,381.25
Election of 2002	June 1, 2006	June 1, 2031	\$59,600,000.00	\$59,600,000.00	\$3,109,030.00

In a general election held on November 7, 1989, voters approved, under Measure "A", a \$90,000,000 Special Tax Bond (also known as Mello Roos Bond) authorization. The following table sets forth the District's issuances under Measure "A".

Special Tax Bonds
Mt. Diablo Unified School District

<u>Authorization</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding as of June 30, 2008</u>	<u>Debt Service in Fiscal Year 2008-09</u>
Election of 1989	June 20, 2002	August 1, 2022	\$29,000,000.00	\$23,785,000.00	\$2,194,510.00
Election of 1989	June 30, 2005	August 1, 2024	\$15,760,000.00	\$14,775,000.00	\$1,077,573.76
Election of 1989	June 28, 2006	August 1, 2025	\$29,995,000.00	\$28,445,000.00	\$1,081,798.75

In February of 2003, the Redevelopment Agency of the City of Pittsburg made an interest free loan of \$6,178,936 to the District. As of May 31, 2008, \$5,681,924.61 in principal remains outstanding.

All outstanding bonds and long-term liabilities of the District as of June 30, 2007, are set forth "APPENDIX A" attached hereto. Please refer to the appendix for more detail. The District has never defaulted on any of its long-term bonded indebtedness.

Monthly Cash Flow

The District has prepared for use in this Official Statement the following cash flow statements that show unaudited actual cash receipts and disbursements for fiscal year 2007-08, and projected cash receipts and disbursements for the Fiscal Year.

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MT DIABLO UNIFIED SCHOOL DISTRICT
ACTUAL MONTHLY CASH FLOW OF THE GENERAL FUND
FISCAL YEAR 2007-08

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
BEGINNING CASH	\$36,888,561	\$38,273,196	\$20,354,631	\$26,542,459	\$20,370,102	\$17,358,662	\$60,599,968	\$49,718,139	\$45,358,707	\$39,022,491	\$58,737,198	\$40,648,988	\$36,888,561
RECEIPTS													
REVENUE LIMIT SOURCES													
PROPERTY TAX	\$0	\$0	\$2,970,308	\$629,262	\$0	\$50,131,310	\$1,630,284	\$295,179	(\$555,485)	\$37,999,485	(\$33,096)	\$9,101,349	\$102,168,595
STATE AID	5,682,586	11,365,172	7,538,229	7,564,919	7,564,919	7,564,919	7,564,919	10,724,612	5,362,306	5,362,306	5,362,306	0	81,657,192
OTHER	(124,927)	0	0	0	0	0	0	(1,305,649)	(652,825)	(652,825)	(888,126)	0	(3,624,351)
FEDERAL REVENUE	328,532	46,095	542,162	2,199,706	185,732	615,589	3,332,333	379,485	3,878,444	142,688	3,080,177	258,725	14,789,669
OTHER STATE REVENUE	2,302,297	317,237	9,045,415	8,536,503	5,342,473	3,717,849	9,711,981	7,468,599	11,828,447	4,269,376	2,959,352	2,555,649	68,055,177
OTHER LOCAL REVENUE	191,606	365,598	5,755,799	912,525	28,477,332	591,608	1,846,290	610,788	670,068	1,837,182	1,071,805	2,670,805	45,001,406
INTERFUND TRANSFERS IN	184,755	52,269	1,328,087	4,937	40,653	5,785	133,417	1,738,230	15,456	13,079	26,690	7,758	3,551,116
ACCOUNTS RECEIVABLE	12,084,209	58,785	3,923,252	0	0	0	0	0	0	0	0	0	16,066,245
NOTE RECEIPT	0	0	0	0	10,068,400	0	0	0	0	0	0	0	10,068,400
TOTAL RECEIPTS	\$20,649,058	\$12,205,156	\$31,103,252	\$19,847,852	\$51,679,509	\$62,627,059	\$24,219,223	\$19,911,244	\$20,346,412	\$48,971,291	\$11,579,109	\$14,594,286	\$337,733,450
DISBURSEMENTS													
CERTIFICATED SALARIES	\$1,599,775	\$3,984,944	\$12,646,288	\$13,181,155	\$13,399,367	\$8,320,804	\$18,569,942	\$13,076,207	\$13,281,489	\$13,654,311	\$13,162,479	\$13,532,902	\$138,409,664
CLASSIFIED SALARIES	1,761,730	3,232,793	3,886,285	4,083,387	4,359,288	4,156,085	4,069,412	4,020,829	3,917,720	4,228,511	3,840,178	3,400,724	44,956,943
EMPLOYEE BENEFITS	2,642,931	3,481,821	4,319,493	4,206,520	4,435,330	3,682,388	5,414,337	4,489,593	4,331,282	4,704,593	4,365,945	4,410,289	50,484,523
SUPPLIES AND SERVICES	1,607,748	3,702,795	3,905,590	4,184,153	5,238,852	2,963,986	3,600,575	2,851,389	2,502,137	3,911,465	4,810,305	5,440,001	44,718,996
CAPITAL OUTLAY	79	1,181,814	207,739	364,994	125,131	437,903	946,785	24,819	220,518	326,957	663,905	686,869	5,187,512
INTERFUND TRANSFERS OUT	0	0	0	0	118,967	0	0	0	0	0	0	0	118,967
OTHER OUTGO	0	0	(49,971)	0	27,014,014	(175,413)	0	(192,161)	(70,519)	(69,253)	(75,493)	(69,208)	26,311,996
ACCOUNTS PAYABLE	11,652,159	14,539,555	0	0	0	0	0	0	0	0	0	0	26,191,713
NOTE PLEDGE	0	0	0	0	0	0	2,500,000	0	2,500,000	2,500,000	2,900,000	0	10,400,000
TOTAL DISBURSEMENTS	\$19,264,422	\$30,123,721	\$24,915,424	\$26,020,210	\$54,690,949	\$19,385,753	\$35,101,051	\$24,270,676	\$26,682,628	\$29,256,583	\$29,667,319	\$27,401,578	\$346,780,315
NET CHANGE CASH	\$1,384,635	(\$17,918,565)	\$6,187,828	(\$6,172,358)	(\$3,011,440)	\$43,241,306	(\$10,881,829)	(\$4,359,433)	(\$6,336,216)	\$19,714,708	(\$18,088,211)	(\$12,807,292)	(\$9,046,865)
ENDING CASH	\$38,273,196	\$20,354,631	\$26,542,459	\$20,370,102	\$17,358,662	\$60,599,968	\$49,718,139	\$45,358,707	\$39,022,491	\$58,737,198	\$40,648,988	\$27,841,696	\$27,841,696
2007-08 NOTE REPAYMENT FUND													
Beginning Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500,000	\$2,500,000	\$5,000,000	\$7,500,000	\$10,400,000	\$0
Receipts	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500,000	\$0	\$2,500,000	\$2,500,000	\$2,900,000	\$0	\$10,400,000
Disbursements	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ending Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500,000	\$2,500,000	\$5,000,000	\$7,500,000	\$10,400,000	\$10,400,000	\$10,400,000

MT DIABLO UNIFIED SCHOOL DISTRICT
PROJECTED MONTHLY CASH FLOW OF THE GENERAL FUND
FISCAL YEAR 2008-09

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
BEGINNING CASH	\$27,841,696	\$28,719,419	\$34,308,881	\$18,529,272	\$10,945,058	\$12,249,007	\$48,517,144	\$36,137,598	\$28,808,885	\$12,336,735	\$48,936,244	\$44,485,648	\$27,841,696
RECEIPTS													
REVENUE LIMIT SOURCES													
PROPERTY TAX	\$0	\$0	\$2,945,601	\$601,323	\$0	\$50,483,154	\$1,388,316	\$0	\$0	\$49,547,845	\$0	\$1,186,615	\$106,152,854
STATE AID	845,639	11,226,722	12,309,603	5,879,082	7,109,464	7,109,464	7,109,464	7,109,464	7,215,644	7,215,644	14,605,618	0	87,735,808
OTHER	0	0	0	0	0	0	0	0	0	0	0	0	0
FEDERAL REVENUE	427,267	91,646	52,511	985,481	1,025,846	1,754,645	1,235,846	1,354,687	1,549,864	2,312,785	2,658,241	926,151	14,374,970
OTHER STATE REVENUE	448,675	3,906,094	622,321	6,657,988	5,678,723	3,365,402	3,326,487	12,357,760	5,642,189	7,642,189	9,567,814	5,716,564	64,932,206
OTHER LOCAL REVENUE	483,991	469,057	1,713,345	358,465	536,864	321,541	684,271	354,684	685,645	564,345	244,688	447,709	6,864,604
INTERFUND TRANSFERS IN	0	0	0	0	0	0	39,565	0	0	0	0	0	39,565
ACCOUNTS RECEIVABLE	11,647,245	4,633,792	1,727,956	5,311,438	0	0	0	0	0	0	0	0	23,320,431
NOTE RECEIPT	0	0	0	0	14,207,452	0	0	0	0	0	0	224,583	14,432,035
TOTAL RECEIPTS	\$13,852,817	\$20,327,311	\$19,371,336	\$19,793,777	\$28,558,349	\$63,034,206	\$13,783,949	\$21,176,595	\$15,093,342	\$67,282,808	\$27,076,361	\$8,501,623	\$317,852,473
DISBURSEMENTS													
CERTIFICATED SALARIES	\$1,340,240	\$3,411,280	\$12,412,976	\$13,541,040	\$13,541,040	\$13,541,040	\$8,218,213	\$13,541,040	\$13,541,040	\$13,541,040	\$13,541,040	\$14,450,024	\$134,620,012
CLASSIFIED SALARIES	1,711,814	3,098,950	3,792,785	3,832,408	3,832,408	3,954,605	3,832,408	4,132,408	4,082,408	3,932,408	3,932,408	3,860,211	43,995,221
EMPLOYEE BENEFITS	2,472,749	3,052,614	4,030,442	4,551,305	4,531,536	4,641,234	4,574,121	4,962,461	4,946,611	4,814,113	4,814,113	5,481,114	52,872,412
SUPPLIES AND SERVICES	1,315,425	3,524,030	4,025,494	5,104,511	5,046,754	4,357,113	5,645,044	5,512,345	5,134,564	4,546,813	5,013,456	1,694,602	50,920,149
CAPITAL OUTLAY	0	481,312	306,446	259,342	264,314	216,453	345,601	233,513	255,435	223,544	235,462	259,415	3,080,836
INTERFUND TRANSFERS OUT	0	0	0	0	0	0	0	0	0	0	0	1,647,958	1,647,958
OTHER OUTGO	0	7,553	7,553	89,384	38,348	55,624	48,108	123,541	105,434	125,381	105,478	107,834	814,238
ACCOUNTS PAYABLE	6,134,867	1,162,111	10,575,251	0	0	0	0	0	0	0	0	0	17,872,229
NOTE PLEDGE	0	0	0	0	0	0	3,500,000	0	3,500,000	3,500,000	3,885,000	0	14,385,000
TOTAL DISBURSEMENTS	\$12,975,094	\$14,737,848	\$35,150,945	\$27,377,990	\$27,254,400	\$26,766,069	\$26,163,495	\$28,505,308	\$31,565,492	\$30,683,299	\$31,526,957	\$27,501,157	\$320,208,056
NET CHANGE CASH	877,723	5,589,462	(15,779,609)	(7,584,214)	1,303,949	36,268,137	(12,379,546)	(7,328,713)	(16,472,150)	36,599,509	(4,450,596)	(18,999,535)	(2,355,583)
ENDING CASH	\$28,719,419	\$34,308,881	\$18,529,272	\$10,945,058	\$12,249,007	\$48,517,144	\$36,137,598	\$28,808,885	\$12,336,735	\$48,936,244	\$44,485,648	\$25,486,113	\$25,486,113
2008-09 NOTE REPAYMENT FUND													
Beginning Balance	0	0	0	0	0	0	0	3,500,000	3,500,000	7,000,000	10,500,000	14,385,000	0
Receipts	0	0	0	0	0	0	3,500,000	0	3,500,000	3,500,000	3,885,000	0	14,385,000
Disbursements	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	0	0	0	0	0	0	3,500,000	3,500,000	7,000,000	10,500,000	14,385,000	14,385,000	14,385,000

COUNTY ECONOMIC PROFILE

General Information

The County is one of 58 counties in the State, and is part of the San Francisco-Oakland-Fremont metropolitan statistical area covering an area of approximately 798 square miles. The County is located in the East Bay, approximately 74 miles southwest of Sacramento. The western and northern area shorelines are highly industrialized, while the interior sections are residential, commercial and light industrial. According to the Bureau of Economic Analysis, in 2005, the County had per capita personal income of \$48,618, which places it 5th in the State. This figure was 132% of the state average and 141% of the national average. Based on the 2004 Census estimate, the median household income was \$65,459. Based on data compiled by DataQuick, the median house value of a single-family home in the County was approximately \$464,000 in January 2008, down from \$550,000 in January 2007, a decrease of 15.6%.

Population

County population has grown an average of approximately 1.2% annually since 2003. The following displays population data for the previous six years for the County and select cities within the County.

Historical Population Estimates Contra Costa County and Selected Cities

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Antioch	100,549	100,308	99,723	99,684	100,361
Concord	124,783	124,527	123,430	122,951	123,776
Pittsburg	61,456	62,147	62,218	62,712	63,652
Richmond	101,618	102,269	102,230	103,351	103,577
Walnut Creek	66,111	66,020	65,319	65,085	65,306
<u>Balance of County</u>	<u>157,102</u>	<u>160,554</u>	<u>165,060</u>	<u>169,141</u>	<u>173,573</u>
County Total	1,005,590	1,016,304	1,026,234	1,037,580	1,051,674

Source: California Department of Finance.

County Unemployment

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

Historical Unemployment Data Contra Costa County

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Labor Force	512,737	512,552	516,036	518,535	526,100
Number of Employed	481,427	484,644	490,980	496,345	501,200
Number of Unemployed	31,310	27,908	25,056	22,190	24,900
Unemployment Rate	6.1%	5.4%	4.9%	4.3%	4.7%

Source: California Employment Development Department.

Major Employers

The following table provides a listing of major employers in the County.

Major Employers Contra Costa County

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Bank of the West	Walnut Creek	Banks
BART	Richmond	Transit Lines
Chevron Corp	San Ramon	Oil Refiners (Manufacturers)
Chevron Global Downstream LLC	San Ramon	Petroleum Products (Wholesale)
Concord Naval Weapons Station	Concord	Federal Government-National Security
Contra-Costa Regional Medical Center	Martinez	Government Offices - County
Diablo Valley College	Pleasant Hill	Schools, Universities - Colleges
Doctor's Medical Center	San Pablo	Hospitals
John Muir Health	Walnut Creek	Hospitals
John Muir Health FOUNDATION	Walnut Creek	Hospitals
John Muir MEDICAL CTR	Concord	Hospitals
John Muir PHYSICAL REHAB	Concord	Rehabilitation Services
Kaiser Permanente Medical Center	Martinez	Health Plans
Kaiser Permanente Medical Center	Walnut Creek	Hospitals
PMI Mortgage Insurance Company	Walnut Creek	Insurance - Mortgage
Richmond City Offices	Richmond	Government Offices – City, Village & TWP
San Ramon Regional Medical Center	San Ramon	Hospitals
Shell Martinez Refinery	Martinez	Oil Refiners (Manufacturers)
Shell Oil Products Company	Martinez	Service Stations-Gasoline & Oil
St. Mary's College of California	Moraga	Schools-Universities & Colleges Academic
St. Mary's College-California	Moraga	Schools-Universities & Colleges Academic
Sutter Delta Medical Ctr.	Antioch	Hospitals
TESORO Petroleum	Pacheco	Oil Refiners (Manufacturers)
US Veterans Medical Center	Martinez	Hospitals
USS-POSCO Industries	Pittsburg	Steel Mills (Manufacturers)

Source: California Employment Development Department

TAXATION AND APPROPRIATIONS

Ad Valorem Property Taxation

The District utilizes the services of the County and Solano County for the assessment and collection of taxes for District purposes, except for public utility property that is assessed by the State Board of Equalization.

The State Constitution and sections of various State statutes provide exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals, charitable institutions and for severely handicapped individuals. The State Constitution exempts from *ad valorem* property taxation \$7,000 of full value of owner occupied dwellings, and requires the Legislature to reimburse each local government for revenue lost as a result of the exemption.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other state-assessed property is allocated to the counties by the 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 distribution of taxes in the prior year.

Recent changes in the State electric utility industry and in the way in which components of the industry are regulated and own including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact these changes on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, including the District.

Because the District is not a "basic aid" district, any taxes lost due to a reduction in, or transfer to another jurisdiction of, utility property assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. "STATE FUNDING OF PUBLIC EDUCATION—Sources of Revenue for Public Education" herein.

Alternative Method of Tax Apportionment

In fiscal year 1950-51, the County Board approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), pursuant to sections 4701 through 4717 of the State's Revenue Taxation Code. This action of the County Board came pursuant to the endorsement of the Teeter Plan by the taxing districts in the County. The Teeter Plan guarantees distribution of all ad valorem taxes levied to the taxing entities within the County, with the County retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections. The purpose of utilizing the Teeter Plan is to simplify the tax-levying and tax-apportioning process and to provide increased predictability of revenues for the taxing jurisdictions.

The Treasurer's cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates monies from interest and penalty collections. Amounts in the tax loss reserve fund above a statutorily defined threshold may be credited to the County's general fund. Amounts in the tax loss reserve fund may only be used to cover the losses that may occur in the amount of tax liens as a result of special sales of tax-defaulted property.

A county electing to utilize the Teeter Plan may elect to discontinue its use for any tax levying agency if the rate of secured delinquencies in any fiscal year exceeds 3% of the total of all taxes levied on the secured roll of that agency. The County Board may also order its discontinuance, or if prior to the commencement of any fiscal year, the County Board receives a petition for discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued, only those secured property taxes actually collected would be allocated to political subdivisions including the District; however, the District would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law.

STATE FUNDING OF PUBLIC EDUCATION

Revenue for Public Education

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

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

Statewide, approximately 13% of school districts' revenues come from the federal government, and about 6% come from local miscellaneous sources. The latter category includes items such as food sales, money for debt repayment, interest on reserves and

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

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

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

The State Revenue Limit. The State Revenue Limit was first instituted in 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district, community college district or county board of education is entitled to receive from state and local sources. Each school district has its own target amount of funding from State funds and local property taxes per Average Daily Attendance (the "ADA"). The ADA is the average number of pupils attending school over the year. This target is known as revenue limit, and the funding from this calculation forms the bulk of all school districts' income. The State Legislature usually grants annual cost-of-living adjustments (COLAs) to revenue limits. The exact amount depends on whether the school district is an elementary, high school or a unified school district.

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

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

Distribution of Revenue for School Districts

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

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

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

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

School Facilities. Growing enrollments and/or aging facilities require school districts to build or make major renovations of school buildings. The income from developer fees on residential or commercial property is insufficient to fund all facilities costs. Voter approved general obligation bond moneys may only be used for purchase or improvement of real property, while Measure 5 taxes can be used for this as well as for ongoing maintenance or purchase of needed equipment. A majority of voters regularly approved state bond measures for the construction or reconstruction of schools.

The 2008-09 State Budget

The information in this section has been compiled from publicly available information through the California Department of Finance. The District and the Underwriter do not assume any responsibility for the accuracy of such information as set forth and incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.

On September 23, 2008, the Governor signed into law the 2008-09 Budget Act (the "2008-09 Budget").

The State General Fund. State general fund expenditures are budgeted to be \$103.4 billion in fiscal year 2008-09, virtually a 0.1% increase from estimated fiscal year 2007-08 State general fund expenditures of \$103.3 billion. State general fund revenues are budgeted to be \$101.9 billion in fiscal year 2008-09, a decrease of \$1.1 billion from estimated 2007-08 State general fund revenues of \$103.0 billion. The fiscal 2008-09 year-end reserve is budgeted to be \$1.7 billion, down from an estimated \$1.8 billion reserve for fiscal 2007-08 year-end. The 2008-09 Budget includes the effect of various measures that are not yet in law.

Funding for Education. The State has been experiencing a consistent decline in student ADA as a result of a steady decline in birth rates throughout the 1990s. ADA for K-12 is projected to decrease from 5,947,000 in fiscal year 2007-08 to 5,916,000 in fiscal year 2008-09.

Proposition 98 sets the minimum funding levels for K-12 and community college education based on a complex set of formulas using a multitude of factors, including the prior year level of funding, State General Fund revenues, per capita personal income, and school attendance growth or decline (see "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING REVENUES & EXPENDITURES" herein).

The 2008-09 Budget provides for \$58.1 billion in Proposition 98 funding, an increase of \$1.5 billion from estimated 2007-08 funding levels of \$56.6 billion. The State general fund provides \$41.9 billion of the \$58.1 billion Proposition 98 funding in fiscal year 2008-09, with the remaining balance funded by local property taxes (including the effect of new legislation requiring redevelopment agencies to transfer certain tax increment revenues to local education agencies). In 2007-08, the State general fund provided \$41.5 billion of the \$56.6 billion Proposition 98 funding. K-12 Proposition 98 per-pupil funding is projected to be \$8,784 in 2008-09, up from \$8,509 in 2007-08.

The cost of living adjustment ("COLA") for K-12 education and community colleges included in the 2008-09 Budget is 0.68% (the statutory COLA of 5.66% less a deficit factor of 4.98%). No COLA is provided for categorical programs.

Total K-12 education funding from all sources is budgeted to be \$71.9 billion in the fiscal year 2008-09 (approximately \$30 billion of which is from State, federal and local property tax accounted for in the 2008-09 Budget). Total K-12 per pupil funding from all sources is projected to be \$12,152 in fiscal year 2008-09, an increase of \$110 from \$12,042 in fiscal year 2007-08.

The full text of the 2008-09 Budget may be found at the State Department of Finance website, www.dof.ca.gov.

Future Budgets

The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years.

education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools as budgeted. Continued State budget shortfalls in future fiscal years could have an adverse financial impact on the District.

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

CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES & EXPENDITURES

Article XIII A. In an election held on June 6, 1978, the voters of the State approved an initiative amendment to the State Constitution. The amendment added Article XIII A to the State Constitution, commonly known as Proposition 13, which limits the taxing powers of State public agencies. Except as described in the following paragraph, Article XIII A provides that the maximum *ad valorem* tax on real property cannot exceed one percent of the "full cash value" which is defined as the "county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction. The "full cash value" is subject to annual adjustments to reflect increases not to exceed two percent per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

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

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

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

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

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

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

Proposition 98/111: On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act". Proposition 98 changed State funding of public education below the university level and the operation of the State's appropriations limit, primarily guaranteeing K-14 schools a minimum share of General Fund revenues. Under Proposition 98 (as modified by Proposition 13 which was enacted on June 5, 1990, hereinafter defined as "Proposition 98/111"), K-14 schools are guaranteed the greater of (a) the percentage of General Fund revenues appropriated for school districts in Fiscal Year 1986-87 ("Test 1"); (b) the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State *per capita* personal income) and enrollment ("Test 2"); or (c) a third test which would replace Test 2 in any year in which the percentage growth in State *per capita* personal income is greater than the percentage growth on *per capita* General Fund revenues plus one-half of one percent ("Test 3").

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

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

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

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

Article XIIC and Article XIID. On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes except as allowed by Article XIIA; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIID also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIIC and XIIA of the State Constitution and special taxes approved by a two-thirds vote under Article XIIA, Section 4.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer/tax collector (of each county) to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. Legislation adopted in 1997 provides that Article XIIC will not be construed to mean that any Owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure, which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by school districts.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Possible Future Actions. Article XIIA, Article XIIB and Propositions 39, 46, 98, 111 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting K-14 school districts' revenues or such districts' ability to expend revenues. There is no assurance that the Statelectorate or Legislature will not at some future time approve additional limitations which could reduce property or other tax revenues and adversely affect the revenues of school districts or require additional expenditures.

TAX MATTERS

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Notes in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes.

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

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

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

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

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

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

LEGAL MATTERS

Legal Opinion

The validity of the Notes and certain other legal matters are subject in each case to the approving opinion of Quint & Thimble LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is set forth in "APPENDIX C — FORM OF OPINION OF BOND COUNSEL" to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Absence of Litigation

No litigation is pending with service of process having been accomplished, or to the knowledge of the District, threatened against the District concerning the validity of the Note, and a Certificate of the District to that effect will be furnished to the initial purchaser or purchasers at the time of the original delivery of the Notes. The District is not aware of any litigation pending or threatened against the District questioning its political existence, contesting its ability to receive or accrue for the General Fund taxes, income, revenues, cash receipts and other moneys, or contesting its ability to issue and retire the Notes.

Legality for Investment

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

RATING

Standard & Poor's (A Division of the McGraw-Hill Companies, Inc.) has assigned the Notes the rating affixed to and made a part of the cover page hereof. The District furnished Standard & Poor's certain information and materials concerning the Notes to the District. Generally, Standard & Poor's bases its rating on such information and materials and also on such investigation, studies and assumptions that it may undertake independently. There is no assurance that either such rating will continue for a given period of time or that it may not be suspended, lowered or withdrawn entirely by Standard & Poor's if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of the rating may have an adverse material effect on the secondary market price of the Notes. Any explanation of the significance of the rating may be obtained only from Standard & Poor's, Public Finance Department, 55 Water Street, 38th Floor, New York, New York 10041, telephone (212) 438-2400.

FINANCIAL ADVISOR

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

INDEPENDENT AUDITORS

The basic financial statements of the District as of June 30, 2007 and for the fiscal year then ending, have been audited by Perry Smith LLP Accountants, Sacramento, California. The financial statements of the District as of and for the fiscal year ending June 30, 2007, are set forth in "APPENDIX A" attached hereto. Complete copies of all past and current financial statements may be obtained from the District. See "DISTRICT FINANCIAL INFORMATION" herein.

UNDERWRITING AND INITIAL OFFERING PRICE

The Notes were sold to Commerce Capital Markets, Inc., (the "Underwriter"), pursuant to a note purchase agreement by and among the District, the County, and the Underwriter, for \$14,207,452, equal to the principal amount of the Notes, plus an original issue premium of \$208,740, less an underwriter's discount of \$1,288, at a true interest cost (TIC) to the District of 1.24968%.

The Underwriter has certified to the District and to Bond Counsel the initial price at which the Notes have been reoffered to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers). The reoffering price or corresponding yield to maturity is as set forth on the cover page hereof. The initial offering price stated on the cover page to this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Notes to certain dealers (including dealers depositing Notes into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the owners of the Notes to give notice of the occurrence of certain enumerated events, if material. See "APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein. Notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository or the Municipal Securities Rulemaking Board, and with the State Information Depository, if any. This covenant of the District has been made to assist the Underwriter of the Notes in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with regard to said Rule to provide annual reports or notices of material events.

ADDITIONAL INFORMATION

Additional information concerning the District, the Notes or any other matters concerning the sale and delivery of the Notes may be obtained from the District by contacting the District at the address and telephone number set forth on page "iii" of this Official Statement, or by contacting the District's financial advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100, facsimile telephone (916) 444-5109.

All of the preceding summaries of the Resolution, other applicable legislation, agreements and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to documents on file with the District for further information in connection with the District and Notes. Further, this Official Statement does not constitute a contract with the purchasers of either Note, and any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the District has been duly authorized by the District Board, and this Official Statement may be signed in counterpart.

MT. DIABLO UNIFIED SCHOOL DISTRICT

By: /s/ Richard Nicoll
Assistant Superintendent Administrative Services

**APPENDIX A – THE BASIC FINANCIAL STATEMENTS OF THE DISTRICT AS
OF AND FOR THE YEAR ENDING JUNE 30, 2007**

MT. DIABLO UNIFIED SCHOOL DISTRICT

COUNTY OF CONTRA COSTA

CONCORD, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2007

AND

INDEPENDENT AUDITOR'S REPORT

MT. DIABLO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

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MT. DIABLO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Mt. Diablo Unified School District
Concord, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mt. Diablo Unified School District, as of and for the year ended June 30, 2007, which collectively comprise Mt. Diablo Unified School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 Mt. Diablo Unified School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008 on our consideration of Mt. Diablo Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

(Continued)

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

Perry-Smith LLP

Sacramento, California
January 10, 2008

MOUNT DIABLO UNIFIED SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

The discussion and analysis of Mt. Diablo Unified School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements on pages 23-43, and the District's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

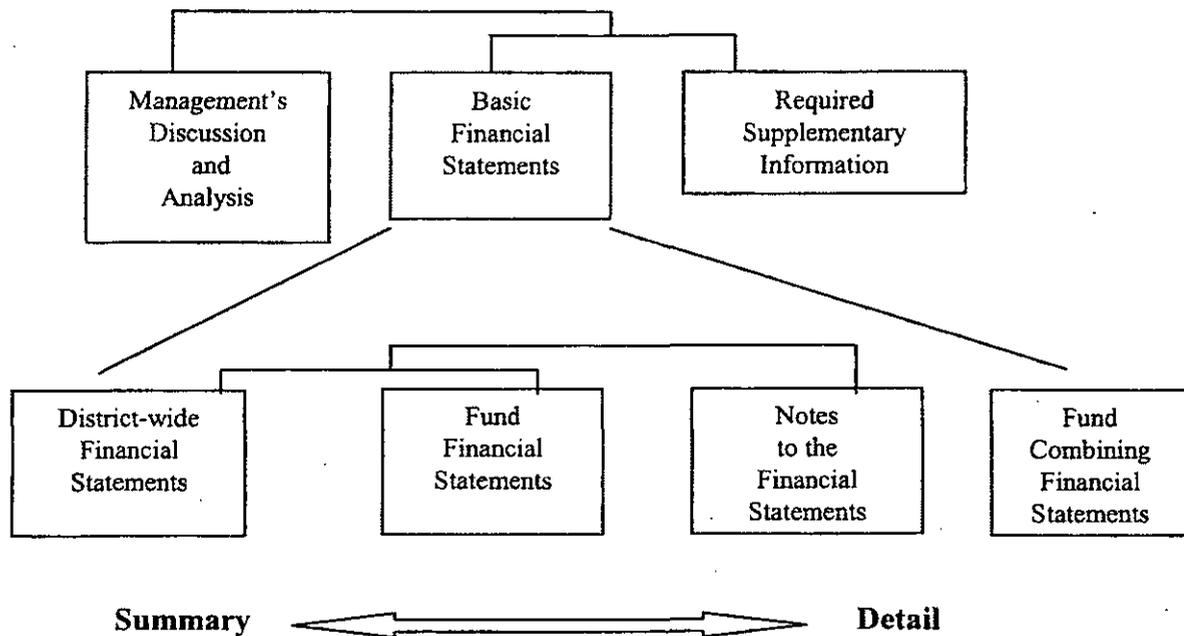
- The increase in State Revenue Limit Sources Funding from 2005-06 to 2006-07 was \$14,070,927. The increase in revenue limit sources resulted from a cost of living adjustment and declining enrollment for average daily attendance.
- The District's enrollment continues to decline. Between 2005-06 and 2006-07 the District's revenue limit loss because of declining enrollment was \$3,960,070.
- General Fund revenues and other sources exceeded expenditures and other uses by \$9,948,006. The ending fund balance is \$33,796,506 of which Restricted Programs balance is \$16,133,102, 2% State Reserves is \$5,805,485, schools and departments carryover is \$3,249,357, stores inventory is \$747,109, revolving cash is \$300,000, FCMAT Recommendations is \$528,701 and the Undesignated Fund Balance is \$2,867,058. Note the ending fund balance was reduced by \$697,464 due to a payment made after the books were closed.
- The General Fund operating costs increased between 2005-06 and 2006-07. This increase was predominately due to salary increases for employee groups, rate increases for benefits, intervention materials for restricted programs, increased costs for Non-Public School and Non-Public Agencies, Special Education Mediation, Bi-tech support, training, IFAS software upgrades, FCMAT consultants and additional costs due to higher grant awards in various restricted programs.
- In complying with GASB 34, fixed assets were valued at historical cost. The total of the District's fixed assets, land, site, buildings, and equipment, valued on an acquisition cost basis was \$473,404,502. After depreciation, the June 30, 2007 book value for fixed assets totaled \$357,327,101.

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand Mt. Diablo Unified School District as a financial whole, an entire operating entity. The statements also provide an increasingly detailed look at specific financial activities.

Components of the Financial Section



The first two statements are *district-wide financial statements*, the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District’s finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District’s more significant funds with all other non-major funds presented in total in one column. A comparison of the District’s general fund budget is included.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities using the accrual basis of accounting. This method takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole and its activities in a way that helps answer the question, "How did we do financially during 2006-07?"

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ **Governmental Funds**

Most of the District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, the Measure C Bond Construction Fund, the Measure A Bond Construction Fund and the County School Facilities Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ **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 Statements of Fiduciary Net Assets on page 21. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were \$201,753,149 at June 30, 2007. Of this amount, \$6,005,883 was unrestricted. Investments in capital assets, net of related debt, account for \$97,453,103 of the total net assets. A comparative analysis of government-wide data for the fiscal years 2005-06 and 2006-07 is presented below in Table 1.

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

Table 1 Government-wide Statement of Net Assets (GSNA)	GSNA Governmental Activities 2005-06	GSNA Governmental Activities 2006-07
ASSETS		
Cash	\$183,989,784	\$121,287,206
Investments	131,500,708	80,761,474
Accounts Receivable	21,390,574	19,362,844
Note Receivable		
Stores Inventory	829,593	862,653
Prepaid Expenses	1,665,198	1,598,590
Capital Assets, net of accumulated depreciation	<u>290,977,105</u>	<u>357,327,101</u>
Total Assets	<u>630,352,962</u>	<u>581,199,868</u>
LIABILITIES		
Accounts Payable and Other Current Liabilities	31,240,392	35,430,078
Tax and Revenue Anticipation Note Payable	38,000,000	26,000,000
Deferred Revenue	1,469,305	1,408,322
Long-Term Liabilities		
Due within one year	8,035,900	9,677,706
Due after one year	<u>346,705,987</u>	<u>306,930,613</u>
Total Liabilities	<u>425,451,584</u>	<u>379,446,719</u>
NET ASSETS		
Invested in Capital Assets, net of related debt	51,573,550	97,435,103
Restricted	145,408,874	98,294,163
Revolving Cash	300,000	300,000
Prepaid Expenses	1,665,198	1,598,590
Stores Inventory	829,593	862,653
Legally Restricted Balances	11,028,188	16,133,102
Capital Projects	94,737,177	70,861,320
Special Revenues	6,902,039	8,538,498
Retirement of long term liabilities	29,946,679	*
Unrestricted	<u>7,918,954</u>	<u>6,005,883</u>
Total Net Assets	<u>\$204,901,378</u>	<u>201,753,149</u>

*Included in the balance of debt service funds

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS
(CONTINUED)**

The District's net asset position decreased \$3,148,229 million this fiscal year (See Table 2), primarily due to increased expenses. The purely administrative activities of the District accounted for just 3.6% of total costs.

Table 2		
Change in Net Assets		
For the Year Ended June 30, 2007	June 30, 2006	June 30, 2005
	Governmental	Governmental
Revenues	Activities	Activities
Program Revenues	\$ 110,514,808	\$ 100,880,900
General Revenues:		
Taxes Levied for General Purposes	94,727,437	97,913,500
Taxes Levied for Debt Service	18,617,747	21,004,900
Taxes Levied for Other Specific Purposes	309,651	406,200
Federal and State Aid Not Restricted to Specific Purposes	105,474,247	118,873,400
Interest and Investment Earnings	7,135,540	7,613,700
Interagency Revenues	423,209	484,500
Miscellaneous	<u>9,309,577</u>	<u>8,578,400</u>
Total Program and General Revenues, Special and Extraordinary Items and Transfers	346,512,216	355,755,800
Expenses		
Instruction	179,416,444	194,677,800
Instruction Related Services	34,720,661	36,607,000
Pupil Support Services	22,107,785	24,508,600
General Administration	13,209,171	14,116,100
Plant Services	26,975,737	56,410,600
Other	<u>18,019,641</u>	<u>32,583,600</u>
Total Expenses	294,449,439	358,904,000
Change in Net Assets	52,062,777	(3,148,229)
Net Assets Beginning	<u>152,838,601</u>	<u>204,901,300</u>
Net Assets Ending	\$ 204,901,378	201,753,100

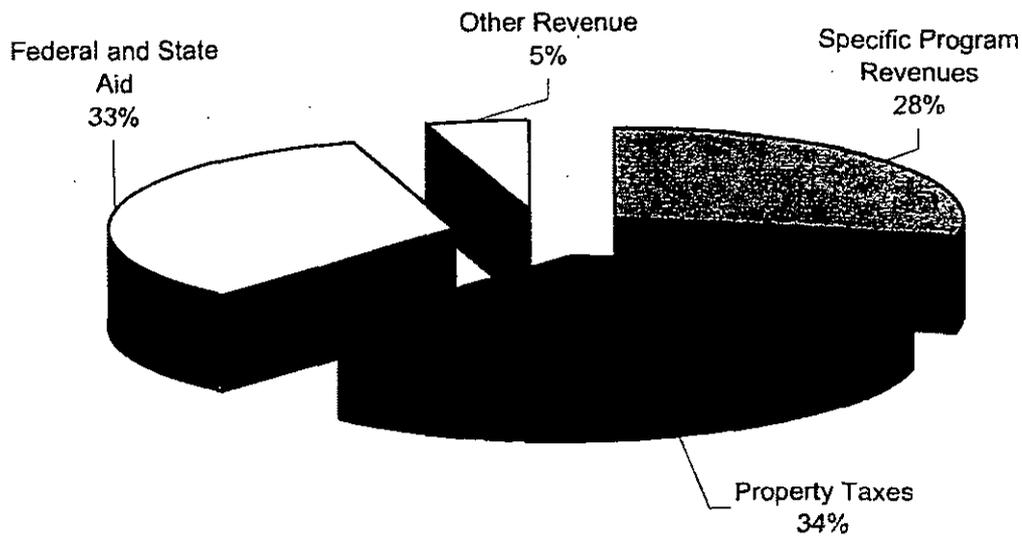
MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS
(CONTINUED)**

Governmental Activities

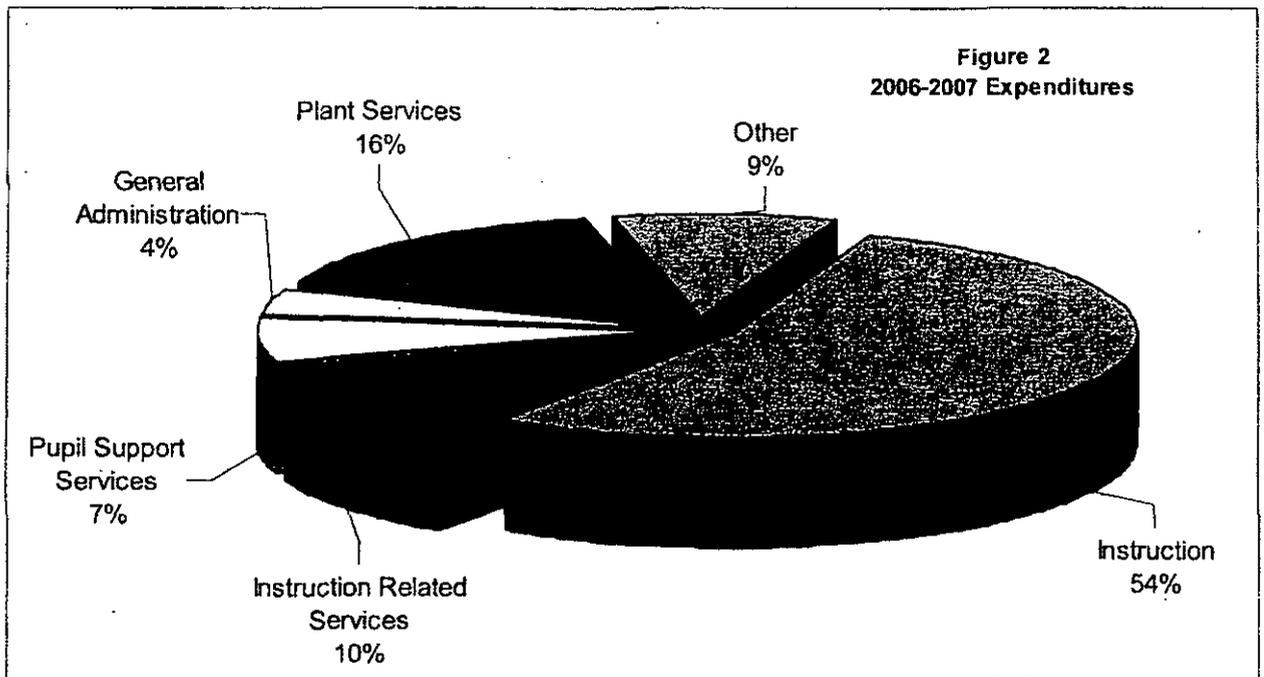
The revenue for all of the District's governmental activities this year was \$355,755,841. The amount that our local taxpayers financed for these activities through property taxes was \$118,918,515. Specific Program Revenue totaled \$100,880,906. State and Federal revenues totaled \$118,873,453, and covered 30% of the expenses of the entire District. (See Figure 1)

**Figure 1
2006-2007 Revenue Sources**



MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

The cost of all of the District's governmental activities this year was \$358,904,070. The District's instructional expenditures were \$194,677,877 and Related Instruction Support costs were \$36,607,059. Pupil Support Services totaled \$ 24,508,604 and General Administration costs were \$14,116,155. Costs for Plant Services were \$56,410,679 and other costs totaled \$32,583,696. (See Figure 2)



FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$162,330,777, a decrease of \$104,670,184 from the previous fiscal year's combined ending balance of \$267,000,961. The decrease is due primarily the district's spending of most of the balance of Measure C and Measure A construction budgets.

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments 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 routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The actual activity for the General Fund resulted in an ending fund balance of \$33,796,506; an increase of \$9,948,006 from the prior year's ending balance of \$23,848,500. The State requires an ending reserve for economic uncertainties of 2%. The District met the State requirement of 2%, which was \$5,805,485. The remaining reserves were designated for Restricted Programs of \$16,133,082, Revolving Cash and Stores Inventory of \$1,047,109, Sites/Departments Carryover and FCMAT Recommendations totaling \$528,701 and \$2,867,058 in Undesignated Reserves. Note the ending fund balance was reduced by \$697,464 due to a payment made after the books were closed.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006-07, the District had invested \$473,404,502 in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. This amount represents an increase of \$77,757,348 over the previous fiscal year.

Table 3

Capital Assets	2005-2006	2006-2007	Difference	Percent of Change
Land	\$ 3,576,911	\$ 14,436,462	\$ 10,859,551	303.60%
Site Improvement	2,762,515	2,802,005	39,490	1.43%
Buildings	196,485,123	377,163,165	180,678,042	91.96%
Equipment	13,907,993	14,362,651	454,658	3.27%
Work In Progress	178,914,612	64,640,219	(114,274,393)	-63.87%
Total	\$ 395,647,154	\$ 473,404,502	\$ 77,757,348	

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Liabilities

At June 30, 2007, the District had \$316,608,319 in outstanding long-term liabilities. The long-term liabilities paid by the District in 2006-07 were \$44,810,842.

Long Term Liabilities	2005-2006	2006-2007	Difference	Percent of Change
General Obligation Bonds	\$ 223,990,000	\$ 222,500,000	\$ (1,490,000)	-0.7%
Certificates of Participation	6,310,000	6,100,000	(210,000)	-3.4%
Capital Leases	40,900	6,015,131	5,974,231	99.3%
Other General Long Term Debt	120,530,550	77,460,608	(43,069,942)	-55.6%
Compensated Absences	3,870,437	4,532,580	662,143	14.6%
Total	\$ 354,741,887	\$ 316,608,319	\$ (38,133,568)	-12.0%

The District continues to maintain excellent credit ratings on all of its debt issues. The Moody's rating for the Measure A Bonds was A1. The S & P rating for Measure C Bonds was A+.

FACTORS BEARING ON THE DISTRICT'S FUTURE

State Economic Health

The State's economic health is a major factor affecting the District's future. The State's current year budget does not fully address its budget problem, for the next two subsequent fiscal years, it is anticipated that further reductions in funding may be forthcoming. The imposition of reductions in the current year would be especially challenging to the district's budget.

Enrollment

Declining enrollment is projected to continue for the next few years and the estimated loss of Revenue Limit Sources are forecasted in the Multi-Year Projections (MYP) for 2007-08 and 2008-09.

Expenditures

The collective bargaining agreements with the District's representative groups and associations expired June 30, 2007. The MYP will include cost for salary increases when new collective bargaining agreements have been ratified by the board of education. Beginning in 2007-2008, the District is required under GASB45 to disclose post retirement benefits costs in its audit report and implement a plan to fund the liability.

MT. DIABLO UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

The future forecasts necessitate that management plan carefully and prudently to make available the resources to meet student needs over the next several years. The District has an excellent track record of accomplishment when meeting this challenge.

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 about this report or need additional financial information, please contact Richard Nicoll, Assistant Superintendent, at Mt. Diablo Unified School District, (925) 682-8000, ext 4006.

BASIC FINANCIAL STATEMENTS

MT. DIABLO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

	<u>Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 202,048,680
Accounts receivable:	
Federal government	6,364,360
State government	9,566,378
Local government and other	3,432,106
Prepaid expenses	1,598,590
Stores inventory	862,653
Capital assets, net of accumulated depreciation (Note 4)	<u>357,327,101</u>
Total assets	<u>581,199,868</u>
LIABILITIES	
Accounts payable and other current liabilities	35,430,078
Tax and Revenue Anticipation Note payable (Note 2)	26,000,000
Deferred revenue	1,408,322
Long-term liabilities (Note 5):	
Due within one year	9,677,706
Due after one year	<u>306,930,613</u>
Total liabilities	<u>379,446,719</u>
NET ASSETS	
Invested in capital assets, net of related debt	97,453,103
Restricted (Note 6)	98,294,163
Unrestricted	<u>6,005,883</u>
Total net assets	<u>\$ 201,753,149</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Changes in</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net Assets</u>
				<u>Governmental Activities</u>	
Governmental activities:					
Instruction	\$ 194,677,877	\$ 1,182,256	\$ 56,652,399	\$ 10,166,334	\$ (126,676,81)
Instruction-related services:					
Supervision of instruction	8,769,703	70,163	4,710,543		(3,988,91)
Instructional library, media and technology	4,300,221	19,179	458,835		(3,822,21)
School site administration	23,537,135	22,775	1,655,783		(21,858,51)
Pupil services:					
Home-to-school transportation	6,195,761	396,471	3,157,892		(2,641,31)
Food services	9,893,116	4,528,003	5,488,462		123,31
All other pupil services	8,419,727	122,297	3,824,012		(4,473,41)
General administration:					
Data processing	1,943,977				(1,943,91)
All other general administration	12,172,178	621,800	4,138,589		(7,411,71)
Plant services	56,410,679	75,930	2,783,967		(53,550,71)
Ancillary services	1,724,422	57,498	285,479		(1,381,41)
Community services	448,880	334	316,276		(132,21)
Enterprise activities	104,188	4,729	21,053		(78,41)
Interest on long-term liabilities	14,460,668				(14,460,61)
Depreciation, unallocated (Note 4)	11,423,292				(11,423,21)
Other outgo	4,422,246	29,278	90,569		(4,302,31)
Total governmental activities	\$ 358,904,070	\$ 7,130,713	\$ 83,583,859	\$ 10,166,334	(258,023,11)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					97,913,51
Taxes levied for debt service					21,004,91
Taxes levied for other specific purposes					406,21
Federal and state aid not restricted to specific purposes					118,873,41
Interest and investment earnings					7,613,71
Interagency revenues					484,51
Special and extraordinary items					8,578,41
					<u>254,874,91</u>
					Change in net assets (3,148,21)
					Net assets, July 1, 2006 <u>204,901,31</u>
					Net assets, June 30, 2007 <u>\$ 201,753,11</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

	General Fund	County School Facilities Fund	measure C Bond Construction Fund	measure A Bond Construction Fund	All Non-Major Funds	Total Governmental Funds
ASSETS						
nd investments:						
in County Treasury	\$ 30,079,348	\$ 46,821,457	\$ (4,800,163)	\$ 2,099,870	\$ 17,876,115	\$ 92,076,627
restricted for TRANS repayment	27,378,591					27,378,591
with Fiscal Agent					520,523	520,523
on hand and in banks					1,011,465	1,011,465
in revolving fund	300,000					300,000
Agency Investment Fund	6,301,552	26,088,448		2,000,000	5,605,000	39,995,000
omia Asset Management Program			16,789,762		23,976,712	40,766,474
its receivable:						
ral government	5,264,661				1,099,699	6,364,360
government	9,390,683				175,695	9,566,378
l government and other	2,816,276	339,065	49,000	62,181	165,584	3,432,106
m other funds	1,599,254	4,000,000			2,546,569	8,145,823
inventory	747,109				115,544	862,653
Total assets	\$ 83,877,474	\$ 77,248,970	\$ 12,038,599	\$ 4,162,051	\$ 53,092,906	\$ 230,420,000
LIABILITIES AND FUND BALANCES						
es:						
units payable	\$ 20,127,192	\$ 7,464,872	\$ 3,519,953	\$ 164,335	\$ 1,258,726	\$ 32,535,078
and Revenue Anticipation						
te payable	26,000,000					26,000,000
red revenue	1,407,207				1,115	1,408,322
to other funds	2,546,569	88	634	4,762	5,593,770	8,145,823
Total liabilities	50,080,968	7,464,960	3,520,587	169,097	6,853,611	68,089,223
Fund balances	33,796,506	69,784,010	8,518,012	3,992,954	46,239,295	162,330,777
Total liabilities and fund balances	\$ 83,877,474	\$ 77,248,970	\$ 12,038,599	\$ 4,162,051	\$ 53,092,906	\$ 230,420,000

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Total fund balances - Governmental Funds	\$ 162,330,777
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$473,404,502 and the accumulated depreciation is \$116,077,401 (Note 4).	357,327,101
Debt issue costs are recognized as expenditures in the period they are incurred. In government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:	1,598,590
Unmatured interest on long-term liabilities is not recognized until it is paid in governmental funds. In government-wide statements, interest is recognized in the period it is incurred.	(2,895,000)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2007 consisted of (Note 5):	
General Obligation Bonds	\$ 222,500,000
Mello-Roos Bonds	71,620,000
Certificates of Participation	6,100,000
Capitalized lease obligations	6,015,131
Compensated absences	4,532,580
Construction loan	<u>5,840,608</u>
	<u>(316,608,319)</u>
Total net assets - governmental activities	<u>\$ 201,753,149</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>Measure "C" Bond Construction Fund</u>	<u>Measure "A" Bond Construction Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue limit sources:						
State apportionment	\$ 94,847,080				\$ 6,005,028	\$ 100,852,108
Local sources	<u>97,913,581</u>			<u>\$ 259,305</u>		<u>98,172,886</u>
Total revenue limit	<u>192,760,661</u>			<u>259,305</u>	<u>6,005,028</u>	<u>199,024,994</u>
Other sources	17,109,636				5,704,143	22,813,779
From state sources	71,324,192	\$ 5,964,622			3,105,728	80,394,542
From local sources	<u>13,614,529</u>	<u>4,201,712</u>	<u>\$ 1,589,782</u>		<u>34,121,752</u>	<u>53,527,775</u>
Total revenues	<u>294,809,018</u>	<u>10,166,334</u>	<u>1,589,782</u>	<u>259,305</u>	<u>48,936,651</u>	<u>355,761,090</u>
Expenditures:						
Salaries	138,048,012				4,161,561	142,209,573
Salaries	44,260,173	90,749	556,961	67,301	5,316,015	50,291,199
Employee benefits	48,253,241	31,620	167,567	28,279	3,295,191	51,775,898
Materials and supplies	15,547,678	61,003	191,192	510,225	4,646,408	20,956,506
Contract services and operating expenditures	36,607,043	145,737	19,081	94,045	907,309	37,773,215
Capital outlay	6,777,532	30,479,839	51,778,870	1,684,399	12,764,306	103,484,946
Other outgo	1,310,925			386,091		1,697,016
Other service:						
Municipal retirement	40,900				44,769,442	44,810,342
Interest	<u>358</u>				<u>13,447,352</u>	<u>13,447,710</u>
Total expenditures	<u>290,845,862</u>	<u>30,808,948</u>	<u>52,713,671</u>	<u>2,770,340</u>	<u>89,307,584</u>	<u>466,446,405</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,963,156</u>	<u>(20,642,614)</u>	<u>(51,123,889)</u>	<u>(2,511,035)</u>	<u>(40,370,933)</u>	<u>(110,685,315)</u>
Financing sources (uses):						
Receiving transfers in	2,173,499			1,215,000	43,896,451	47,284,950
Paying transfers out	(2,203,780)			(41,692,671)	(3,388,499)	(47,284,950)
Proceeds from capitalized lease obligations	<u>6,015,131</u>					<u>6,015,131</u>
Total other financing sources (uses)	<u>5,984,850</u>			<u>(40,477,671)</u>	<u>40,507,952</u>	<u>6,015,131</u>
Net change in fund balances	9,948,006	(20,642,614)	(51,123,889)	(42,988,706)	137,019	(104,670,184)
Fund balances July 1, 2006	<u>23,848,500</u>	<u>90,426,624</u>	<u>59,641,901</u>	<u>46,981,660</u>	<u>46,102,276</u>	<u>267,000,961</u>
Fund balances, June 30, 2007	<u>\$ 33,796,506</u>	<u>\$ 69,784,010</u>	<u>\$ 8,518,012</u>	<u>\$ 3,992,954</u>	<u>\$ 46,239,295</u>	<u>\$ 162,330,777</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

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

Net change in fund balances - Total Governmental Funds		\$ (104,670,184)
Amounts reported for governmental activities in the statement of activities are different because:		
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 5).	\$ 44,810,342	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 4).	77,773,288	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(11,423,292)	
Proceeds from long-term liabilities are other financing sources in the governmental funds, but increase long-term liabilities in the statement of net assets (Note 5).	(6,015,131)	
Unmatured interest on long-term liabilities is not recognized until it is paid in governmental funds. In government-wide statements, interest is recognized in the period it is incurred.	(2,895,000)	
Debt issue costs are recognized as expenditures in the period they are incurred. In government-wide statements, debt issue costs are amortized over the life of the debt.	(66,109)	
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5).	(662,143)	<u>101,521,955</u>
Change in net assets of governmental activities		<u>\$ (3,148,229)</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET (NON-GAAP) AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 94,969,262	\$ 94,847,080	\$ 94,847,080	
Local sources	97,699,706	97,848,919	97,913,581	\$ 64,662
Total revenue limit	192,668,968	192,695,999	192,760,661	64,662
General sources	15,269,843	19,646,576	17,109,636	(2,536,940)
From state sources	55,908,988	73,014,935	71,324,192	(1,690,743)
From local sources	5,449,632	11,988,919	13,614,529	1,625,610
Total revenues	269,297,431	297,346,429	294,809,018	(2,537,411)
Expenditures:				
Allocated salaries	137,091,596	137,999,907	138,048,012	(48,105)
Unallocated salaries	43,691,367	44,389,847	44,260,173	129,674
Employee benefits	49,959,978	48,259,521	48,253,241	6,280
Books and supplies	11,525,456	37,492,527	15,547,678	21,944,849
Contract services and operating				
Expenditures	26,464,476	36,972,430	36,607,043	365,387
Capital outlay	400,506	7,150,267	6,777,532	372,735
Other outgo	1,214,647	1,265,819	1,310,925	(45,106)
Other service:				
Municipal retirement	70,599	70,599	40,900	29,699
Interest	22,941	22,941	358	22,583
Total expenditures	270,441,566	313,623,858	290,845,862	22,777,996
Deficiency) excess of revenues (under) over expenditures	(1,144,135)	(16,277,429)	3,963,156	20,240,585
Other financing sources (uses):				
Granting transfers in	2,186,103	2,181,178	2,173,499	(7,679)
Granting transfers out	(2,171,693)	(2,181,410)	(2,203,780)	(22,370)
Proceeds from the issuance of long- term liabilities		6,015,131	6,015,131	
Total other financing sources (uses)	14,410	6,014,899	5,984,850	(30,049)
Net change in fund balance	(1,129,725)	(10,262,530)	9,948,006	20,210,536
Balance, July 1, 2006	23,848,500	23,848,500	23,848,500	
Balance, June 30, 2007	\$ 22,718,775	\$ 13,585,970	\$ 33,796,506	\$ 20,210,536

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS

	Trust Scholarship Fund	Agency Funds Student Body Funds	Total
ASSETS			
Cash in County Treasury	\$ 7,416		\$ 7,416
Cash on hand and in banks		\$ 1,696,576	1,696,576
Local Agency Investment Fund	5,000		5,000
Investments	50,000		50,000
Accounts receivable	43		43
Total assets	62,459	1,696,576	1,759,035
LIABILITIES			
Due to student groups		1,696,576	1,696,576
NET ASSETS			
Restricted	\$ 62,459	\$ -	\$ 62,459

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Additions:	
Interest	\$ 2,330
Deductions:	
Operating expenditures	<u> 110</u>
Change in net assets	2,220
Net assets, July 1, 2005	<u>60,239</u>
Net assets, June 30, 2006	<u><u>\$ 62,459</u></u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

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

Reporting Entity

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

The District and Mt. Diablo Unified School District Education Facilities Financing Corporation ("the Corporation") have a financial and operational relationship which meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District. Therefore, the financial activities of the Corporation have been included in the financial statements of the District.

The following are those aspects of the relationship between the District and the Corporation which satisfy GASB Statement No. 14 criteria.

A - Manifestations of Oversight

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

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the District.
2. Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Reporting Entity (Continued)

B - Accounting for Fiscal Matters (Continued)

3. It is anticipated that the District's lease payments will be the sole revenue source of the Corporation.
4. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

C - Scope of Public Service and Financial Presentation

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

Basis of Presentation - Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Basis of Presentation - Government-Wide Financial Statements

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

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

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

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

Basis of Presentation - Fund Accounting

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

A - Governmental Fund Types

1 - General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District including the Self Insurance Account, not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

2 - Special Revenue Funds:

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

3 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This classification includes the County School Facilities, Measure "C" Bond Construction, Measure "A" Bond Construction, Developer Fees and Building Funds.

4 - Debt Service Fund:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term liabilities principal, interest, and related costs. This classification includes the Measure "A" and Measure "C" Bond Repayment and Bond Interest and Redemption Funds.

B - Fiduciary Fund Types

1 - Trust Fund:

The Scholarship Fund is a trust fund which is used to account for scholarship monies, for which the District acts as a trustee.

2 - Agency Fund:

The Agency Fund is used to account for the various funds for which the District acts as an agent. This classification consists of the Student Body Funds.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Basis of Accounting

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

A - Accrual

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

B - Modified Accrual

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

Budgets and Budgetary Accounting

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

The District employs budgetary control by major object code and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. The budgets are revised during the year by the Board of Education to provide for unanticipated revenues and expenditures and to increase the expenditure budgets for any restricted balances from the previous year. The originally adopted and final revised budgets for the General Fund are presented in the basic financial statements.

Inventory

Inventory recorded in the General and Cafeteria Funds are valued at latest invoice cost, except for commodities received from the federal government, which are valued at fair market value. The inventory consists mainly of consumable supplies. Inventories are recorded as expenditures at the time items are transferred from the warehouse to the schools and offices.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

Land, site improvements and buildings purchased or acquired with an original cost of \$25,000 or more, and equipment purchased or acquired with an original cost of \$10,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 30 years depending on asset types.

Interfund Activity

Interfund activity is 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/expenses. Reimbursements are 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. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Compensated Absences

Compensated absences benefits in the amount of \$4,532,580 are recorded as a liability of the District.

Accumulated Sick Leave

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

Deferred Revenue

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriate for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenses and inventory reflect the portion of net assets represented by revolving fund cash, prepaid expenses and inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues represents the portion of net assets restricted to specific program expenditures. The restriction for capital projects represents that portion of net assets restricted for capital asset additions. The restriction for special revenues represents that portion of net assets restricted for specific activities. The restriction for Scholarships represents net assets which is to be used to provide financial assistance to students of the District.

Custodial Relationships

The Agency Fund represents the assets of various student organizations within the District. As the funds are custodial in nature, no measurement of operating results is involved.

Property Taxes

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

Encumbrances

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

Eliminations and Reclassifications

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH AND INVESTMENTS

Cash at June 30, 2007 consisted of the following:

	Governmental Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 92,076,627	\$ 7,416
Cash restricted for repayment of Tax and Revenue Anticipation Notes	27,378,591	
Local Agency Investment Fund	39,995,000	5,000
California Asset Management Program (CAMP)	40,766,474	50,000
Deposits:		
Cash with Fiscal Agent	520,523	
Cash on hand and in banks	1,011,465	1,696,576
Revolving cash fund	300,000	
	<u>\$202,048,680</u>	<u>\$ 1,758,992</u>

Pooled Funds

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

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

In accordance with applicable state laws, the Contra Costa County Treasurer may invest in derivative securities. For the fiscal year ending June 30, 2007, the Contra Costa County Treasurer represents that the Pooled Investment Fund contains no derivative securities.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Pooled Funds (Continued)

On October 27, 2005, the District issued Tax and Revenue Anticipation Notes (TRANs) totaling \$38,000,000 which mature on October 27, 2006 and bear interest at 4.25 percent. The TRANs were issued to provide for anticipated cash flow needs. The TRANs are a general obligation of the District, and are payable from revenues and cash receipts generated by the District during the year ended June 30, 2006.

On November 9, 2006, the District issued Tax and Revenue Anticipation Notes (TRANs) totaling \$26,000,000 which mature on November 21, 2007 and bear interest at 4.00 percent. The TRANs were issued to provide for anticipated cash flow needs. The TRANs are a general obligation of the District, and are payable from revenues and cash receipts generated by the District during the year ended June 30, 2007.

California Asset Management Program

Mt. Diablo Unified School District places funds with the California Asset Management Program (CAMP), a California Joint Powers Authority. CAMP provides California Public Agencies with comprehensive investment management and accounting services. CAMP currently offers its shareholders both the California Asset Management Trust Cash Reserve Portfolio and individually managed portfolios. Mt. Diablo Unified School District has an individually managed portfolio under a separate agreement with PFM Asset Management LLC.

Local Agency Investment Fund

Mt. Diablo Unified School District places certain funds with the State of California's Local Agency Investment Fund (LAIF). The District is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the District's investment in this pool is reported in the accompanying financial statements based upon the District's pro-rate share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. At June 30, 2007, the interest rate was 5.25%. LAIF is currently unrated and has an average life of 165 days.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Local Agency Investment Fund (Continued)

LAIF is administered by the State Treasurer and is audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity and yield are not jeopardized.

Deposits

Cash balances held in banks and revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2007, the carrying amount of the District's accounts were \$3,049,175, and the bank balances were \$3,008,041. Of the bank balances, \$700,000 was covered by FDIC insurance and \$2,349,175 was uninsured, but fully collateralized.

Cash with Fiscal Agent

Cash with Fiscal Agent represents funds held by Fiscal Agents restricted for repayment of General Obligation Bonds and other long-term liabilities.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

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

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2007, the District had no concentration of credit risk.

3. INTERFUND TRANSACTIONS

Interfund Activity

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Interfund Receivables/Payables

Interfund receivable and payable balances at June 30, 2007 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 1,599,254	\$ 2,546,569
County Schools Facilities	4,000,000	88
Measure A Bond Construction		4,762
Measure "C" Bond Construction		634
Non-Major Funds:		
Adult Education	207,002	640,628
Cafeteria	222,954	762,257
Charter School	149,683	130,885
Deferred Maintenance	1,454,930	
Building	512,000	
Developer Fees		<u>4,060,000</u>
Totals	<u>\$ 8,145,823</u>	<u>\$ 8,145,823</u>

Interfund Transfers

Interfund transfers for the June 30, 2007 fiscal year were as follows:

Transfer from the General Fund to the Adult Education Fund for unrestricted lottery funds.	\$ 207,002
Transfer from the General Fund to the Cafeteria Fund for meals for the needy.	22,370
Transfer from the General Fund to the Deferred Maintenance Fund for the state required match.	1,462,408
Transfer from the General Fund to the Building Fund to reclassify expenditures related to the certificates of participation.	512,000
Transfer from the Adult Education Fund to the General Fund for indirect costs.	916,100
Transfer from the Cafeteria Fund to the General Fund for indirect costs and flexibility transfer to transportation.	1,197,399
Transfer from the Developer Fees Fund to the General Fund for administrative costs.	60,000
Transfer from the Debt Service Fund to the Measure A Bond Construction Fund for construction costs.	1,215,000
Transfer from the Measure A Bond Construction Fund to the Debt Service Fund for debt service payments.	<u>41,692,671</u>
	<u>\$ 47,284,950</u>

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

A schedule of changes in capital assets for the year ended June 30, 2007 is shown below:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Land	\$ 3,576,911	\$ 10,859,551		\$ 14,436,462
Site improvements	2,762,515	39,490		2,802,005
Buildings	196,485,123	180,678,042		377,163,165
Equipment	13,907,993	470,598	\$ 15,940	14,362,651
Work-in-process	<u>178,914,612</u>	<u>20,726,932</u>	<u>135,001,325</u>	<u>64,640,219</u>
Totals, at cost	<u>395,647,154</u>	<u>212,774,613</u>	<u>135,017,265</u>	<u>473,404,502</u>
Less accumulated depreciation:				
Site improvements	(315,838)	(93,373)		(409,211)
Buildings	(91,568,102)	(10,967,889)		(102,535,991)
Equipment	<u>(12,786,109)</u>	<u>(362,030)</u>	<u>(15,940)</u>	<u>(13,132,199)</u>
Total accumulated depreciation	<u>(104,670,049)</u>	<u>(11,423,292)</u>	<u>(15,940)</u>	<u>(116,077,401)</u>
Capital assets, net	<u>\$ 290,977,105</u>	<u>\$ 201,351,321</u>	<u>\$ 135,001,325</u>	<u>\$ 357,327,101</u>

Depreciation expense was charged to governmental activities as follows:

Unallocated \$ 11,423,292

5. LONG-TERM LIABILITIES

Mello-Roos Measure "A" Bonds

In a general election held on November 7, 1989, voters approved, under Measure "A," a \$90,000,000 Mello-Roos Bond issue.

On August 1, 1990, the District issued Series 1990 Measure "A" Bonds totaling \$33,800,000. Bond proceeds are being spent in five broad categories: classroom rehabilitation, classroom completion, life/safety projects, facilities refurbishment, and handicapped compliance. Repayment of the bonds was initially made from special parcel tax revenues levied in connection with this bond issue. The bonds bear interest at rates ranging from 6.8% to 7.05% and are scheduled to mature through 2021. As noted below, the District issued bonds in 1996, a portion of which was used to retire the 1990 bonds in 2001.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Mello-Roos Measure "A" Bonds (Continued)

On August 25, 1992, the District issued Series 1992 Measure "A" Bonds totaling \$28,700,000. A portion of the bond proceeds were used to repay bond anticipation notes which had been issued to finance an asbestos removal project, and the remaining proceeds are being spent in the same five categories as the Series 1990 Bonds. Repayment of the bonds is made from special parcel tax revenues levied in connection with this bond issue, and from anticipated future land sales. The bonds bear interest at rates ranging from 5.0% to 6.3% and are scheduled to mature through 2023. As noted below, the District issued bonds in 2002, a portion of which was used to retire these bonds.

On March 1, 1995, the District issued Series 1995 Measure "A" Bonds totaling \$15,000,000. Bond proceeds are being spent in five broad categories: classroom rehabilitation, classroom completion, life/safety projects, facilities refurbishment, and handicapped compliance. Repayment of the bonds is made from special parcel tax revenues levied in connection with this bond issue. The bonds bear interest at rates ranging from 5.2% to 5.875% and are scheduled to mature through 2026. As noted below, the District issued bonds in 2005, a portion of which was used to retire these bonds.

On October 1, 1996, the District issued Series 1996 Measure "A" Bonds totaling \$36,000,000. A portion of the bond proceeds are being invested to be used to retire the series 1990 Measure "A" Bonds during the year ending June 30, 2001. Repayment of the 1996 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 5.20% to 5.75% and are scheduled to mature through 2026.

On June 20, 2002, the District issued Series 2002 Measure "A" Bonds totaling \$29,000,000. A portion of the bond proceeds are being invested to be used to retire the series 1992 Measure "A" Bonds during the year ended June 30, 2003. Repayment of the 2002 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 1.75% to 5.00% and are scheduled to mature through 2022.

On June 30, 2005, the District issued Series 2005 Measure "A" Bonds totaling \$15,760,000. A portion of the bond proceeds are being invested to be used to retire the series 1995 Measure "A" Bonds during the year ended June 30, 2007. Repayment of the 2005 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 3.00% to 4.20% and are scheduled to mature through 2025.

On June 14, 2006, the District issued Series 2006 Special Tax Refunding Bonds totaling \$29,995,000. A portion of the bond proceeds are being invested to be used to retire the series 1996 Measure "A" Bonds during the year ended June 30, 2007. Repayment of the 2006 bonds is made from special parcel tax revenues levied in connection with the bond issue. The bonds bear interest at rates ranging from 3.625% to 4.500% and are scheduled to mature through 2027.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Mello-Roos Measure "A" Bonds (Continued)

The Series 1995, Series 1996, Series 2002, Series 2005 and Series 2006 Measure "A" Bonds are scheduled to mature as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,615,000	\$ 4,344,312	\$ 8,959,312
2009	3,405,000	2,658,882	6,063,882
2010	3,520,000	2,536,085	6,056,085
2011	3,635,000	2,406,429	6,041,429
2012	3,770,000	2,270,529	6,040,529
2013-2017	21,120,000	9,406,085	30,526,085
2018-2022	23,825,000	4,408,110	28,233,110
2023-2027	<u>7,730,000</u>	<u>465,300</u>	<u>8,195,300</u>
	<u>\$ 71,620,000</u>	<u>\$ 28,495,732</u>	<u>\$ 100,115,732</u>

General Obligation Measure "C" Bonds

In a general election held on March 5, 2002, voters approved, under Measure "C", a \$250,000,000 General Obligation Bond issue.

On June 20, 2002, the District issued Series 2002 Measure "C" Bonds totaling \$69,400,000. Bond proceeds are being used to improve health and safety conditions of schools. Repayment of the bonds is made from ad valorem property taxes levied and collected upon all property within the District subject to taxation by the District. The bonds bear interest at rates ranging from 3.25% to 5.00% and are scheduled to mature through 2026.

On June 10, 2004, the District issued Series 2005 Measure "C" Bonds totaling \$121,000,000. Bond proceeds are being used to improve health and safety conditions of schools. Repayment of the bonds is made from ad valorem property taxes levied and collected upon all property within the District subject to taxation by the District. The bonds bear interest at rates ranging from 3.00% to 5.625% and are scheduled to mature through 2030.

On May 11, 2006, the District issued Series 2006 Measure "C" Bonds totaling \$59,600,000. Bond proceeds are being used to improve health and safety conditions of schools. Repayment of the bonds is made from ad valorem property taxes levied and collected upon all property within the District subject to taxation by the District. The bonds bear interest at rates ranging from 4.25% to 5.00% and are scheduled to mature through 2031.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

General Obligation Measure "C" Bonds (Continued)

The Series 2002, 2005 and 2006 Measure "C" Bonds are scheduled to mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,565,000	\$ 10,713,886	\$ 15,278,886
2009	4,970,000	10,558,423	15,528,423
2010	5,440,000	10,336,692	15,776,692
2011	5,930,000	10,057,774	15,987,774
2012	6,435,000	9,763,893	16,198,893
2013-2017	36,310,000	43,653,339	79,963,339
2018-2022	43,740,000	34,242,313	77,982,313
2023-2027	56,735,000	22,422,682	79,157,682
2028-2032	<u>58,375,000</u>	<u>7,056,250</u>	<u>65,431,250</u>
	<u>\$ 222,500,000</u>	<u>\$ 158,805,252</u>	<u>\$ 381,305,252</u>

Certificates of Participation

During the fiscal year ended June 30, 1998, the District issued \$7,760,000 of Certificates of Participation, with interest rates ranging from 4% to 12% maturing through December 2019 for the Mt. Diablo Unified School District Education Facilities Project.

The District's future obligations on the Certificates are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 503,023
2009	503,668
2010	503,653
2011	502,958
2012	506,445
2013-2017	2,494,708
2018-2022	3,197,000
2023-2027	<u>2,732,750</u>
	10,944,205
Less amount representing interest	<u>(4,844,205)</u>
Net present value of minimum payments	<u>\$ 6,100,000</u>

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Construction Loan

In February 2003, the Redevelopment Agency of the City of Pittsburg made an interest-free loan of \$6,178,936 to the District. The loan is to be used for the construction of an elementary school within the City of Pittsburg. Beginning June 1, 2005, the District will pay 24% of all impact fees collected by the District in the City of Pittsburg after January 1, 2005. The District will continue to make payments equivalent to 24% of impact fees collected in the City every six months on June 1st and January 1st until June 1, 2040 or until the loan is paid off, whichever occurs first. The balance at June 30, 2007 is \$5,840,608.

Capitalized Lease Obligations

The District leases computer equipment, copy machines and portable classrooms under agreements which provide for title to pass upon expiration of the lease period.

Future yearly payments on capitalized lease obligations are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 563,137
2009	563,137
2010	563,137
2011	563,137
2012	563,137
2013-2017	2,815,682
2018-2022	<u>2,815,681</u>
	8,447,048
Less amount representing interest	<u>(2,431,917)</u>
Net present value of minimum payments	<u>\$ 6,015,131</u>

Other Leases

All other leases are treated as operating leases and are subject to annual appropriations and recorded as expenditures when paid.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2007 is shown below:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Amounts Due Within One Year
Mello-Roos Bonds:					
Series 1995	\$ 12,025,000		\$ 12,025,000		
Series 1996	30,615,000		29,200,000	\$ 1,415,000	\$ 1,415,000
Series 2002	26,010,000		1,095,000	24,915,000	1,130,000
Series 2005	15,760,000		465,000	15,295,000	520,000
Series 2006	29,995,000			29,995,000	1,550,000
General Obligation Bonds:					
Series 2002	49,065,000		1,490,000	47,575,000	1,545,000
Series 2004	115,325,000			115,325,000	3,020,000
Series 2006	59,600,000			59,600,000	
Certificates of Participation	6,310,000		210,000	6,100,000	210,000
Construction loan	6,125,550		284,942	5,840,608	
Capitalized lease obligations	40,900	\$ 6,015,131	40,900	6,015,131	287,706
Compensated absences	3,870,437	662,143		4,532,580	
Totals	<u>\$ 354,741,887</u>	<u>\$ 6,677,274</u>	<u>\$ 44,810,842</u>	<u>\$ 316,608,319</u>	<u>\$ 9,677,706</u>

Payments on the Mello-Roos Bonds and the General Obligation Bonds are made from the Debt Service Funds. Payments on the Certificates of Participation are made from the Building Fund. Payments on the construction loan are made from the Developer Fees Fund. Payments on the capitalized lease obligations are made from the General Fund. Payments on compensated absences are made from the fund for which the related employee worked.

6. RESTRICTED NET ASSETS

The restricted net assets consisted of the following at June 30, 2007:

	General Fund	Trust Funds
Restricted for:		
Revolving cash fund	\$ 300,000	
Prepaid expenses	1,598,590	
Inventory	862,653	
Unspent categorical program revenues	16,133,102	
Capital projects	70,861,320	
Special revenues	8,538,498	
Scholarships		\$ 62,459
	<u>\$ 98,294,163</u>	<u>\$ 62,459</u>

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

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

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2006-2007 was 9.124% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2005, 2006 and 2007 were \$4,008,147, \$5,077,975 and \$5,435,810, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95826.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2006-2007 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2006 and 2007 were \$10,295,870, \$10,762,658 and \$11,198,998, respectively, and equal 100% of the required contributions for each year.

8. POST-RETIREMENT EMPLOYEE BENEFITS

In addition to the pension benefits described in Note 7, the District offers subsidized health insurance until age 65 to employees who retire from the District and meet the age and service requirements for eligibility. At June 30, 2007, 1,519 retirees were eligible. Such benefits are authorized through the District's collective bargaining agreements. Annual premiums are based on rates set by the health carriers with whom the District contracts. The amount of the District's contribution towards such annual premiums per employee is determined according to the collective bargaining agreements and eligibility of the individual retiree. The District recognizes the cost of providing those benefits and related administrative costs when paid. Such payments for retired employees totaled \$3,824,480 for the year ended June 30, 2007.

9. JOINT POWERS AGREEMENTS

The District is a member with other school districts in three joint powers agencies, Contra Costa County School Insurance Group, (CCCSIG) ; Schools Excess Liability Fund, (SELF); and Schools Self Insurance of Contra Costa County, (SSICCC).

The following is a summary of condensed financial information of CCCSIG and SELF at June 30, 2007 and SSICCC as of June 30, 2006 (the most recent information available):

	<u>CCCSIG</u>	<u>SELF</u>	<u>SSICCC</u>
Total assets	\$ 86,224,874	\$215,903,000	\$ 3,549,511
Total liabilities	\$ 83,775,445	\$185,793,000	\$ 1,030,144
Net assets	\$ 2,449,429	\$ 30,110,000	\$ 2,519,367
Total revenues	\$ 34,766,617	\$ 47,931,000	\$ 13,677,850
Total expenses	\$ 33,198,974	\$ 45,867,000	\$ 12,975,461
Change in net assets	\$ 1,567,643	\$ 2,064,000	\$ 702,389

The relationship between Mt. Diablo Unified School District and each joint powers authority is such that the joint powers authorities are not component units of the District for financial reporting purposes.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

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

Also, the District has received federal and state funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

11. SELF-INSURANCE

The District is self-insured for property and liability claims up to \$100,000 per property loss and \$100,000 per liability claim. Liability claims in excess of \$100,000 and up to \$900,000 are covered by a commercial insurance policy. The District liability claims in excess of \$1,000,000 are covered by SELF (See Note 9). Property claims in excess of \$100,000 are covered by a commercial insurance policy up to \$149,000,000. All activity for the District's Self-Insurance Account is included in the General Fund.

12. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations for the year ended June 30, 2006 were as follows:

Fund	Excess Expenditures
General Fund:	
Certificated salaries	\$ 48,105

13. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On November 29, 2007, the District issued Tax and Revenue Anticipation Notes (TRANS) totaling \$10,000,000 which mature on November 29, 2008 and bear interest at 4.00 percent. The TRANS were issued to provide for anticipated cash flow needs. The TRANS are a general obligation of the District, and are payable from revenues and cash receipts generated by the District during the year ended June 30, 2008.

SUPPLEMENTARY INFORMATION

ALL NON-MAJOR FUNDS

June 30, 2007

	<u>Charter School Fund</u>	<u>Adult Education Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Developer Fees Fund</u>	<u>Det Servi Fun</u>	<u>Total</u>
ASSETS								
Cash in County Treasury	\$ 306,536	\$ 507,763	\$ (130,153)	\$ 3,336,979	\$ (1,472,229)	\$ 3,191,659	\$ 12,138	7,876,115
Cash with Fiscal Agent					520,523			520,523
Cash on hand and in banks			1,011,465					1,011,465
Local Agency Investment Fund		600,000	1,275,000	850,000	730,000	2,150,000		5,605,000
California Asset Management Program							23,970	3,976,712
Accounts receivable:								
Federal government		224,270	875,429					1,099,699
State government	48,436	15,244	112,015					175,695
Local government and other		81,461	35,700	11,028	9,469	27,926		165,584
Due from other funds	149,683	207,002	222,954	1,454,930	512,000			2,546,569
Inventory			115,544					115,544
Total assets	<u>\$ 504,655</u>	<u>\$ 1,635,740</u>	<u>\$ 3,517,954</u>	<u>\$ 5,652,937</u>	<u>\$ 299,763</u>	<u>\$ 5,369,585</u>	<u>\$ 36,11</u>	<u>3,092,906</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Deferred revenue		\$ 1,115						1,115
Accounts payable	\$ 4,692	109,070	\$ 980,313	\$ 153,136		\$ 11,515		1,258,726
Due to other funds	130,885	640,628	762,257			4,060,000		5,593,770
Total liabilities	135,577	750,813	1,742,570	153,136		4,071,515		6,853,611
Fund balances	369,078	884,927	1,775,384	5,499,801	\$ 299,763	1,298,070	\$ 36,11	6,239,295
Total liabilities and fund balances	<u>\$ 504,655</u>	<u>\$ 1,635,740</u>	<u>\$ 3,517,954</u>	<u>\$ 5,652,937</u>	<u>\$ 299,763</u>	<u>\$ 5,369,585</u>	<u>\$ 36,11</u>	<u>3,092,906</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2007

	<u>Charter School Fund</u>	<u>Adult Education Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Developer Fees Fund</u>	<u>Deb Servi Fun</u>	<u>Total</u>
Revenues:								
Revenue limit sources:								
State apportionment	\$ 432,509	\$ 5,572,519						3,005,028
Federal sources		840,122	\$ 4,864,021					3,704,143
Other state sources	215,755	31,737	1,196,115	\$ 1,490,585			\$ 171	3,105,728
Other local sources	<u>662,995</u>	<u>1,514,121</u>	<u>5,450,422</u>	<u>199,726</u>	\$ (363,918)	\$ 3,722,168	<u>22,936</u>	<u>1,121,752</u>
Total revenues	<u>1,311,259</u>	<u>7,958,499</u>	<u>11,510,558</u>	<u>1,690,311</u>	<u>(363,918)</u>	<u>3,722,168</u>	<u>23,107</u>	<u>3,936,651</u>
Expenditures:								
Certificated salaries	582,915	3,578,646						1,161,561
Classified salaries	118,670	1,413,596	3,783,255	494				3,316,015
Employee benefits	134,584	1,360,465	1,800,100	42				3,295,191
Books and supplies	39,274	491,956	4,102,650	12,434		94		1,646,408
Contract services and operating expenditures	280,804	381,286	180,031	9,692	735	54,761		907,309
Capital outlay				2,249,534		10,514,772		2,764,306
Debt service:								
Principal retirement					210,000	284,942	44,274	1,769,442
Interest					<u>302,000</u>		<u>13,146</u>	<u>3,447,352</u>
Total expenditures	<u>1,156,247</u>	<u>7,225,949</u>	<u>9,866,036</u>	<u>2,272,196</u>	<u>512,735</u>	<u>10,854,569</u>	<u>57,419</u>	<u>3,307,584</u>
Excess (deficiency) of revenues over (under) expenditures	<u>155,012</u>	<u>732,550</u>	<u>1,644,522</u>	<u>(581,885)</u>	<u>(876,653)</u>	<u>(7,132,401)</u>	<u>(34,312)</u>	<u>1,370,933</u>
Other financing sources (uses):								
Operating transfers in		207,002	22,370	1,462,408	512,000		41,692	3,896,451
Operating transfers out		<u>(916,100)</u>	<u>(1,197,399)</u>			<u>(60,000)</u>	<u>(1,215,000)</u>	<u>3,388,499</u>
Total other financing sources (uses)		<u>(709,098)</u>	<u>(1,175,029)</u>	<u>1,462,408</u>	<u>512,000</u>	<u>(60,000)</u>	<u>40,472</u>	<u>1,507,952</u>
Net change in fund balances	155,012	23,452	469,493	880,523	(364,653)	(7,192,401)	6,165	137,019
Fund balances, July 1, 2006	<u>214,066</u>	<u>861,475</u>	<u>1,305,891</u>	<u>4,619,278</u>	<u>664,416</u>	<u>8,490,471</u>	<u>29,946</u>	<u>3,102,276</u>
Fund balances, June 30, 2007	\$ <u>369,078</u>	\$ <u>884,927</u>	\$ <u>1,775,384</u>	\$ <u>5,499,801</u>	\$ <u>299,763</u>	\$ <u>1,298,070</u>	\$ <u>36,112</u>	\$ <u>3,239,295</u>

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
STUDENT BODY FUNDS				
<u>Clayton Valley High School</u>				
Assets:				
Cash on hand and in banks	\$ 318,144	\$ 758,758	\$ 754,694	\$ 322,208
Liabilities:				
Due to student groups	\$ 318,144	\$ 758,758	\$ 754,694	\$ 322,208
<u>College Park High School</u>				
Assets:				
Cash on hand and in banks	\$ 218,406	\$ 715,426	\$ 630,610	\$ 303,222
Liabilities:				
Due to student groups	\$ 218,406	\$ 715,426	\$ 630,610	\$ 303,222
<u>Concord High School</u>				
Assets:				
Cash on hand and in banks	\$ 67,035	\$ 271,131	\$ 273,001	\$ 65,165
Liabilities:				
Due to student groups	\$ 67,035	\$ 271,131	\$ 273,001	\$ 65,165
<u>Mt. Diablo High School</u>				
Assets:				
Cash on hand and in banks	\$ 131,906	\$ 202,766	\$ 205,495	\$ 129,177
Liabilities:				
Due to student groups	\$ 131,906	\$ 202,766	\$ 205,495	\$ 129,177
<u>Northgate High School</u>				
Assets:				
Cash on hand and in banks	\$ 373,810	\$ 765,249	\$ 743,640	\$ 395,419
Liabilities:				
Due to student groups	\$ 373,810	\$ 765,249	\$ 743,640	\$ 395,419

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
STUDENT BODY FUNDS				
(Continued)				
<u>Ygnacio Valley High School</u>				
Assets:				
Cash on hand and in banks	\$ 118,193	\$ 343,200	\$ 329,528	\$ 131,865
Liabilities:				
Due to student groups	\$ 118,193	\$ 343,200	\$ 329,528	\$ 131,865
<u>Diablo View Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 60,782	\$ 136,085	\$ 142,475	\$ 54,392
Liabilities:				
Due to student groups	\$ 60,782	\$ 136,085	\$ 142,475	\$ 54,392
<u>El Dorado Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 9,971	\$ 35,492	\$ 36,691	\$ 8,772
Liabilities:				
Due to student groups	\$ 9,971	\$ 35,492	\$ 36,691	\$ 8,772
<u>Foothill Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 33,459	\$ 31,404	\$ 33,153	\$ 31,710
Liabilities:				
Due to student groups	\$ 33,459	\$ 31,404	\$ 33,153	\$ 31,710
<u>Glenbrook Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 31,949	\$ 78,351	\$ 86,972	\$ 23,328
Liabilities:				
Due to student groups	\$ 31,949	\$ 78,351	\$ 86,972	\$ 23,328

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

For the Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
STUDENT BODY FUNDS				
(Continued)				
<u>Oak Grove Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 5,851	\$ 24,099	\$ 25,856	\$ 4,094
Liabilities:				
Due to student groups	\$ 5,851	\$ 24,099	\$ 25,856	\$ 4,094
<u>Pine Hollow Intermediate School</u>				
Assets:				
Cash on hand and in banks	\$ 39,357	\$ 36,625	\$ 42,709	\$ 33,273
Liabilities:				
Due to student groups	\$ 39,357	\$ 36,625	\$ 42,709	\$ 33,273
<u>Riverview Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 1,265	\$ 32,367	\$ 32,458	\$ 1,174
Liabilities:				
Due to student groups	\$ 1,265	\$ 32,367	\$ 32,458	\$ 1,174
<u>Sequoia Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 28,893	\$ 84,689	\$ 90,771	\$ 22,811
Liabilities:				
Due to student groups	\$ 28,893	\$ 84,689	\$ 90,771	\$ 22,811
<u>Valley View Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 8,404	\$ 87,696	\$ 74,895	\$ 21,205
Liabilities:				
Due to student groups	\$ 8,404	\$ 87,696	\$ 74,895	\$ 21,205

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
STUDENT BODY FUNDS				
(Continued)				
<u>Pleasant Hill Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 4,483	\$ 115,520	\$ 111,874	\$ 8,129
Liabilities:				
Due to student groups	\$ 4,483	\$ 115,520	\$ 111,874	\$ 8,129
<u>Highlands Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 10,526	\$ 3,449	\$ 4,067	\$ 9,908
Liabilities:				
Due to student groups	\$ 10,526	\$ 3,449	\$ 4,067	\$ 9,908
<u>Holbrook Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 5,608	\$ 1,278	\$ 1,746	\$ 5,140
Liabilities:				
Due to student groups	\$ 5,608	\$ 1,278	\$ 1,746	\$ 5,140
<u>Bel Air Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 1,384	\$ 12,636	\$ 13,064	\$ 956
Liabilities:				
Due to student groups	\$ 1,384	\$ 12,636	\$ 13,064	\$ 956
<u>Meadow Homes Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 3,633	\$ 4,942	\$ 5,799	\$ 2,776
Liabilities:				
Due to student groups	\$ 3,633	\$ 4,942	\$ 5,799	\$ 2,776

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
STUDENT BODY FUNDS				
<i>(Continued)</i>				
<u>El Monte Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>2,349</u>	\$ <u>1,679</u>	\$ <u>1,754</u>	\$ <u>2,274</u>
Liabilities:				
Due to student groups	\$ <u>2,349</u>	\$ <u>1,679</u>	\$ <u>1,754</u>	\$ <u>2,274</u>
<u>Fair Oaks Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>902</u>	\$ <u>1,076</u>	\$ <u>654</u>	\$ <u>1,324</u>
Liabilities:				
Due to student groups	\$ <u>902</u>	\$ <u>1,076</u>	\$ <u>654</u>	\$ <u>1,324</u>
<u>Gregory Gardens Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>1,810</u>	\$ <u>1,495</u>	\$ <u>1,988</u>	\$ <u>1,317</u>
Liabilities:				
Due to student groups	\$ <u>1,810</u>	\$ <u>1,495</u>	\$ <u>1,988</u>	\$ <u>1,317</u>
<u>Mt. Diablo Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>29,911</u>	\$ <u>58,538</u>	\$ <u>32,676</u>	\$ <u>55,773</u>
Liabilities:				
Due to student groups	\$ <u>29,911</u>	\$ <u>58,538</u>	\$ <u>32,676</u>	\$ <u>55,773</u>

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
STUDENT BODY FUNDS				
(Continued)				
<u>Shore Acres Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 7,547	\$ -	\$ 3,876	\$ 3,671
Liabilities:				
Due to student groups	\$ 7,547	\$ -	\$ 3,876	\$ 3,671
<u>Walnut Acres Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 1,253	\$ 2,894	\$ 1,997	\$ 2,150
Liabilities:				
Due to student groups	\$ 1,253	\$ 2,894	\$ 1,997	\$ 2,150
<u>Sun Terrace Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 6,544	\$ 5,912	\$ 5,098	\$ 7,358
Liabilities:				
Due to student groups	\$ 6,544	\$ 5,912	\$ 5,098	\$ 7,358
<u>Adult Education</u>				
Assets:				
Cash on hand and in banks	\$ 4,741	\$ 4,944	\$ 3,520	\$ 6,165
Liabilities:				
Due to student groups	\$ 4,741	\$ 4,944	\$ 3,520	\$ 6,165

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
STUDENT BODY FUNDS				
(Continued)				
<u>Sunrise School</u>				
Assets:				
Cash on hand and in banks	\$ <u>655</u>	\$ <u>282</u>	\$ <u>685</u>	\$ <u>252</u>
Liabilities:				
Due to student groups	\$ <u>655</u>	\$ <u>282</u>	\$ <u>685</u>	\$ <u>252</u>
<u>Shadelands School</u>				
Assets:				
Cash on hand and in banks	\$ <u>5,499</u>	\$ <u>8,667</u>	\$ <u>10,188</u>	\$ <u>3,978</u>
Liabilities:				
Due to student groups	\$ <u>5,499</u>	\$ <u>8,667</u>	\$ <u>10,188</u>	\$ <u>3,978</u>
<u>Bridge School</u>				
Assets:				
Cash on hand and in banks	\$ <u>3,327</u>	\$ <u>2,090</u>	\$ <u>3,283</u>	\$ <u>2,134</u>
Liabilities:				
Due to student groups	\$ <u>3,327</u>	\$ <u>2,090</u>	\$ <u>3,283</u>	\$ <u>2,134</u>
<u>Hidden Valley Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>2,329</u>	\$ <u>3,644</u>	\$ <u>3,558</u>	\$ <u>2,415</u>
Liabilities:				
Due to student groups	\$ <u>2,329</u>	\$ <u>3,644</u>	\$ <u>3,558</u>	\$ <u>2,415</u>
<u>Pleasant Hill Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>2,482</u>	\$ <u>2,629</u>	\$ <u>2,245</u>	\$ <u>2,866</u>
Liabilities:				
Due to student groups	\$ <u>2,482</u>	\$ <u>2,629</u>	\$ <u>2,245</u>	\$ <u>2,866</u>

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
STUDENT BODY FUNDS				
(Continued)				
<u>Strandwood Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 880	\$ 1,949	\$ 1,566	\$ 1,263
Liabilities:				
Due to student groups	\$ 880	\$ 1,949	\$ 1,566	\$ 1,263
<u>Westwood Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ 3,575	\$ 5,127	\$ 2,895	\$ 5,807
Liabilities:				
Due to student groups	\$ 3,575	\$ 5,127	\$ 2,895	\$ 5,807
<u>Crossroads High School</u>				
Assets:				
Cash on hand and in banks	\$ 836	\$ 13,410	\$ 10,985	\$ 3,261
Liabilities:				
Due to student groups	\$ 836	\$ 13,410	\$ 10,985	\$ 3,261
<u>Olympic High School</u>				
Assets:				
Cash on hand and in banks	\$ 8,525	\$ 5,758	\$ 6,218	\$ 8,065
Liabilities:				
Due to student groups	\$ 8,525	\$ 5,758	\$ 6,218	\$ 8,065
<u>Nueva Vista High School</u>				
Assets:				
Cash on hand and in banks	\$ 83	\$ 4,103	\$ 4,030	\$ 156
Liabilities:				
Due to student groups	\$ 83	\$ 4,103	\$ 4,030	\$ 156

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
STUDENT BODY FUNDS				
<i>(Continued)</i>				
<u>Summit High School</u>				
Assets:				
Cash on hand and in banks	\$ <u>144</u>	\$ <u>-</u>	\$ <u>50</u>	\$ <u>94</u>
Liabilities:				
Due to student groups	\$ <u>144</u>	\$ <u>-</u>	\$ <u>50</u>	\$ <u>94</u>
<u>Sequoia Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>1,493</u>	\$ <u>2,662</u>	\$ <u>1,439</u>	\$ <u>2,716</u>
Liabilities:				
Due to student groups	\$ <u>1,493</u>	\$ <u>2,662</u>	\$ <u>1,439</u>	\$ <u>2,716</u>
<u>Diablo Day School</u>				
Assets:				
Cash on hand and in banks	\$ <u>333</u>	\$ <u>4,081</u>	\$ <u>3,673</u>	\$ <u>741</u>
Liabilities:				
Due to student groups	\$ <u>333</u>	\$ <u>4,081</u>	\$ <u>3,673</u>	\$ <u>741</u>
<u>Delta View</u>				
Assets:				
Cash on hand and in banks	\$ <u>2,914</u>	\$ <u>26,387</u>	\$ <u>24,298</u>	\$ <u>5,003</u>
Liabilities:				
Due to student groups	\$ <u>2,914</u>	\$ <u>26,387</u>	\$ <u>24,298</u>	\$ <u>5,003</u>
<u>Gateway</u>				
Assets:				
Cash on hand and in banks	\$ <u>448</u>	\$ <u>-</u>	\$ <u>321</u>	\$ <u>127</u>
Liabilities:				
Due to student groups	\$ <u>448</u>	\$ <u>-</u>	\$ <u>321</u>	\$ <u>127</u>

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
STUDENT BODY FUNDS				
(Continued)				
<u>Rio Vista</u>				
Assets:				
Cash on hand and in banks	\$ 1,157	\$ 1,785	\$ -	\$ 2,942
Liabilities:				
Due to student groups	\$ 1,157	\$ 1,785	\$ -	\$ 2,942
<u>Total Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ 1,562,796	\$ 3,900,275	\$ 3,766,495	\$ 1,696,576
Liabilities:				
Due to student groups	\$ 1,562,796	\$ 3,900,275	\$ 3,766,495	\$ 1,696,576

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

ORGANIZATION

Mt. Diablo Unified School District was established on July 1, 1949. The District is a political subdivision of the State of California. The District is located in Contra Costa County. There were no changes in the boundaries of the District during the current year. The District currently operates twenty-eight elementary schools, ten middle schools, and six high schools. This District also maintains four special education schools, one continuation education high school, six necessary small continuation education high schools and an adult education program.

The Board of Education of Mt. Diablo Unified School District is composed of five members elected at large within the boundaries of the District. The Board and Administrative Staff manage and control the affairs of the District.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Gary L. Eberhart	President	December 2008
April Treece	Vice President	December 2008
Richard W. Allen	Member	December 2010
Linda K. Mayo	Member	December 2010
Paul Strange	Member	December 2010

ADMINISTRATION

Gary McHenry
Superintendent

Alan E. Young, Ed.D.
Associate Superintendent - Educational Services

Richard Nicoll, Ph.D.
Assistant Superintendent - Administrative Services

Roger Bylund
Assistant Superintendent - Elementary Education

Gail Isserman
Assistant Superintendent - Personnel Services

Mildred Browne, Ed.D.
Assistant Superintendent - Pupil Services and Special Education

Gregory J. Rolen, Esq.
General Counsel

Gloria Gamblin
Chief Financial Officer

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary and Middle Schools:		
Regular classes	22,268	22,275
Special Education	753	759
Opportunity Schools	42	40
Home and Hospital	27	29
Community Day Schools	<u>14</u>	<u>18</u>
Total Elementary	<u>23,104</u>	<u>23,121</u>
High Schools:		
Regular classes	9,385	9,288
Special Education	483	477
Continuation Education	482	474
Home and Hospital	46	48
Community Day Schools	<u>23</u>	<u>27</u>
Total High Schools	<u>10,419</u>	<u>10,314</u>
Classes for Adults:		
Concurrently enrolled	57	66
Not concurrently enrolled	2,082	2,165
Independent study	<u>11</u>	<u>12</u>
Total Classes for Adults	<u>2,150</u>	<u>2,243</u>
	<u>35,673</u>	<u>35,678</u>
		<u>Hours of Attendance</u>
Summer School:		
Elementary and Middle Schools		289,063
High Schools		<u>187,455</u>
		<u>476,518</u>

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	31,680	36,900	180	In Compliance
Grade 1	50,400	48,840	50,978	180	In Compliance
Grade 2	50,400	48,840	50,978	180	In Compliance
Grade 3	50,400	48,840	50,978	180	In Compliance
Grade 4	54,000	52,120	54,270	180	In Compliance
Grade 5	54,000	52,120	54,270	180	In Compliance
Grade 6	54,000	52,120	60,599	180	In Compliance
Grade 7	54,000	56,700	60,599	180	In Compliance
Grade 8	54,000	56,700	60,599	180	In Compliance
Grade 9	64,800	56,060	65,530	180	In Compliance
Grade 10	64,800	56,060	65,530	180	In Compliance
Grade 11	64,800	56,060	65,530	180	In Compliance
Grade 12	64,800	56,060	65,530	180	In Compliance

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
	Special Education Cluster:		
84.027A	Preschool Staff Development	14466	\$ 4,856
84.027A	Preschool Local Entitlement	13682	316,999
84.173	Preschool Grant, Part B	13430	244,025
84.027	Basic Local Assistance Entitlement	13379	6,252,221
84.027A	Workability	13705	84,769
84.027	Special Education Alternative Dispute Resolution	13007	<u>15,000</u>
	Subtotal Special Education Cluster		<u>6,917,870</u>
	Title I Cluster:		
84.010	Basic Grants	13797	3,848,246
84.010	Comprehensive School Reform	13966	15,985
84.010	Support for Program Improvements	14581	49,846
84.010	Local Delinquent Programs	14357	53,511
84.010A	School Improvement SAIT	14579	193,169
84.010	School Assistance and Intervention Fees	14417	<u>62,089</u>
	Subtotal Title I Cluster		<u>4,222,846</u>
84.372	Special Education: State Improvement Grant	14577	6,274
84.181	Special Education: IDEA Early Intervention	23761	161,463
84.186	NCLB: Title IV Safe and Drug Free Schools	13453	96,339
84.298A	NCLB: Title VI Innovative Education Strategies	13340	84,017
84.184	NCLB: Title IV Community Service Grant	14348	35,903
84.367	NCLB: Title II A - Improving Teacher Quality	14341	1,575,099
84.318	NCLB: Title II - Education Technology	14368	68,583
84.214	Healthy Start Enrollment	24833	3,780
84.UNK	Star Program	-	1,325
84.351	Arts in Education	14381	34,343
84.365	Title III - LEP	10084	409,821
84.290	Dual Language Immersion	-	181,044
84.048	Vocational Education	03577, 03578	255,042
84.365	Title III, Immigrant Education Program	14346	205,244
84.357	Title I, Part B, Reading First Program	14787	828,811
84.276	Goals 2000: Mathematics Professional Development	13894	450
84.002	Adult Basic Education	13055	579,220
84.215	Smaller Learning Communities	03063	85,060
84.287	21st Century After School Learning	14350	1,167,039
84.063	Pell Grants	03063	<u>110,710</u>
	Total U.S. Department of Education		<u>17,030,283</u>

(Continued)

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
10.555	Child Nutrition	13396	\$ 4,864,021
10.561	Nutrition Network	-	306,885
Total U.S. Department of Agriculture			5,170,906
<u>U.S. Department of Health and Human Services</u>			
93.778	Medi-Cal	10013	479,005
<u>U.S. Department of Defense</u>			
12.UNK**	J.R.O.T.C.	-	133,585
Total Federal Programs			\$ 22,813,779

** Department of the Army will not provide CFDA number.

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT

	<u>General Fund</u>	<u>Charter School Fund</u>
June 30, 2007 Unaudited Actual Financial Report Ending Fund Balance	\$ 34,493,970	\$ 493,930
Adjustments:		
Understatement of accounts payable	(822,316)	
Allocation of Special Education charges	<u>124,852</u>	<u>(124,852)</u>
June 30, 2007 Audited Financial Statements Ending Fund Balance	<u>\$ 33,796,506</u>	<u>\$ 369,078</u>

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

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

General Fund

Revenues and other financing sources	<u>\$ 288,505,188</u>	<u>\$ 302,997,648</u>	<u>\$ 268,623,917</u>	<u>\$ 253,958,973</u>	<u>\$ 245,613,909</u>
Expenditures	281,284,434	290,845,862	262,419,489	251,292,058	250,851,381
Other uses and transfers out	<u>2,228,181</u>	<u>2,203,780</u>	<u>2,098,250</u>	<u>2,115,216</u>	<u>1,695,465</u>
Total outgo	<u>283,512,615</u>	<u>293,049,642</u>	<u>264,517,739</u>	<u>253,407,274</u>	<u>252,546,846</u>
Change in fund balance	<u>\$ 4,992,573</u>	<u>\$ 9,948,006</u>	<u>\$ 4,106,178</u>	<u>\$ 551,699</u>	<u>\$ (6,932,937)</u>
Ending fund balance	<u>\$ 38,789,079</u>	<u>\$ 33,796,506</u>	<u>\$ 23,848,500</u>	<u>\$ 19,742,322</u>	<u>\$ 19,190,623</u>
Available reserves	<u>\$ 12,694,709</u>	<u>\$ 8,672,543</u>	<u>\$ 8,170,313</u>	<u>\$ 11,473,780</u>	<u>\$ 12,503,331</u>
Designated for economic uncertainties	<u>\$ 5,828,443</u>	<u>\$ 5,805,485</u>	<u>\$ 5,249,668</u>	<u>\$ 5,027,789</u>	<u>\$ 5,012,045</u>
Undesignated fund balances	<u>\$ 7,066,266</u>	<u>\$ 2,867,058</u>	<u>\$ 2,920,645</u>	<u>\$ 6,445,991</u>	<u>\$ 7,491,286</u>
Available reserves as percentages of total outgo	<u>4.5%</u>	<u>3.0%</u>	<u>3.1%</u>	<u>4.6%</u>	<u>5.1%</u>

All Funds

Total long-term liabilities	<u>\$ 305,967,770</u>	<u>\$ 316,660,852</u>	<u>\$ 354,741,887</u>	<u>\$ 274,886,660</u>	<u>\$ 156,663,774</u>
Average daily attendance at P-2, excluding Adult and County supplement	<u>33,577</u>	<u>33,523</u>	<u>34,240</u>	<u>34,377</u>	<u>34,754</u>

The General Fund fund balance has increased by \$7,672,946 from June 30, 2003 to June 30, 2007. The fiscal year 2007-2008 budget, as originally adopted, projects an increase of \$4,992,573. For a district this size, the state recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. The District has met this requirement.

Available reserves consist of undesignated fund balances and the reserve for economic uncertainty contained within the General Fund.

The District has incurred operating surpluses in three of the past four years. The District's 2007-2008 Budget, as originally adopted, projects an operating surplus.

Total long-term liabilities have increased by \$159,997,078 over the past three years. See Note 5 to the financial statements.

Average daily attendance (excluding classes for adults and County supplement) has decreased by 1,231 over the past three years. An increase of 54 ADA was projected when the 2007-2008 budget was adopted.

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS

<u>Charter Schools Chartered by District</u>	<u>INCLUDED IN DISTRICT Financial Statements, or Separate Report</u>
Eagle Peak Montessori School	Included as Charter School Fund

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXCESS SICK LEAVE

Bargaining Agreement

Title of Employee

No contracts provided for excess sick leave.

See accompanying notes to
supplementary information.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

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

C - Schedule of Expenditure of Federal Awards

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

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

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

E - Schedule of Financial Trends and Analysis

This schedule provides trend information on fund balances, revenues, expenditures and average daily attendance, as required by the State Controller's Office.

F - Schedule of Charter Schools

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

G - Schedule of Excess Sick Leave

This schedule provides information to the California State Teachers' Retirement System to monitor the granting of excess sick leave by school districts.

MT. DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION

Education Code Section 14503 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Section 22714 and 44929. For the fiscal year ended June 30, 2007, the District did not adopt this program.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Concord, California

We have audited the compliance of Mt. Diablo Unified School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2007. Compliance with the requirements of state laws and regulations is the responsibility of Mt. Diablo Unified School District's management. Our responsibility is to express an opinion on Mt. Diablo Unified School District's compliance based on our audit.

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

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Regular and Special Day Classes	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Center and Programs	6	No (see below)
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No (see below)
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General requirements	12	Yes
Grades K-8	1	Yes
Grades 9-12	1	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	No (see below)
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	No (see below)
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	No (see below)
Excess Sick Leave	2	Yes

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

Notification of Right to Elect California State Teachers Retirement System (CalSTRS) Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	No (see below)
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
Districts with only one school serving K-3	4	No (see below)
Contemporaneous Records of Attendance, for charter schools	1	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No (see below)
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No (see below)
Annual Instructional Minutes - Classroom-Based, for charter schools	3	Yes

We did not perform any procedures related to Regional Occupational Center/Program because the District does not offer this program.

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

We did not perform any procedures related to Community Day School because the District's reported ADA for Community Day School was below the materiality level that requires testing.

We did not perform any procedures related to School Construction Funds - School District Bonds because the District has only Proposition 39 bonds.

We did not perform any procedures related to Early Retirement Incentive Program and Alternative Pension Plans because the District did not offer these programs in the current year.

The 2006-2007 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2007. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2006-2007 Audit Guide relating to the comparison of tested data from the 2006-2007 fiscal year to the 2006-2007 School Accountability Report Cards.

We did not perform any procedures related to Class Size Reduction Program - Districts with only one school serving K-3 because the District has more than one school serving K-3.

We did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study and Determination of Funding for Nonclassroom-Based Instruction for Charter Schools because the District does not have any Nonclassroom-based ADA.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

Schedule of Audit Findings and Questioned Costs section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Mt. Diablo Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information of the Board of Education, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith LLP

Sacramento, California
January 10, 2008

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH

Board of Education
Mt. Diablo Unified School District
Concord, California

We have audited the financial statements of Mt. Diablo Unified School District as of and for the year ended June 30, 2007, and have issued our report thereon dated January 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH

Compliance and Other Matters

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

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

Perry-Smith LLP

Sacramento, California
January 10, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mt. Diablo Unified School District
Concord, California

Compliance

We have audited the compliance of Mt. Diablo Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Mt. Diablo Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Mt. Diablo Unified School District's management. Our responsibility is to express an opinion on Mt. Diablo Unified School District's compliance based on our audit.

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

In our opinion, Mt. Diablo Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

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

Perry-Smith LLP

Sacramento, California
January 10, 2008

FINDINGS AND RECOMMENDATIONS

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

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

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 684,413

Auditee qualified as low-risk auditee? X Yes _____ No

STATE AWARDS

Internal control over state programs:

Material weakness(es) identified? _____ Yes X No

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

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

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

1. STUDENT BODY (30000)

Criteria

Education Code Section 48930 requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

- Oak Grove Middle School did not have the principal's signature on one of the disbursements.
- At Clayton Valley High School one of the student club accounts made expenditures in excess of funds earned by the club. The science club had a negative balance for three consecutive months in February, March and April of 2007.
- At Valley View Middle School, documentation for ticket sale funds turned in did not include a reconciliation of the ticket numbers to validate the number of tickets sold and the amount of money that should have been collected and deposited.

Effect

Heightened risk that funds could be misappropriated.

Cause

The schools are not all aware of the District's student body policies.

Fiscal Impact

Not applicable.

Recommendation

- The principals should monitor the site personnel responsible for student body accounting to ensure that District guidelines regarding student body are followed and record retention at each site is adequate.
- The ASB should enforce that forms are completed properly before turning in the funds to the Office Manager.

Corrective Action Plan

The principals monitor, review and approve student body financial activities that take place at their school sites and submit monthly student body financial reports to the internal auditor for review and monitoring. The District's Internal Auditor monitors and reviews student body financial reports for compliance with District policies, procedures and administrative rules.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

2. CASH ACCOUNTS (30000)

Criteria

Internal controls - safeguarding of assets and generally accepted accounting principles.

Condition

The District has approximately 50 bank accounts at various school sites that are not recorded in the District's general ledger as of June 30, 2007. In some instances, these accounts are used to handle non-District funds such as student body and parent-teacher organization receipts.

Effect

The District is understating cash balances by \$146,963.

Cause

Each school site has a clearing account that they use to deposit money received for a variety of reasons. The balances should be remitted to the District at the end of each month so the balances are zero at year end, however, the school sites are not remitting the balances in a timely manner.

Fiscal impact

Cash balances are understated by \$146,963.

Recommendation

The District should record all accounts as of the end of the school year. The June 30 bank statement and reconciliation should also be forwarded to the District at year end to ensure that any remaining balances are recorded on the District' general ledger. These accounts should never be used for non-district funds. The Board should adopt policies related to the handling of these accounts.

Corrective Action Plan

The revolving cash and clearing account bank statements and reconciliations for June 30th are forwarded to the District at year end. Staff has been informed that these accounts should not be used for non-District activities and funds.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

3. ACCOUNTS PAYABLE (30000)

Criteria

Generally accepted accounting principles and District policies and procedures.

Condition

An invoice for Special Education excess transportation costs for the year ended June 30, 2007 was not recorded in the general ledger.

Effect

Expenditures and accounts payable were understated.

Cause

The invoice was received in the Special Education department. However, the business office was not notified of the invoice until after the books were closed.

Fiscal Impact

The total amount of the invoice was \$822,316, which was booked as an audit adjustment, increasing expenditures and accounts payable.

Recommendation

All departments should be reminded of the closing process and timelines for submitting invoices and other information required to accurately reflect the District's financial position.

Corrective Action Plan

All departments have been reminded of the year-end closing process and the importance of submitting invoices timely to accurately reflect the financial position of the District as of year end.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

4. CAPITAL ASSETS (30000)

Criteria

Best practices for internal controls and District policies and procedures.

Condition

The District does reconcile its capital asset inventory records during the year, which would include a detail listing of land, buildings, improvements, equipment, work-in-progress, and accumulated depreciation, including additions and deletions.

Effect

The capital assets information was reconciled subsequent to year end in order to include these balances in the financial statements.

Cause

While there is a process to update capital asset records during the year, the updates are not reconciled to the general ledger activity on a regular basis.

Fiscal Impact

Potential misstatement of capital asset balances.

Recommendation

Capital asset additions should be reconciled between the detail schedules and the general ledger capital outlay expenditures throughout the year. In addition, work-in-progress needs to be tracked throughout the year to ensure that when projects are completed, they are removed from work-in-progress, added to buildings and/or improvements and depreciation expense is calculated from the date the asset is placed in service.

Corrective Action Plan

The capital asset additions per the detail schedules and the capital outlay per the general ledger will be reconciled throughout the year. Work-in-progress will be tracked to ensure that completed projects are added to assets for depreciation from the date the asset is placed in service.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

5. ACCRUED LIABILITIES (30000)

Criteria

Generally accepted accounting principles and District policies and procedures.

Condition

The accrued liabilities in the 9500 object codes have significant debit and credit balances that do not accurately reflect the balance of each specific object code. In total for all 9500 object codes the balances are fairly stated.

Effect

Individual object codes are overstated.

Cause

The object code account balances are not reconciled during the year. It appears that amounts accrued in one object code are charged to another object code when the liability is paid.

Fiscal Impact

While each object code is overstated, the accrued liabilities in total are fairly stated.

Recommendation

The District should reconcile all 9500 object code accounts on a monthly basis to ensure the payment of accrued liabilities is charged to the proper object codes and the balances are cleared out.

Corrective Action Plan

The District will reconcile the 9500 object code accounts on a monthly basis to ensure the payment of accrued liabilities is charged to the proper object codes.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

No matters were reported.

MT. DIABLO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

6. ATTENDANCE (10000)

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the state.

Condition

- At Hidden Valley Elementary School, two students for a total of two days were improperly claimed for apportionment when the District had records that the students were actually absent.
- At Oak Grove Middle School, three students for a total of three days were improperly claimed for apportionment when the District had records that the students were actually absent.
- At Clayton High School, seven students for a total of nine days were improperly claimed for apportionment when the District had records that the students were actually absent.

Effect

The apportionment claimed is overstated.

Cause

The cause was a clerical error in transferring the information from the teacher roll sheet to the Attendance Gathering scantron.

Fiscal Impact

- At Hidden Valley Elementary School, the extrapolated effect of this finding is 1.46 ADA being disallowed representing \$7,468 in funding.
- At Oak Grove Middle School, the extrapolated effect of this finding is 4.06 ADA being disallowed representing \$20,812 in funding.
- At Clayton High School, the extrapolated effect of this finding is 11.09 ADA being disallowed representing \$56,834 in funding.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

6. ATTENDANCE (10000) (Continued)

Recommendation

The District should revise and resubmit the Period Two Report of Attendance removing the disallowed attendances. In addition, a review process should be implemented to verify the attendance data entered.

Corrective Action Plan

The District revised and submitted the Second Period and Annual Reports of Attendance to reflect the changes in Average Daily Attendance.

7. PROPOSITION 20 LOTTERY FUNDS (40000)

Criteria

Ed Code Section 60010 (h) - Per Ed Code, Proposition 20 Lottery Funds are to be used for instructional materials, technology-based materials and other educational materials and tests as outlined that are designed for use by pupils and their teachers as a learning resource to help acquire facts, skills or opinions or to develop cognitive processes.

Condition

One expenditure was improperly charged to the restricted lottery funds. One invoice for equipment supplies was improperly charged. The item noted is not instructional materials, technology based materials or testing supplies as outlined by Ed Code 60010.

Effect

The District is not in compliance with state requirements for Proposition 20 lottery expenditures.

Cause

The District believed this expenditure to be allowable, based on their interpretation of the education code.

Fiscal Impact

Based on our total sample of \$22,936 and an error of \$49, we extrapolated the error rate over the total expenditures as of May 11, 2007 of \$185,092.02, which equates to an error of \$392.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

7. PROPOSITION 20 LOTTERY FUNDS (40000) (Continued)

Recommendation

The District should transfer the improperly charged expenditures to the appropriate resource code and verify all expenditures in the Proposition 20 Lottery Funds resource code for compliance with state adopted standards.

Corrective Action Plan

The District will monitor and review all expenditures for compliance with the State requirements for Proposition 20 Lottery Funds.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

MT. DIABLO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>If Not Implemented</u>
<p>2006-1</p> <p>At Clayton Valley High School and Holbrook Elementary School:</p> <ul style="list-style-type: none"> The ASB office does not issue receipt books to students/faculty for events generating money. Records of sales are not maintained. Therefore, the ASB personnel are not able to distinguish if all the money generated by the student body is being properly deposited. <p>The District should implement and enforce internal controls, including:</p> <ul style="list-style-type: none"> Receipt books or other supporting documentation should be used to record initial receipt of cash. Further, deposits should be supported with detailed of what is being collected. 	Partially implemented.	See current year finding #1.
<p>2006-2</p> <p>At Pleasant Hill Adult Education, the books held as inventory are not being counted or reconciled to the sales records.</p> <p>The inventory of books should be counted and reconciled to the amount purchased and sold.</p>	Implemented.	
<p>2006-3</p> <p>Two journal entries did not have a signature indicating their review. Also, when a journal entry is posted, management generally approves the batch entry by signature at the bottom of the sheet only if the entry is large or unusual.</p> <p>Due to the large volume of entries posted every year, it is not possible for management to review all journal entries. Currently, there is no set amount of criteria for which journal entries need to be reviewed by management. The District Office should develop criteria for which entries must be reviewed.</p>	Implemented.	

MT. DIABLO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
(Continued)

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>If Not Implemented</u>
<p>2006-4</p> <p>There are at least 55 employees with accrued vacation in excess of 40 days. One employee has over 140 days of accrued vacation.</p> <p>The District should consider adopting a policy that limits the amount of vacation an employee may accrue in any one year. Requiring employees to take time off work is essential to good internal controls. The vacation accrual limits will also reduce the District's liability that employees generally earn at a lower rate than when it is paid out.</p>	<p>Implemented.</p>	
<p>2006-5</p> <p>The ending balances per the CAMP investment statements at June 30, 2006 did not agree to the general ledger.</p> <p>All investment activity should be posted within 20 days of month end to ensure all balances are reflected accurately in the financial statements.</p>	<p>Implemented.</p>	
<p>2006-6</p> <p>The District has approximately 50 bank accounts at various school sites that are not recorded in the District's general ledger as of June 30, 2006. In some instances, these accounts are used to handle non-District funds such as student body and parent-teacher organization receipts.</p> <p>The District should require all account balances be transferred as of the end of the school year. The June 30 bank statement and reconciliation should also be forwarded to the District at year end to ensure that any remaining balances are recorded on the District's general ledger. These accounts should never be used for non-district funds. The Board should adopt policies related to the handling of these accounts.</p>	<p>Not implemented.</p>	<p>See current year finding #2.</p>

MT. DIABLO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>If Not Implemented</u>
2006-7 The District has overpaid employees throughout fiscal years 2002 - 2006. The District is pursuing collection of overpaid amounts. In the meantime, payroll procedures should be reviewed to determine the specific causes of overpayments and controls implemented to prevent this from occurring in the future.	Implemented.	
2006-8 During our testing of the Cal-Safe Program, the total annual attendance reported on Form B was understated by 489 days for the 2nd, 3rd, and 4th month. In addition, the total attendance reported on the monthly summaries did not reconcile to the Districts supporting documents. The District should revise the 2nd, 3rd and 4th months to reflect the actual days of attendance and Period Two Report to receive the proper funding for the Cal-SAFE Program. Furthermore, each LEA should develop and maintain accurate and adequate records to support the attendance reported to the State.	Implemented.	
2006-9 The District has paid individuals who did not possess an appropriate credential for the 2005-06 school year. The District worked with the Contra Costa County Office of Education to determine the impact of teacher credential status. The personnel department should set up a process to monitor all teacher credentials to ensure credentials are current and valid throughout the year.	Implemented.	

APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the MT. DIABLO UNIFIED SCHOOL DISTRICT (the "District") in connection with the issuance by the Board of Supervisors of Contra Costa County (the "Board") in the name of the District of \$14,000,000 Mt. Diablo Unified School District (Contra Costa County, California) 2008 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the Board of Education of the District on October 14, 2008, and a resolution adopted by the Board on October 28, 2008 (collectively, the "Resolution"). The District covenants and agrees 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 Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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:

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

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

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

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

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, 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:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board and with each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Notes pursuant to the Resolution.

Section 4. 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 3(c).

Section 5. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District.

Section 6. 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 Section 3(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Notes, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Notes, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Notes.

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. 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 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

Section 11. Alternative Filing Location. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> or another "Central Post Office" designated and accepted by the Securities and Exchange Commission.

Date: [Closing Date]

MT. DIABLO UNIFIED SCHOOL DISTRICT

By _____
Name _____
Title _____

APPENDIX C
FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Education
Mt. Diablo Unified School District
1936 Carlotta Drive
Concord, California 94519

OPINION: \$14,000,000 Mt. Diablo Unified School District (Contra Costa County, California) 2008
Tax and Revenue Anticipation Notes

Members of the Board of Education:

We have acted as bond counsel to the Mt. Diablo Unified School District (the "District") in connection with the issuance by the Board of Supervisors of Contra Costa County (the "Board") of \$14,000,000 principal amount of Mt. Diablo Unified School District (Contra Costa County, California) 2008 Tax and Revenue Anticipation Notes, dated November 20, 2008 (the "Notes"), pursuant to Article 7.6 (commencing with section 53850), Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, a resolution adopted by the Board of Education of the District on October 14, 2008 (the "District Resolution"), and a resolution adopted by the Board on October 28, 2008 (the "Board Resolution" and, collectively, the "Resolutions"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

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

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

4. Subject to the District's compliance with certain covenants, interest on the Notes is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Code but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the District to comply with one or more of such covenants could cause interest on the Notes to not be

excludable from gross income under section 103 of the Code for federal income tax purposes retroactively to the date of issuance of the Notes.

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

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

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

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

Respectfully submitted,