NEW ISSUE — BOOK-ENTRY-ONLY

2011-1268

RATING: Moody's: "Aa3"
(See "RATING" herein.)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and 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 Special Tax Counsel, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$43,700,000
MT. DIABLO UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
GENERAL OBLIGATION REFUNDING BONDS, ELECTION OF 2002, SERIES B

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

The Mt. Diablo Unified School District General Obligation Refunding Bonds, Election of 2002, Series B (the "Bonds") are being issued to (i) refund a portion of the District's outstanding General Obligation Bonds (Election of 2002, Series 2004) on an advance basis and (ii) pay certain costs of issuance associated therewith, as more fully described herein under the caption "PLAN OF FINANCE." The Bonds are issued on a parity with all other general obligation bonds of the District.

Interest on the Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2012. See ''THE BONDS'' herein.

The Bonds will be issued in book-entry form only, in denominations of $5,000 principal amount or integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive certificates representing their interests in the Bonds. Payments on the Bonds will be made by Wells Fargo Bank, National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System."

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption" herein.

The Bonds are general obligations of the District only and are not obligations of the County of Contra Costa (the "County"), the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal of, and premium, if any, and interest on each Bond as the same becomes due and payable.

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP[1] (621196)	Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP[1] (621196)
2012	$1,205,000	2.000%	0.450%	ZK3	2018	$375,000	4.000%	2.130%	ZX5
2013	90,000	3.000	0.770	ZL1	2018	3,120,000	5.000	2.130	ZY3
2014	90,000	3.000	1.040	ZM9	2019	2,500,000	3.250	2.390	ZS6
2015	3,995,000	4.000	1.350	ZN7	2019	2,160,000	5.000	2.390	ZZ0
2016	1,150,000	4.000	1.600	ZP2	2020	4,830,000	5.000	2.700	ZT4
2016	3,000,000	5.000	1.600	ZV9	2021	5,050,000	5.000	2.870	ZU1
2017	1,320,000	4.000	1.830	ZQ0	2022	5,285,000	5.000	3.000*	A20
2017	3,000,000	5.000	1.830	ZW7	2023	5,530,000	5.000	3.290*	A38
2018	1,000,000	2.000	2.130	ZR8					

(*) Yield to first par call date on July 1, 2021.

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

The Bonds will be offered when, as and if issued and received by the Underwriters subject to the approval of legality by Matt Juhl Darlington & Associates, Chico, California, Bond Counsel, and certain other conditions. Matt Juhl Darlington & Associates, Chico, California, is acting as Disclosure Counsel for the issue. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Special Tax Counsel to the District with respect to issuance of the Bonds. Certain matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Denver, Colorado. It is anticipated that the Bonds will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about December 29, 2011.

STONE & YOUNGBERG
A DIVISION OF STIFEL NICOLAUS

GEORGE K. BAUM & COMPANY

The Date of this Official Statement is: November 30, 2011

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as a representation of facts.

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. Although certain information set forth in this Official Statement has been provided by the County of Contra Costa, the County of Contra Costa has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement except for the information set forth under the caption "THE CONTRA COSTA COUNTY TREASURY POOL."

The Underwriters have provided the following sentence for inclusion in this Official Statement. "The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN SECURITIES 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 UNDERWRITERS.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

MT. DIABLO UNIFIED SCHOOL DISTRICT
Contra Costa County, State of California

Board of Education

Gary Eberhart, *President*
Sherry Whitmarsh, *Vice-President*
Lynne Dennler, *Member*
Cheryl Hansen, *Member*
Linda Mayo, *Member*

District Administrators

Steven Lawrence, Ph.D., *Superintendent*
Rose Lock, *Assistant Superintendent of Student Achievement and School Support*
Mildred Browne, Ed.D., *Assistant Superintendent, Special Education and Student Services*
Julie Braun-Martin, *Assistant Superintendent, Personnel Services*
Bryan Richards, *Chief Financial Officer*
Gregory J. Rolen, *General Counsel*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Matt Juhl Darlington & Associates
Chico, California

Special Tax Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Financial Advisor

Isom Advisors, a Division of Urban Futures Incorporated
Walnut Creek, California

Paying Agent, Transfer Agent, Registration Agent and Escrow Agent

Wells Fargo Bank, National Association
San Francisco, California

Escrow Verification Agent

Causey, Demgen & Moore Inc.
Denver, Colorado

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$43,700,000
MT. DIABLO UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
GENERAL OBLIGATION REFUNDING BONDS, ELECTION OF 2002, SERIES B

INTRODUCTION

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

The Mt. Diablo Unified School District (the "District") proposes to issue $43,700,000 aggregate principal amount of its General Obligation Refunding Bonds, Election of 2002, Series B (the "Bonds") in order to advance refund certain outstanding general obligation bonds of the District which were issued under and pursuant to a bond authorization (the "2002 Authorization") for the issuance and sale of not more than $250,000,000 of general obligation bonds approved by 55% or more of the qualified voters of the District voting on the proposition at a general election held on March 5, 2002 (the "Election"). No further bonds remain for issuance pursuant to the 2002 Authorization. Refunding bonds are not counted against the authorization amount and therefore, the District may issue the Bonds, as well as additional refunding bonds in the future, to refund outstanding general obligation bonds issued pursuant to the 2002 Authorization.

Purpose of Issue

Proceeds from the sale of the Bonds will be used to advance refund a portion of the District's outstanding General Obligation Bonds, (Election of 2002, Series 2004) (the "Series 2004 Bonds") and to pay certain costs of issuance associated therewith. See "PLAN OF FINANCE" herein.

Registration

Wells Fargo Bank, National Association will act as the initial registrar, transfer agent and paying agent for the Bonds (the "Paying Agent"). As long as The Depository Trust Company, New York, New York ("DTC") is the registered Owner of the Bonds and DTC's book entry-method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to Owners only to DTC. See "THE BONDS – Description of the Bonds" herein.

The District

The District, a unified school district of the State of California (the "State"), was established on July 1, 1949, and is located in the northwestern portion of Contra Costa County (the "County"). The District covers approximately 150 square miles including the cities of Concord, Pleasant Hill and Clayton, portions of the cities of Walnut Creek, Pittsburg and Martinez, and unincorporated areas of the County, including Pacheco and Bay Point, and is located approximately 30 miles northeast of San Francisco. The District provides kindergarten through twelfth grade education services in thirty-one elementary schools, ten middle schools, six high schools and twenty alternative schools and programs, and provides adult education in two adult education centers. The District's estimated average daily attendance for fiscal year 2011-12 is 32,312.47 students, and the District has a 2011-12 assessed valuation of $29,550,958,421. The District's audited financial statements for the fiscal year ended June 30, 2010 are attached hereto as APPENDIX C. For further information concerning the District, see the caption "MT. DIABLO UNIFIED SCHOOL DISTRICT" herein.

Sources of Payment for the Bonds

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal of, and interest on, the Bonds when due. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein

Authority for Issuance

The Bonds are general obligations of the District. The Bonds are being issued by the District under certain provisions of the Government Code of the State and pursuant to a resolution adopted by the Board of Education of the District. See "THE BONDS - Authority for Issuance" herein. The Government Code permits the issuance of bonds payable from *ad valorem* taxes without a vote of the electors solely in order to refund other outstanding bonds that were originally approved by such a vote, provided that the total debt service to maturity on the refunding bonds not exceed the total debt service to maturity on the bonds to be refunded.

Redemption

The Bonds are subject to optional redemption as described herein. See "THE BONDS – Optional Redemption" herein.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel, subject, however to the qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and 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. In the further opinion of Special Tax Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed by the District in connection with the Bonds. See "THE BONDS – Continuing Disclosure Agreement," "CONTINUING DISCLOSURE" and "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

Closing Date

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about December 29, 2011.

THE BONDS

Authority for Issuance

The Bonds are general obligations of the District. The Bonds are being issued by the District under the provisions of Title 5, Division 2, Part 1, Chapter 3, Article 9 of the Government Code of the State of California (the "Government Code") (commencing with Section 53550) and pursuant to a resolution of the Board of Education of the District adopted on September 27, 2011 (the "Resolution").

Purpose of Issue

The net proceeds of the Bonds will be used to refund on an advance basis a portion of the District's outstanding Series 2004 Bonds, the proceeds of which were used for the purposes specified in the District bond proposition submitted at the Election, which included upgrading electrical systems, repairing inadequate heating, ventilation and plumbing systems, replacing aging roofs, renovating restrooms, improving building exteriors and grounds for safety, replacing aging portables, and constructing or acquiring new classrooms, educational facilities and technology infrastructure.

Description of the Bonds

The Bonds are dated their date of delivery and will be issued only as fully registered bonds in denominations of $5,000 principal amount or integral multiples thereof.

The principal of the Bonds is payable on the maturity dates of the respective Bonds set forth on the cover of this Official Statement or the earlier redemption of the Bonds. Interest on the Bonds is payable on each January 1 and July 1 (each, an "Interest Payment Date") in each of the years, commencing July 1, 2012, and calculated at the interest rates per annum, set forth on the cover page of this Official Statement.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, the principal amount of and interest or premium, if any, on the Bonds when due are payable by wire transfer or New York Clearing House or equivalent next-day funds or by wire transfer of same day funds by Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "APPENDIX E – BOOK-ENTRY ONLY SYSTEM" herein.

Optional Redemption

The Bonds maturing on or before July 1, 2021 are not subject to redemption prior to their fixed maturity dates. The Bonds maturing on and after July 1, 2022 are subject to redemption prior to their stated maturity dates, at the option of the District, from any source of available funds, on any date on or after July 1, 2021, as a whole or in part, at a redemption price equal to the principal amount of the Bonds called for redemption, with interest accrued thereon to the date of redemption, without premium.

Selection of Bonds for Redemption

Whenever provision is made for the redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent, upon written instruction from the District given at least 45 days prior to the date designated for such redemption, shall select Bonds for redemption in such order as the District may direct. Within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption

When redemption is authorized, the Paying Agent, upon written instruction from the District given at least 45 days prior to the date designated for such redemption, shall give notice of the redemption of the Bonds. Such redemption notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount, as appropriate, of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such redemption notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with the interest accrued to the redemption date in the case of Bonds, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Effect of Notice of Redemption

Notice having been given as required in the Resolution, and the moneys for redemption (including the interest to the applicable date of redemption) having been set aside in the Debt Service Fund, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

Transfer and Exchange

Any Bond may be exchanged for Bonds of like tenor, series, maturity and principal amount upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of such Bond at the principal office of the Paying Agent together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Defeasance

If any or all Outstanding Bonds shall be paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the principal of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Debt Service Fund plus the interest to accrue thereon without the need for further investment, is fully sufficient to pay all Bonds Outstanding on their redemption date or at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or (c) by depositing with an institution to act as escrow agent selected by the District and which meets the requirements of serving as Paying Agent pursuant to the Resolution, in trust, lawful money or noncallable direct obligations issued by the United States Treasury (including State and Local Government Series Obligations) or obligations which are unconditionally guaranteed by the United States of America and described under Section 149(b) of the Code and Regulations which, in the opinion of nationally recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient, in the opinion of a verification agent satisfactory to the District, to pay and discharge all Bonds Outstanding at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; then all obligations of the District and the Paying Agent under the Resolution with respect to such Outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent under the Resolution.

Book-Entry Only System

The Bonds will be issued under a book-entry system, evidencing ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof, with no physical distribution of Bonds made to the public. DTC will act as depository for the Bonds, which will be immobilized in their custody. The Bonds will be registered in the name of Cede & Co., as nominee for DTC. For further information regarding DTC and the book entry system, see APPENDIX E hereto.

Continuing Disclosure Agreement

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the District will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") in the form of APPENDIX D hereto, on or prior to the sale of the Bonds in which the District will undertake, for the benefit of the Beneficial Owners of the Bonds, to provide certain information as set forth therein. The District is current on all filings required pursuant to its previous continuing disclosure agreements and within the last five years has not failed to comply with its continuing disclosure obligations. See "CONTINUING DISCLOSURE" and "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount of Bonds	$43,700,000.00
Net Original Issue Premium	6,055,897.30
Total Sources	$49,755,897.30
Uses of Funds	
Deposit to Escrow Fund	$49,292,697.20
Costs of Issuance(1)	463,200.10
Total Uses	$49,755,897.30

(1) Payment of Underwriters' discount, Bond and Disclosure Counsel fees, Special Tax Counsel fees, financial advisory fees, rating agency fees, escrow verification agent fee and other costs of issuance.

DEBT SERVICE SCHEDULE

The first of the following two tables summarizes the principal and interest payments on the Bonds. The second table shows the annual debt service payments on all of the District's outstanding general obligation bonds, comprising the Bonds, the unrefunded Series 2004 Bonds, the General Obligation Refunding Bonds, Series 2011 (the "Series 2011 Refunding Bonds"), the General Obligation Bonds, Election of 2002, Series 2006 (the "Series 2006 Bonds"), the General Obligation Bonds, 2010 Election, 2010 Series A and 2010 Series B (Federally Taxable New Clean Renewable Energy Bonds – Direct Payment) (collectively, the "Series 2010 Bonds") and the General Obligation Bonds, 2010 Election, 2011 Series C (Federally Taxable Qualified School Construction Bonds - Direct Payment) and 2011 Series D (collectively, the "Series 2011 Bonds"):

DEBT SERVICE ON THE BONDS

Bond Year Ending July 1	Principal	Interest	Total Debt Service
2012	$1,205,000	$1,012,678.33	$2,217,678.33
2013	90,000	1,979,000.00	2,069,000.00
2014	90,000	1,976,300.00	2,066,300.00
2015	3,995,000	1,973,600.00	5,968,600.00
2016	4,150,000	1,813,800.00	5,963,800.00
2017	4,320,000	1,617,800.00	5,937,800.00
2018	4,495,000	1,415,000.00	5,910,000.00
2019	4,660,000	1,224,000.00	5,884,000.00
2020	4,830,000	1,034,750.00	5,864,750.00
2021	5,050,000	793,250.00	5,843,250.00
2022	5,285,000	540,750.00	5,825,750.00
2023	5,530,000	276,500.00	5,806,500.00
Total	$43,700,000	$15,657,428.33	$59,357,428.33

DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATION BONDS

	2002 Authorization				2010 Authorization		
Period Ending August 1[1]	Series 2004 Bonds	Series 2006 Bonds	Series 2011 Refunding Bonds	The Bonds	Series 2010 Bonds[2]	Series 2011 Bonds[3]	Total Debt Service
2012	$6,402,781.26	$ 3,906,430.00	$ 3,447,237.50	$2,217,678.33	$ 2,813,922.10	$ 700,670.31	$19,488,719.50
2013	6,348,531.26	4,197,180.00	3,435,487.50	2,069,000.00	2,813,922.10	533,890.00	19,398,010.86
2014	6,304,781.26	4,155,680.00	3,437,587.50	2,066,300.00	2,813,922.10	533,890.00	19,312,160.86
2015	2,113,750.00	3,607,680.00	3,432,237.50	5,968,600.00	6,493,922.10	933,890.00	22,550,079.60
2016	2,113,750.00	3,600,817.50	3,424,387.50	5,963,800.00	5,478,190.90	968,890.00	21,549,835.90
2017	2,113,750.00	3,652,467.50	3,413,287.50	5,937,800.00	6,148,344.50	993,890.00	22,259,539.50
2018	2,113,750.00	3,660,637.50	3,420,237.50	5,910,000.00	6,857,688.20	1,028,890.00	22,991,203.20
2019	2,113,750.00	3,655,912.50	3,429,962.50	5,884,000.00	7,589,637.20	1,058,890.00	23,732,152.20
2020	2,113,750.00	3,634,275.00	3,430,675.00	5,864,750.00	8,341,776.80	1,082,640.00	24,467,866.80
2021	2,113,750.00	3,593,250.00	3,442,925.00	5,843,250.00	9,102,163.40	1,128,890.00	25,224,228.40
2022	2,113,750.00	3,526,550.00	3,456,750.00	5,825,750.00	9,961,444.80	1,336,390.00	26,220,634.80
2023	2,113,750.00	3,440,300.00	3,461,250.00	5,806,500.00	10,928,459.90	1,348,330.00	27,098,589.90
2024	8,333,750.00	3,340,400.00	3,468,750.00	-	11,933,505.70	1,337,030.00	28,413,435.70
2025	8,327,750.00	3,212,525.00	3,473,750.00	-	12,978,068.30	1,323,570.00	29,315,663.30
2026	8,326,500.00	3,058,025.00	3,481,000.00	-	14,066,678.50	822,950.00	29,755,153.50
2027	8,324,000.00	6,688,250.00	-	-	15,195,242.10	838,700.00	31,046,192.10
2028	8,329,500.00	6,469,750.00	-	-	16,390,737.50	875,625.00	32,065,612.50
2029	8,331,750.00	6,235,500.00	-	-	17,758,112.50	898,875.00	33,224,237.50
2030	-	14,311,250.00	-	-	19,304,662.50	937,075.00	34,552,987.50
2031	-	13,996,500.00	-	-	20,964,437.50	975,875.00	35,936,812.50
2032	-	-	-	-	6,817,637.50	-	6,817,637.50
2033	-	-	-	-	5,812,650.00	-	5,812,650.00
2034	-	-	-	-	6,047,050.00	-	6,047,050.00
2035	-	-	-	-	6,286,837.50	-	6,286,837.50
Total	$88,053,093.78	$101,943,380.00	$51,655,525.00	$59,357,428.33	$232,899,013.70	$19,658,850.31	$553,567,291.12

(1) The Bond Year ends June 1 for the Series 2006 Bonds, July 1 for the Series 2004 Bonds and the Bonds and August 1 for the Series 2011 Refunding Bonds, the Series 2010 Bonds and the Series 2011 Bonds.
(2) Excludes the anticipated receipt of subsidy payments to be made on a portion of the Series 2010 Bonds and a portion of the Series 2011 Bonds.

SECURITY FOR THE BONDS

General

The Bonds are general obligations of the District, and the Board of Supervisors of the County of Contra Costa has the power and is obligated to levy and collect *ad valorem* taxes upon all property within the District subject to taxation by the County, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for payment of both principal of and interest on the Bonds. No further general obligation bonds remain for issuance under the 2002 Authorization. The District received authorization to issue $348,000,000 principal amount of general obligation bonds pursuant to an election of the qualified electors within the District on June 8, 2010 (the "2010 Authorization"). $227,004,943.45 aggregate principal amount of general obligation bonds remain for issuance under the 2010 Authorization. All general obligation bonds of the District are issued on a parity with one another.

PLAN OF FINANCE

Redemption of Series 2004 Bonds

The net proceeds of the Bonds will be applied to accomplish an advance refunding of a portion of the Series 2004 Bonds (the "Refunded Bonds"). The Refunded Bonds are expected to consist of the maturities of the Series 2004 Bonds described in the following table:

MT. DIABLO UNIFIED SCHOOL DISTRICT
General Obligation Bonds, (Election of 2002, Series 2004)
Refunded Bonds

Maturity Date (July 1)	CUSIP No. (621196)	Principal Amount to be Refunded	Redemption Date	Redemption Price (% of par)
2015	UT9	$4,185,000	July 1, 2013	100%
2016	UU6	4,360,000	July 1, 2013	100
2017	UV4	4,545,000	July 1, 2013	100
2018	UW2	4,745,000	July 1, 2013	100
2019	UX0	4,955,000	July 1, 2013	100
2020	UY8	5,180,000	July 1, 2013	100
2021	UZ5	5,415,000	July 1, 2013	100
2022	VA9	5,670,000	July 1, 2013	100
2023	VB7	5,935,000	July 1, 2013	100

The maturities of the Series 2004 Bonds listed in the following table are not expected to be refunded and will remain outstanding subsequent to the issuance of the Bonds.

MT. DIABLO UNIFIED SCHOOL DISTRICT
General Obligation Bonds (Election of 2002, Series 2004)
Unrefunded Bonds

Maturity Date (July 1)	CUSIP No. (621196)	Principal Amount
2012	UQ5	$3,720,000
2013	UR3	3,875,000
2014	US1	4,025,000
2024	VC5	6,220,000
2025	VD3	6,525,000
2027	VE1	14,040,000
2029	VF8	15,490,000

Upon the issuance of the Bonds, the District will deposit the net proceeds of the Bonds into an Escrow Fund (the "Escrow Fund") established pursuant to the Escrow Deposit and Trust Agreement, dated as of December 1, 2011, by and between the District and Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent") thereunder, in order to redeem the Refunded Bonds on July 1, 2013, at a redemption price of 100% of the par amount of the Refunded Bonds plus accrued interest.

The sufficiency of amounts deposited into the Escrow Fund together with investment earnings thereon to effect the foregoing redemption will be verified by Causey, Demgen & Moore, Inc., certified public accountants. See the caption "ESCROW VERIFICATION" herein.

TAX BASE FOR REPAYMENT OF THE BONDS

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIIIA of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

A State-reimbursed exemption currently provides a credit of $7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

The following table presents the historical assessed valuation in the District for the last eleven fiscal years including the annual percent change. The District's total assessed valuation is $29,550,958,421 in fiscal year 2011-12.

MT. DIABLO UNIFIED SCHOOL DISTRICT
Summary of Assessed Valuations
Fiscal Years 2001-02 Through 2011-12

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2001-02	$19,501,805,860	$15,111,986	$899,543,508	$20,416,461,174	8.19%
2002-03	20,950,443,237	14,591,990	942,041,048	21,892,484,285	7.23
2003-04	22,705,133,044	6,252,431	920,522,887	23,631,908,362	7.95
2004-05	24,434,456,724	6,489,435	868,334,641	25,309,280,800	7.10
2005-06	26,500,394,364	7,186,091	942,384,927	27,449,965,382	8.46
2006-07	29,196,571,252	6,300,577	951,192,569	30,154,064,398	9.85
2007-08	31,650,036,905	4,180,952	964,357,554	32,618,575,411	8.17
2008-09	31,738,225,590	3,832,225	1,062,848,164	32,804,905,979	0.57
2009-10	29,639,009,735	3,832,225	1,051,293,746	30,694,135,706	-6.43
2010-11	28,924,776,672	7,279,811	974,038,398	29,906,094,881	-2.57
2011-12	28,609,334,442	6,768,296	934,855,683	29,550,958,421	-1.19

Source: California Municipal Statistics, Inc.

The table below presents the 2011-12 assessed valuation within the District by jurisdiction.

MT. DIABLO UNIFIED SCHOOL DISTRICT
2011-12 Assessed Valuation by Jurisdiction[1]

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Clayton	$ 1,672,527,948	5.66%	$1,672,527,948	100.00%
City of Concord	11,865,299,501	40.15	11,865,299,501	100.00
City of Martinez	1,548,332,918	5.24	4,239,442,013	36.52
City of Pittsburg	758,217,262	2.57	5,446,601,468	13.92
City of Pleasant Hill	4,386,936,836	14.85	4,386,936,836	100.00
City of Walnut Creek	5,109,235,931	17.29	12,331,891,031	41.43
Unincorporated Contra Costa County	4,210,408,025	14.25	29,470,710,768	14.29
Total Contra Costa County	$29,550,958,421	100.00%	140,545,941,115	21.03

(1) Before deduction of redevelopment incremental valuation.
Source: California Municipal Statistics, Inc.

The table below presents the 2011-2012 assessed valuation within the District by land use.

MT. DIABLO UNIFIED SCHOOL DISTRICT
2011-2012 Assessed Valuation and Parcels by Land Use

	2011-2012 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
Non-Residential:						
Agricultural/Rural	$ 174,133,850	0.61%	291	0.34%	280	0.34%
Commercial/Office	3,734,722,978	13.05	1,437	1.70	1,422	1.72
Vacant Commercial	77,390,005	0.27	156	0.18	124	0.15
Industrial	2,353,289,860	8.23	512	0.61	507	0.61
Vacant Industrial	64,597,177	0.23	70	0.08	69	0.08
Recreational	55,164,681	0.19	64	0.08	64	0.08
Government/Social/Institutional	119,045,876	0.42	1,499	1.77	748	0.90
Miscellaneous	78,424,186	0.27	1,382	1.64	1,147	1.38
Subtotal Non-Residential	$6,656,768,613	23.27%	5,411	6.40%	4,361	5.26%
Residential:						
Single Family Residence	$17,353,159,566	60.66%	59,956	70.94%	59,919	72.29%
Condominium/Townhouse	2,726,629,225	9.53	15,387	18.21	15,380	18.56
Rural Residential	135,957,294	0.48	226	0.27	226	0.27
Mobile Home	14,722,372	0.05	763	0.90	763	0.92
2-4 Residential Units	261,520,185	0.91	729	0.86	729	0.88
5+ Residential Units/Apartments	1,331,385,705	4.65	529	0.63	520	0.63
Vacant Residential	129,191,482	0.45	1,515	1.79	984	1.19
Subtotal Residential	$21,952,565,829	76.73%	79,105	93.60%	78,521	94.74%
Total	$28,609,334,442	100.00%	84,516	100.00%	82,882	100.00%

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

The table below sets forth the largest local secured taxpayers within the District in fiscal year 2011-2012.

MT. DIABLO UNIFIED SCHOOL DISTRICT
2011-2012 Largest Total Secured Taxpayers

	Property Owner	Primary Land Use	2011-2012 Assessed Valuation	% of Total[(1)]
1.	Tesoro Refining & Marketing Co.	Heavy Industrial	$1,293,748,643	4.52%
2.	Bank of America	Office Building	186,019,901	0.65
3.	Taubman Land Associates LLC	Regional Mall	162,719,457	0.57
4.	Sierra Pacific Properties Inc.	Office Building	141,267,016	0.49
5.	Chevron USA Inc.	Office Building	135,506,103	0.47
6.	CA-Station Landing Devel Co.	Office Building	105,689,921	0.37
7.	Transwestern Concord Corp. Center	Office Building	101,499,251	0.35
8.	Seecon Financial & Construction Co.	Office Building	93,999,456	0.33
9.	Park Regency Partners	Apartments	86,834,547	0.30
10.	Loja Pleasant Hill LLC	Apartments	81,000,000	0.28
11.	GRE Walnut Creek LLC	Office Building	73,599,870	0.26
12.	Concord Airport Plaza Assoc.	Office Building	67,199,876	0.23
13.	PMI Plaza LLC	Office Building	66,507,941	0.23
14.	Clayton Valley Shopping Center	Shopping Center	63,533,777	0.22
15.	FW CA P H Shopping Center LLC	Shopping Center	62,727,182	0.22
16.	CA-Treat Towers LP	Office Building	55,516,804	0.19
17.	San Marco Properties LLC	Apartments	52,479,333	0.18
18.	Lesher Communication Inc.	Newspaper	50,680,847	0.18
19.	Signature at Renaissance Square	Apartments	48,395,321	0.17
20.	Willows Center Concord	Shopping Center	45,030,014	0.16
			$2,973,955,260	10.40%

[(1)] 2011-12 total secured assessed valuation: $28,609,334,442.
Source: California Municipal Statistics, Inc.

Tax Rates

The following table sets forth typical tax rates levied in Tax Rate Area (2-002) for fiscal years 2007-08 through 2011-2012:

MT. DIABLO UNIFIED SCHOOL DISTRICT
Typical Tax Rate per $100 Assessed Valuation (TRA 2-002)

	2007-08	2008-09	2009-10	2010-11	2011-12
General	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000
Bay Area Rapid Transit District	.0076	.0090	.0057	.0031	.0041
East Bay Regional Park District	.0080	.0100	.0108	.0084	.0071
Mount Diablo Unified School District	.0424	.0455	.0493	.0600	.0612
Contra Costa Community College District	.0108	.0066	.0126	.0133	.0144
Total All Property Tax Rate	$1.0688	$1.0711	$1.0784	1.0848	1.0868
Contra Costa Water District (Land Only)	.0039	.0041	.0048	.0049	.0051

Source: California Municipal Statistics, Inc.

The Teeter Plan

The Board of Supervisors of the County, as of the 1950-51 fiscal year, approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan for the County, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan for the County is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County Treasury is the legal depository of tax collections.

Under the Teeter Plan, the District will receive 100% of its *ad valorem* property tax levied with respect to the Bonds irrespective of actual delinquencies in the collection of property taxes by the County.

The Teeter Plan of the County is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County orders discontinuance of its Teeter Plan, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency. In addition, if the delinquency rate for all *ad valorem* property taxes levied within the District exceeds 3%, the Board of Supervisors can terminate the Teeter Plan with respect to the District. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes would depend upon the collection of *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

The delinquency rate for *ad valorem* property taxes exceeded 3% within the District in fiscal years 2007-08 and 2008-09 but the County's Teeter Plan has not been suspended. The District knows of no petition for the discontinuance of the Teeter Plan now pending in the County.

Secured Tax Charges and Delinquencies

The following table sets forth the secured tax charges and delinquencies within the District from fiscal Year 2006-07 through fiscal year 2010-11. Because the County participates in the Teeter Plan, the District does not realize property tax delinquencies but is paid 100% of property taxes levied in the District, regardless of delinquencies. See " - The Teeter Plan" above.

MT. DIABLO UNIFIED SCHOOL DISTRICT
SECURED TAX CHARGES AND DELINQUENCIES
FISCAL YEARS 2006-07 THROUGH 2010-11

	Secured Tax Charge[1]	Amount Delinquent June 30	% Delinquent June 30
2006-07	$12,845,645.49	$353,719.90	2.75%
2007-08	13,151,902.12	526,267.47	4.00
2008-09	14,200,845.88	460,317.48	3.24
2009-10	14,382,466.91	310,553.48	2.16
2010-11	17,101,571.50	257,674.68	1.51

[1] Bond debt service levy only.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Numerous local agencies which provide public services overlap the District's service area. These local agencies have outstanding debt in the form of general obligation, lease revenue and special assessment bonds. The following table shows the District's estimated direct and overlapping bonded debt. The statement excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The District has not reviewed this table and there can be no assurance as to the accuracy of the information contained in the table; inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

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The following table is a statement of the District's direct and estimated overlapping bonded debt as of October 1, 2011:

MT. DIABLO UNIFIED SCHOOL DISTRICT
DIRECT AND OVERLAPPING BONDED INDEBTEDNESS

2011-12 Assessed Valuation:	$29,550,958,421
Redevelopment Incremental Valuation:	(3,550,779,562)
Adjusted Assessed Valuation:	$26,000,178,859

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 10/1/11	
Bay Area Rapid Transit District	5.961%	$ 24,591,509	
Contra Costa Community College District	20.876	47,584,754	
Mt. Diablo Unified School District	**100.000**	**313,300,057**	(1)
Mt. Diablo Unified School District Community Facilities District No. 1	100.000	52,675,000	
East Bay Regional Park District	9.260	12,097,727	
Pleasant Hill Recreation and Park District	92.208	18,441,600	
City of Martinez	36.522	5,222,646	
City of Pittsburg Community Facilities District No. 2005-2	100.000	10,905,000	
City of Pleasant Hill Downtown Community Facilities District	100.000	12,705,000	
City of Clayton Community Facilities District Nos. 1990-1 and 1990-2	100.000	4,455,000	
Contra Costa County Community Facilities District No. 1998-1	100.000	2,207,412	
1915 Act Bonds (Estimated)	Various	12,072,080	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$516,257,785	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Contra Costa County General Fund Obligations	20.783%	$ 66,430,553	
Contra Costa County Pension Obligations	20.783	83,098,747	
Contra Costa Community College District Certificates of Participation	20.876	193,103	
City of Concord General Fund Obligations	100.000	12,240,000	
City of Pleasant Hill General Fund Obligations	100.000	4,260,000	
Other City General Fund and Pension Obligations	Various	5,951,332	
Pleasant Hill Recreation and Park District Certificates of Participation	92.208	2,203,771	
Contra Costa Fire Protection District Pension Obligations	44.715	49,899,704	
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$224,277,210	
Less: Contra Costa County Obligations supported by revenue funds		(25,199,407)	
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$199,077,803	
GROSS COMBINED TOTAL DEBT		$740,534,995	(2)
NET COMBINED TOTAL DEBT		$715,335,588	

Ratios to 2011-12 Assessed Valuation:
Direct Debt ($365,975,057) (3) 1.24%
Total Direct and Overlapping Tax and Assessment Debt 1.75%

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt 2.85%
Net Combined Total Debt 2.75%

(1) Excludes the Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
(3) Includes Community Facilities District No. 1.

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

Source: California Municipal Statistics Inc.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the District and the District's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on all property within the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

District Investments

The Contra Costa County Treasurer-Tax Collector (the "Treasurer") manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County's Treasury Pool.

The composition and value of investments under management in the Treasury Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally.

Any premium or accrued interest received by the County from the sale of the Bonds will be deposited in the Debt Service Fund. Earnings on the investment of moneys in the Debt Service Fund will be retained in that fund and used only for the purposes to which that fund may lawfully be applied. Moneys in the Debt Service Fund may only be applied to make payments of interest, principal and premium, if any, on bonds of the District. All funds held in the Debt Service Fund will be invested by the Treasurer at the direction of the District.

For a further discussion of the Pooled Investment Fund, see the caption "THE CONTRA COSTA COUNTY TREASURY POOL" herein.

Financial Statements of the District

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District has not requested its auditor to provide any review or update of such financial statements in connection with their inclusion in this Official Statement. Certain information from the District's financial statements follows. The District's audited financial statements for the 2009-10 fiscal year are attached hereto as APPENDIX C. The District has not requested, and its auditors have not provided, any review or update to such audited financial statements. The District's audited financial statements for prior and subsequent fiscal years can be obtained by contacting the District at 1936 Carlotta Drive, Concord, California 94519, telephone (925) 682-8000. The District may impose a charge for copying, mailing and handling.

The District's financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting

Standards Board. See "DISTRICT FINANCIAL INFORMATION – General Fund" for more information regarding the District's financial statements for recent fiscal years.

Funds used by the District are categorized as follows:

Governmental Funds	Fiduciary Funds
General Fund	Trust and Agency Funds
Special Revenue Funds	Proprietary Funds
Debt Service Funds	Internal Service Funds
Capital Project Funds	

The general fund of the District, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the District not financed by restricted funds and moneys which are restricted to specific types of programs or purposes. General fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the Chief Financial Officer for the District and audited by independent certified public accountants each year. The District's audited financial statements for the year ending June 30, 2010 are attached hereto as APPENDIX C.

Budgets of District

The fiscal year of the District begins on the first day of July of each year and ends on the 30th day of June of the following year. The District adopts on or before July 1 of each year a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

The District is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year.

California Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. Many provisions affect District operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the District. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based on then-current projections.

The District filed its 2010-11 First Interim Report with the Contra Costa County Office of Education (the "Office of Education") with a qualified certification within the meaning of section 42133 of the Education Code due in large part to decreased funding from the State as a result of the State budget deficit as well as to a continuing decline in average daily attendance. The District Board has subsequently approved approximately $10 million in budget reductions including furlough days and benefit caps for District employees.

As a result of the budget reductions described above, the District has filed its 2010-11 Second Interim Report with the Office of Education with a positive certification within the meaning of Section 42133 of the Education Code.

Revenues

Revenue limit sources provided approximately 59% of total revenues of the District for 2010-11 and are budgeted to provide approximately 64% of total revenues of the District for 2011-12. Federal revenues represented approximately 11% of total revenues of the District for 2010-11 and are budgeted to provide approximately 8% of total revenues of the District for 2011-12. State revenues represented approximately 25% of total revenues of the District for 2010-11 and are budgeted to provide approximately 26% of total revenues of the District for 2011-12. Local revenues represented approximately 5% of total revenues of the District for 2010-11 and are budgeted to provide approximately 3% of total revenues of the District for 2011-12.

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General Fund

The following table describes the District's audited financial results for the fiscal years 2008-09 and 2009-10 and the unaudited actual results for fiscal year 2010-11.

MT. DIABLO UNIFIED SCHOOL DISTRICT
GENERAL FUND
Statement of Revenues, Expenditures and Change in Fund Balances
for Fiscal Years 2008-09 and 2009-10 and Unaudited Actuals for Fiscal Year 2010-11

	2008-09 Audit	2009-10 Audit	2010-11 Unaudited Actuals
REVENUES			
Revenue Limit Sources	$189,408,555	$165,118,381	$171,505,100
Federal Revenues	28,669,803	27,932,051	33,588,624
Other State Revenues	71,881,127	62,989,934	73,982,810
Other Local Revenues	10,126,725	12,279,895	13,360,027
TOTAL REVENUES	$300,086,210	$268,320,261	$292,436,560
EXPENDITURES			
Certificated salaries	$136,088,465	$127,856,813	$126,094,910
Classified salaries	45,559,089	44,202,482	41,645,242
Employee benefits	52,315,375	53,003,053	52,675,832
Books and supplies	10,452,524	12,110,363	9,259,030
Services and other operating expenditures	38,009,866	35,546,947	35,843,232
Capital outlay	2,229,786	934,095	1,623,362
Direct support/indirect costs	(612,867)	(715,708)	1,677,653
Other outgo	3,021,460	2,456,908	(687,701)
TOTAL EXPENDITURES	$287,063,698	$275,394,953	$268,131,560
Excess (Deficiency) of Revenues Over Expenditures	$ 13,022,512	$ (7,074,692)	$ 24,305,000
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	$ 1,758,835	$ --	$ 1,572,413
Operating Transfers Out	(1,294,106)	(7,176,802)	(3,614,453)
Sources	--	--	1,326,000
Proceeds from issuance of long-term liabilities	--	2,169,387	--
TOTAL OTHER FINANCING SOURCES (USES)	$ 464,729	$ (5,007,415)	$ (716,040)
Net Change in Fund Balances	13,487,241	(12,082,107)	23,588,960
Fund Balances at Beginning of Year	$ 33,729,884	$ 47,217,125	$ 35,135,018
Fund Balances at End of Year	$ 47,217,125	$ 35,135,018	$ 58,723,978

Source: The District.

The table below sets forth the budgets of the District for fiscal years 2009-10, 2010-11 and 2011-12.

MT. DIABLO UNIFIED SCHOOL DISTRICT
GENERAL FUND
Adopted Budget for Fiscal Years 2009-10, 2010-11 and 2011-12

	2009-10 Adopted Budget	2010-11 Adopted Budget	2011-12 Adopted Budget
REVENUES			
Revenue Limit Sources	$174,716,743	$163,258,111	$172,676,205
Federal Revenues	22,746,451	20,508,626	20,338,017
Other State Revenues	60,890,740	67,729,805	70,074,257
Other Local Revenues	8,454,135	8,304,326	7,306,953
TOTAL REVENUES	$266,808,069	$259,800,868	$270,395,432
EXPENDITURES			
Certificated Salaries	$ 123,663,118	$124,469,721	$124,363,411
Classified Salaries	40,242,768	39,295,380	37,613,887
Employee Benefits	53,707,432	55,621,204	55,273,901
Books and Supplies	12,773,291	12,326,799	12,996,275
Services and Other Operating Expenditures	33,963,449	34,654,790	38,159,783
Capital Outlay	192,720	302,707	152,817
Other Outgo (excluding Transfers of Indirect Costs)	3,434,397	2,487,065	1,215,293
Other Outgo – Transfers of Indirect Costs	(764,223)	(740,508)	(679,198)
TOTAL EXPENDITURES	$267,212,953	$268,417,158	$269,096,169
Excess (Deficiency) of Revenues Over Expenditures	$ (404,884)	$ (8,616,290)	$ 1,299,263
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	$ --	$ --	$ --
Operating Transfers Out	(6,409,846)	(3,486,037)	(3,914,687)
Sources	--	--	--
TOTAL OTHER FINANCING SOURCES (USES)	$ (6,409,846)	$ (3,486,037)	$ (3,914,687)
Net Change in Fund Balances	(6,814,730)	(12,102,327)	(2,605,424)
Fund Balances at Beginning of Year	$ 47,217,126	$ 20,618,220	$ 34,821,216
Fund Balances at End of Year	$ 40,402,396	$ 8,515,894	$ 32,215,792

Source: The District.
Totals may not sum due to rounding.

Retirement System

The District participates in the State of California Teachers Retirement System ("STRS") which provides retirement benefits to certificated personnel. The District contributed $10,954,293 to STRS for fiscal year 2008-09, $10,412,508 for fiscal year 2009-10 and $10,207,626 for fiscal year 2010-11. The District budgeted a contribution to STRS of $10,355,551 for fiscal year 2011-12. The District also participates in the State of California Public Employees' Retirement System ("PERS") which provides retirement benefits to classified personnel. The District contributed $4,386,622 to PERS for fiscal year 2008-09, $4,359,337 for fiscal year 2009-10 and $4,389,951 for fiscal year 2010-11. The District budgeted a contribution to PERS of $4,578,451 for fiscal year 2011-12.

Both PERS and STRS are operated on a statewide basis and, based on available information, STRS and PERS both have substantial unfunded liabilities. PERS may issue certain pension obligation bonds to reach funded status. (Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282.) The amounts of the pension/award benefit obligation (CalPERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. The District is unable to predict what the amount of unfunded liabilities will be in the future or the amount of the contributions which the District may be required to make.

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 required 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. The implementation date for this pronouncement was staggered in three phases based upon the entity's annual revenues, similar to the implementation for GASB Statement No. 34 and 35. GASB Statement No. 45 ("GASB 45") was effective for the District for the fiscal year ending June 30, 2008.

Employees who are eligible to receive retiree employment benefits other than pensions ("Health & Welfare Benefits") while in retirement must meet specific criteria, *i.e.*, age and years with the District.

The District provides Health & Welfare Benefits to qualified eligible certificated employees and their eligible dependents who retire from the District on or after attaining age 55 with at least 5 years of participation in STRS. The District provides Health & Welfare Benefits to qualified eligible classified employees who retire from the District on or after attaining age 55 with at least 5 years of participation in PERS and 5 years of service to the District. The District provides Health & Welfare Benefits to qualified eligible management and confidential employees and their eligible dependents who retire from the District on or after attaining age 55 with at least 5 years of participation in STRS or PERS. On May 1, 2008, 807 retirees met these qualifications. The District pays the medical premiums incurred by qualified retirees through age 64 (or eligibility for Medical for certain classified employees) and requires retirees to contribute to the cost of coverage based on the active employee contributions.

For certificated employees who retire prior to age 64 and management and confidential employees who retire prior to age 63, Health & Welfare Benefits include medical coverage for one dependant and dental coverage for all dependants (effective in 2011, management and confidential employees who retire prior to age 63 will receive employee-only medical benefits). For certificated employees who retire at age 64, all classified employees and management and confidential employees who retire at age 64, Health & Welfare Benefits include employee only medical coverage and no dental coverage. Spouse and dependent coverage ceases upon death of the retiree.

Expenditures for post-employment healthcare benefits are recognized each pay period at a rate that approximates the amount of premiums paid. During the fiscal years ended June 30, 2010 and June 30, 2011, expenditures of $3,837,135 and $4,086,706 were recognized for post-employment healthcare benefits, respectively. The District has completed an actuarial study of its Health and Welfare Benefits dated June 3, 2008. Based on that study, the District's Annual Required Contribution is $8,043,769 and its unfunded actuarial accrued liability is $71,000,000.

Certain Existing Obligations

A schedule of the District's changes in long-term debt for the year ended June 30, 2010 is shown below:

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Due Within One Year
Mello Roos bonds:					
Series 2002	$ 22,620,000	--	$ 1,205,000	$ 21,415,000	$ 1,255,000
Series 2005	14,245,000	--	550,000	13,695,000	565,000
Series 2006	26,735,000	--	1,765,000	24,970,000	1,815,000
Net issuance discount	(23,505)	--	(1,584)	(21,921)	(1,584)
General obligation bonds[1]:					
Series 2002	44,430,000	--	1,655,000	42,775,000	1,720,000
Series 2004	109,155,000	--	3,285,000	105,870,000	3,420,000
Series 2006	59,380,000	--	500,000	58,880,000	790,000
Net issuance premium	3,663,357	--	182,657	3,480,700	182,657
Certificates of Participation[2]	5,670,000	--	230,000	5,440,000	240,000
Net issuance premium	30,882	--	1,881	29,001	1,881
Construction loan	5,636,148	--	97,106	5,539,042	--
Capitalized lease obligations	9,139,182	--	510,489	8,628,693	533,749
Post-employment healthcare Obligations	8,622,710	4,066,578	--	12,689,288	--
Compensated absences	3,558,522	--	198,533	3,359,989	--
Total	$312,862,296	$ 4,066,578	$ 10,179,082	$ 306,749,792	$ 10,521,703

[1] Does not include the Series 2010 Bonds, the Series 2011 Bonds or the refunding of the Series 2002 Bonds on June 21, 2011.
[2] Does not take into account the prepayment of all of the outstanding 1998 Certificates of Participation (Refunding and Capital Projects) on November 1, 2010.
Source: The District

General Obligation Bonds

The District received authorization from the voters within the District to issue $250,000,000 aggregate principal amount of general obligation bonds pursuant to the 2002 Authorization. On June 20, 2002, the District issued $69,400,000 principal amount of general obligation bonds under the 2002 Authorization; on June 10, 2004, the District issued $121,000,000 principal amount of general obligation bonds under the 2002 Authorization; and on May 11, 2006, the District issued $59,600,000 principal amount of general obligation bonds under the 2002 Authorization. On June 21, 2011, the District issued $37,790,000 principal amount of general obligation refunding bonds to refund the general obligation bonds issued on June 20, 2002. No further general obligation bonds remain to be issued under the 2002 Authorization.

Pursuant to the 2010 Authorization, the District received authorization to issue $348,000,000 principal amount of general obligation bonds. On September 30, 2010, the District issued its General Obligation Bonds, 2010 Election, 2010 Series A and General Obligation Bonds, 2010 Election, 2010 Series B (Federally Taxable New Clean Renewable Energy Bonds – Direct Payment) in the aggregate principal amount of $109,996,475 and on April 12, 2011, the District issued its General Obligation Bonds (Federally Taxable Qualified School Construction Bonds – Direct Payment) 2010 Election, 2011 Series C and General Obligation Bonds, 2010 Election, 2011 Series D in the aggregate principal amount of $10,998,581.55. $227,004,943.45 of general obligation bonds remains to be issued under the 2010 Authorization. The Bonds are issued on a parity with all general obligation bonds of the District, including future general obligation bonds issued under the 2010 Authorization. See "DEBT SERVICE SCHEDULE" for the debt service payments to be made on all of the District's outstanding general obligation bonds.

Certificates of Participation

The District has no currently outstanding certificates of participation.

Capital Leases

The District leases school buses under certain capital lease agreements with payments in the amount of $104,996.32 each November and May through 2017.

MT. DIABLO UNIFIED SCHOOL DISTRICT

The information in this section concerning the operations of the District, the District's finances and State funding of education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on all property within the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

District Organization

The District, a unified school district of the State, was established on July 1, 1949, and is located in the northwestern portion of Contra Costa County. The District covers approximately 150 square miles including the cities of Concord, Pleasant Hill and Clayton, portions of the cities of Walnut Creek, Pittsburg and Martinez, and unincorporated areas of the County, including Pacheco and Bay Point, and is located approximately 30 miles northeast of San Francisco. The District provides kindergarten through twelfth grade education services in thirty-one elementary schools, ten middle schools, six high schools and twenty alternative schools and programs, and provides adult education in two adult education centers. The District's estimated average daily attendance for fiscal year 2011-12 is 32,312.47 students, and the District has a 2011-12 assessed valuation of $29,550,958,421.

The District is governed by a Board of Education (the "Board"). The Board consists of five members who are elected at-large to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board members or by a special election. The years in which the current terms for each member of the Board expire are set forth in the following table:

BOARD OF EDUCATION

Name	Office	Term Expires November
Gary Eberhart	President	2012
Sherry Whitmarsh	Vice- President	2014
Lynne Dennler	Member	2014
Cheryl Hansen	Member	2014
Linda Mayo	Member	2012

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained by contacting: Mt. Diablo Unified School District, 1936 Carlotta Drive, Concord, California 94519, Attention: Chief Financial Officer. The District may charge a small fee for copying, mailing and handling.

Key Personnel

The following is a listing of the key administrative personnel of the District.

Name	Title
Steven Lawrence, Ph.D.	Superintendent
Rose Lock	Assistant Superintendent of Student Achievement and School Support
Mildred Browne, Ed.D.	Assistant Superintendent, Special Education and Student Services
Julie Braun-Martin	Assistant Superintendent, Personnel Services
Bryan Richards	Chief Financial Officer
Gregory J. Rolen	General Counsel

Steven Lawrence, Ph.D. Superintendent Lawrence has served as Superintendant of the District since February 1, 2010. Prior to joining the District, Dr. Lawrence worked at Washington Unified School District where he served as Superintendent from July, 2006 through January, 2010. He has a total of 22 years of education experience. Dr. Lawrence earned a Bachelor of Arts in Applied Mathematics and Economics from Brown University and a Doctorate in Philosophy from University of California, Los Angeles.

Bryan Richards. Bryan Richards has served as the Chief Financial Officer of the District since July 1, 2010, prior to which he was the Director of Fiscal Services of the District for 1½ years. Mr. Richards also served as Business Manager for the John Swett Unified School District from 2005 to 2008. Mr. Richards is licensed as a certified public accountant by the State of Virginia and holds a Chief Business Official Certificate from the University of California, Riverside. Mr. Richards earned a Bachelor of Science in Business and Public Administration with a concentration in Accounting from the University of Virginia's College at Wise.

District Employees

The District employs approximately 1,910.75 full-time equivalent certificated academic professionals as well as 1,135.72 full-time equivalent classified employees.

The certificated employees, with the exception of school psychologists, of the District have assigned the Mount Diablo Education Association ("MDEA") as their exclusive bargaining agent. The contract between the District and MDEA expired on June 30, 2010. The parties are operating under the terms of the expired contract while negotiations are underway for a new contract.

The school psychologists of the District have assigned the Mount Diablo School Psychologists Association ("MDSPA") as their exclusive bargaining agent. The contract between the District and MDSPA expires on June 30, 2013.

The classified employees in the maintenance, operations and transportation departments of the District have assigned Public Employees Union, Local #1, Maintenance & Operations Unit ("Local #1 M&O") as their exclusive bargaining agent and the contract between the District and Local #1 M&O expires on June 30, 2013.

The classified employees in the clerical, secretarial and technical positions have assigned Public Employees Union, Local #1, Clerical, Secretarial & Technical Unit ("Local #1 CST") as their exclusive bargaining agent and the contract between the District and Local #1 CST expires on June 30, 2013.

The classified employees in instructional aide and campus supervisor positions have assigned California School Employees Association ("CSEA") as their exclusive bargaining agent and the contract between the District and CSEA expired on June 30, 2013.

Insurance

The District is a member of CSAC Excess Insurance Authority ("CSAC-EIA"), Schools Excess Liability Fund ("SELF") and the Schools' Self Insurance of Contra Costa County ("SSICCC"), each a joint powers authority that provides various types of insurance to its members as requested. 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's liability claims over $900,000 are covered by SELF. Property claims in excess of $100,000 are covered by a commercial insurance policy up to $149,000,000.

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker's compensation as are adequate, customary and comparable with such insurance maintained by similarly situated unified school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

District Growth

The District has experienced declines in student enrollment and average daily attendance in the past several years. The table below sets forth the enrollment and Average Daily Attendance ("ADA") as well as the revenue limit per ADA for the District for the fiscal years ending 2008 through 2011 and an estimate for fiscal year ending June 30, 2012.

MT. DIABLO UNIFIED SCHOOL DISTRICT
Enrollment and Average Daily Attendance
Fiscal Years 2007-08 through 2011- 12

Fiscal Year	Enrollment	P-2 ADA	Change in ADA From Prior Year	Revenue Limit Per ADA
2007-08	35,355	33,355.21	-201.57	$5,780.02
2008-09	34,953	33,208.96	-146.25	5,629.83
2009-10	34,200	32,661.65	-547.31	4,947.49
2010-11	34,088	32,536.57	-125.08	5,206.08
2011-12(1)	33,877	32,345.35	-191.22	5,207.18

(1) Estimated.
Source: The District.

Developer Fees

The District receives developer fees per square foot pursuant to Education Code Section 17620. Current developer fees are $2.97 per square foot for residential housing and $0.47 per square foot for commercial or industrial development.

Fiscal Year	Developer Fees Collected
2006-07	$3,412,466
2007-08	1,685,522
2008-09	867,773
2009-10	645,453
2010-11	553,372

Source: The District.

State Funding of Education

The State Constitution requires that from all State revenues there will first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, most school districts in the State receive a significant portion of their funding from State appropriations.

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State aid, and receives only its special categorical aid which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as "basic aid districts." Districts that receive some State aid are commonly referred to as "revenue limit districts." The District is a revenue limit district.

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit (as described below) per unit of average daily attendance ("ADA"). Generally, such apportionments will amount to the difference between the District's revenue limit and the

District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (*i.e*., unified, high school or elementary). State law also provides for State support of specific school-related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

The State revenue limit is calculated three times a year for each school district. 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 Principal Apportionment. Calculations are reviewed by the County Office of Education and submitted to the State Department of Education to review the calculations for accuracy, calculate the amount of State aid owed to such school district and notify the State Controller of the amount, who then distributes the State aid.

The calculation of the amount of State aid a school district is entitled to receive each year is a five step process. First, the prior year State revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year State revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average State revenue limit per ADA for the school districts. Third, the current year's State revenue limit per ADA for each school district is multiplied by such school district's ADA for either the current or prior year, whichever is greater. Fourth, revenue limit add-ons are calculated for each school district if such school district qualifies for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the State revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the State revenue limit to arrive at the amount of state aid based on the State revenue limit each school district is entitled to for the current year. See "MT. DIABLO UNIFIED SCHOOL DISTRICT - District Growth" for a recent history of the District's ADA record.

State Budget

The District's principal funding formulas and revenue sources are derived from the budget of the State of California. **The following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, the State has not entered into any contractual commitment with the District, the County, the Underwriters, Bond and Disclosure Counsel nor the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, none of the District, Bond and Disclosure Counsel nor the Underwriters assume any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including www.dof.ca.gov, which website is not incorporated herein by reference.**

2011-12 State Budget. On June 30, 2011, the State budget for fiscal year 2011-12 (the "2011-12 Budget") was enacted, closing a $26.6 billion budget gap by reducing expenditures by $15 billion, targeting revenue increases of $0.9 billion and additional solutions of $2.9 billion. The remaining $8.3 billion in changes stem from the improvement in the State's revenue outlook. $27.2 billion in changes balances the 2011- 12 Budget and leaves the State with a reserve of $543 million. General fund spending totals $85.9 billion, a 6.1% reduction from 2010-11. The 2011-12 Budget includes a major realignment of public safety programs from the State to local governments. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services and adult protective services.

The 2011-12 Budget includes $15 billion in spending reductions by: maintaining K-12 education funding at a similar level as 2010-11, reducing State Supplementary Payment grants, reducing CalWORKS grants, reducing California Department of Corrections and Rehabilitation's inmate population by 25% once realignment is fully implemented, requiring recipients of Medi-Cal health benefits to pay a share of the cost for doctor visits and other services, reducing the State's support for the University of California and California State University by 22% and 25%, respectively, requiring community college students to pay $10 more per class unit, delaying the court system's construction program for one year, eliminating the Adult Day Health Care program, Williamson Act subventions, and the refundable child care and dependent tax credit, reducing the State's workforce by 5,500 positions; and eliminating 20 boards, commissions, task forces, offices and departments, including the California Medical Assistance Commission and the Office of Insurance Advisor.

The May Revision reflected $6.6 billion in higher tax receipts compared to the Governor's proposed 2011-12 Budget. Since the May Revision, tax receipts were higher than expected by an estimated $1.2 billion in May and June. With the improved revenue receipts, the 2011-12 Budget projects an additional $4 billion in estimated 2011-12 revenues. In order to mitigate the risk if higher revenues do not materialize, if projected revenues fall short of expectations by more than $1 billion, an additional $600 million in cuts to higher education, health and human services and public safety would be implemented beginning in January 2012. If projected revenues fall short by more than $2 billion, an additional $1.9 billion in education reductions would be implemented – shortening the school year by seven days, eliminating the home-to-school transportation program and reducing community college apportionments.

With respect to K-12 education, the 2011-12 Budget includes total funding of $64.1 billion ($34.7 billion general fund and $29.4 billion other funds) for all K-12 education programs. For 2011-12, the Proposition 98 Guarantee (the "Guarantee") is $48.7 billion, of which $32.9 billion is general fund. This Guarantee level reflects an increase in general fund revenues in 2011-12, the expiration of a variety of short-term tax increases and the rebenching or adjustment of the Guarantee for revenue and program shifts. In 2011-12, there are four new rebenching impacts: (1) an increase of $578.1 million to ensure that the Guarantee does not decrease with the shift in motor vehicle fuel revenues, (2) an increase of $221.8 million to reflect the inclusion of mental health and out-of-home care services within the Guarantee, (3) a decrease of $1.134 billion to reflect the exclusion of child care programs, with the exception of partial-day preschool programs, from Proposition 98, and (4) a decrease of $1.7 billion to ensure that the total Guarantee is not changed due to new local revenue related to redevelopment agencies. In addition to the above adjustments, Proposition 98 is decreased $2.1 billion as a result of the reduction in general fund sales tax revenue related to the realignment of public safety programs to counties.

The 2011-12 Budget includes the following adopted solutions:

- Defer $2.1 billion in K-12 Education spending – this additional deferral maintains funding for K-12 education programs at the 2010-11 funding level.

The 2011-12 Budget includes the following Proposition 98 general fund policy and workload adjustments:

- *Shift In Mental Health Services from Counties to Schools* – The 2011-12 Budget rebenches the Proposition 98 guarantee and provides an increase of $221.8 million Proposition 98 general fund revenues to shift the responsibility for providing mental health services, including out of home residential services, required under federal law from county mental health departments and county welfare departments to school districts. School districts can contract with counties to provide services using Proposition 63 funds, but schools would be responsible for any excess costs over a given amount. In total, the 2011-12 Budget provides $389.4 million from all fund sources, including $69 million in federal funds currently budgeted for mental health services.

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

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

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

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

- As a result of the revised revenue forecast, the LAO assumes the implementation of $2 billion in midyear "trigger" reductions required by the 2011-12 Budget. This includes the implementation of all first tier trigger reductions, totaling $600 million. The LAO also assumes the implementation of approximately $1.4 billion of second tier trigger reductions, including a $248 million reduction in home-to-school transportation funding, a $72 million reduction to community college apportionments, and a $1.1 billion reduction to K-12 revenue limit funding. The reduction to revenue limit funding reflects a pro-rated implementation of the second tier trigger reductions, based on the LAO's revenue forecast. The final extent of the reductions will be determined by the State Department of Finance, once it releases its December 2011 revenue forecast.

- The LAO's forecast generally assumes that the State will prevail in current, on-going litigation regarding certain provisions of the 2011-12 Budget. See "—Litigation Challenging State Funding of Education" below. However, the LAO assumes that the State will only realize $1.4 billion of additional general fund revenues from the elimination of redevelopment agencies, rather than the $1.7 billion figure included in the 2011-12 Budget.

- The Fiscal Outlook Report does not assume the passage of the Governor's proposed tax extensions at the November 2012 election. The LAO notes that, under the provisions of the 2011-12 Budget, if no such ballot measure is passed, the State would be required to provide an additional $2 billion of settle-up payments to K-12 education, reflecting a like increase to the Proposition 98 minimum funding guarantee for fiscal year 2011-12.

- The LAO also assumes (i) higher Medi-Cal costs of approximately $400 million, and (ii) that the State will be unable to reduce departmental costs by $250 million, as projected by the 2011-12 Budget.

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

The District cannot predict how State income or State education funding will vary over the term of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget" or www.ebudget.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Cash Management Legislation. On February 1, 2010, Governor Schwarzenegger signed into law ABX8 5, effective immediately, which included several measures meant to allow the State to effectively manage its cash resources in fiscal years 2009-10 and 2010-11. For fiscal year 2009-10, ABX8 5 authorized the deferral of general payments to be made to trial court operations, the California University system, the University of California system, and community college districts in March 2010 to no sooner than April 15, 2010, but no later than May 1, 2010. Prior to such deferrals, the State Controller, State Treasurer, and State Director of Finance was required to review the actual cash situation to determine if the deferrals are in-fact necessary. Further, if such deferrals were implemented, the State Controller, State Treasurer and State Director of Finance, after April 1, were required to review daily the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. To address the cash management issues in fiscal year 2010-11, ABX8 5 authorized specific deferrals to K-12 apportionments, Supplemental Security Income/State Supplementary Payments, local government social services and transportation payments and trial court operations. These deferrals were allowed only in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 30 days. Prior to the implementation of such deferrals, the State Controller, State Treasurer, and State Director of Finance were required to review the actual cash receipts and disbursements to determine if they were in-fact necessary. Further, if such deferrals were implemented, the State Controller, State Treasurer, and State Director of Finance, after July 1, 2010, were required to conduct a daily review of the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. In addition, such deferrals may be moved forward or backward one month from the dates specified if all three of the State Controller, State Treasurer, and State Director of Finance determined that a move was necessary. ABX8 5 limited the K-12 deferrals to $2.5 billion at any given time during the fiscal year 2010-11 and sets a maximum of three K-12 deferrals during the fiscal year. ABX8 5 provided a hardship exemption for County Offices of Education, Local Education Agencies and Charter Schools. ABX8 5 further authorized the deferral of $200 million from July 2010 to October 2010 and $100 million from March 2011 to May 2011 for community college districts. ABX8 5 also provided for a hardship exemption for community college districts.

On March 22, 2010, the Governor signed into law, effective immediately, ABX8 14 which amended the cash management provisions for 2009-10 and 2010-11 enacted into law pursuant to ABX8 5. With regard to the 2009-10 cash management issues, ABX8 14 provided a hardship exemption process for the current year deferrals for community college districts and makes them the first entity to have deferrals paid as soon as funds are available. As to the 2010-11 cash issues, ABX8 14 clarified the hardship exemption process for school districts, county offices of education and charter schools and provided certain other changes pertaining to those provisions. In addition, ABX8 14 required the State Controller, State Treasurer, and State Director of Finance to jointly provide a written declaration of the intended payment deferrals for the 2010-11 fiscal year, allowed in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 30 days, as well as requiring approval by the State Director of Finance for hardship exemptions; and stated the intent of the legislature that July 2010 deferrals shall first be made from the advance principal apportionment payment. The legislation also delayed the date by which hardship exemption requests must be submitted (including with respect to 2010-11 community college district deferrals) and provided a second hardship waiver opportunity for the March 2011 deferral for those District's that did not receive an initial hardship waiver in June 2010.

In addition, the State adopted AB 1610 which directed warrants for the principal apportionments for the month of February 2011 in the amount of $2 billion be drawn in July 2011, warrants for the principal apportionments for the month of April 2011 in the amount of $679 million and for the month of May 2011 in the amount of $1 billion be drawn in August 2011, warrants for the principal apportionments for the month of April 2011 in the amount of $420 million and for the month of May 2011 in the amount of $800 million be drawn in July 2011. AB 1610 also approved a waiver provision relation to an amount up to $100 million for June of each year to July of such year subject to a demonstration of financial hardship by the requesting school district.

In March 2011, the Governor signed into law Senate Bill 70 ("SB 70") and Senate Bill 82 ("SB 82") to revise the State's cash management plan for fiscal years 2010-11 and 2011-12. Pursuant to SB 70, there will be a one-time modification to the State's inter-fiscal year deferral payment schedule. Accordingly, warrants in the amount of $24.7 million will be deferred to July 2011 from February 2011, and warrants in the amount of $1.405 billion will be deferred to August 2011 from February 2011, and warrants in the amount of $569.8 million will be deferred to August 2011 from February 2011. In addition, SB 70 defers warrants in the amount of $420 million to September 2011 from April 2011 and warrants in the amount of $800 million to September 2011 from May 2011. SB 70 also approves ongoing deferrals and directs that warrant in the amount of $1.3 billion be deferred to August from March and warrants in the amount of $764 million to be deferred to August from April

Pursuant to SB 82, the State adopted several intra-year deferrals for fiscal year 2011-12. Accordingly, warrants in the amount of $700 million will be deferred to September 2011 from July 2011, warrants in the amount of $700 million will be deferred to January 2012 from July 2011, warrants in the amount of $1.4 billion will be deferred to January 2012 from August 2011 and warrants in the amount of $2.4 billion will be deferred to January 2012 from October 2011. In addition, warrants in the amount of $1.4 billion will be deferred to April 2012 from March 2012. SB 82 contains a provision whereby a school district may, subject to approval of the State's Director of Finance, receive scheduled payments from the State Controller if payments are deferred, if the county superintendant of schools certifies to the State Superintendent of Public Instruction and Director of Finance that the deferral of warrants will result in a hardship for the district.

Future State Budgets. Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30. With the aid of Proposition 25 (budget passage with a simple majority and legislature forfeiture of daily salary until the budget bill passes), the Governor signed the 2011-12 Budget on June 30, 2011. However, the State Legislature failed to pass a State budget for fiscal year 2010-11 until October 8, 2010, the latest budget in the State's history. The District cannot fully anticipate the impact of future delays in State budget adoption. The events leading to the inability of the State Legislature to pass a budget in a timely fashion are not unique, and the District cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of the District's budget, it will be necessary for the District's staff to review the consequences of the changes, if any, at the State level from the proposals in the Governor's May Revision for that year, and determine whether the District's budget will have to be revised.

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions.

The District cannot predict whether the State will continue to encounter budgetary difficulties in the current or future fiscal years. The District also cannot predict the impact future State Budgets will have on District finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the District cannot control.

In addition, the District cannot predict the effect that the general economic conditions within the State and the State's budgetary problems may have in the future on the District budget or operations.

Litigation Challenging State Funding of Education

On May 20, 2010, more than 60 individual students and their respective families, nine California school districts, the California Congress of Parents Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.,* (the "Robles Complaint") in the Alameda County Superior Court. The Robles Complaint alleges, among other things, that the State's current system of funding public education is not designed to support core education programs and that the State has failed to meet its constitutional duties to maintain and support a system of common schools. The Robles Complaint further alleges that the State's system for funding education is not rationally or demonstrably aligned with the goals and objectives of the State's prescribed educational program, and the costs of ensuring that children of all needs have the opportunity to become proficient in accordance with State academic standards. The Robles Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program, as well as to direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution.

On January 14, 2011, the Superior Court dismissed major portions of the Robles Complaint, allowing the plaintiffs to proceed only on the question of whether the State's public education funding scheme provides equal opportunities to students throughout the State but rejecting that part that claimed that the State constitution mandates an overall qualitative standard for public education. On July 26, 2011, the Superior Court rejected the plaintiffs' amended complaint as not stating an equal protection claim but allowed them to amend their complaint, if filed by August 25. On August 22, 2011, the

Superior Court granted the plaintiffs' request for an extension of time to file their amended complaint until September 26, 2011. No amended complaint was filed.

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

The District is not a party to the Robles Complaint or the CSBA Petition. The District cannot predict whether any of the plaintiffs listed in the Robles Complaint or the CSBA Petition will be successful, what the potential remedies would be or the State's response to any such remedies. The District makes no representation with regards to how any final court decision with respect to the Robles Complaint or the CSBA Petition would affect the financial status of the District or the State.

Significant Accounting Policies and Audited Financial Statements

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. Christy White, A Professional Accountancy Corporation, San Diego, California, serve as independent auditors to the District and excerpts of their report for the fiscal year ended June 30, 2010, are attached hereto as APPENDIX C. The District's auditors have not specifically approved the inclusion of such excerpts herewith.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. For the District's most recent available audited financial statements, see "APPENDIX C."

***Ad Valorem* Property Taxes**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1, effective with the lien date of January 1, 1997. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Proposition 98

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual grade kindergarten to 14 ("K-14") funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, revised certain funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding "test" to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment ("COLA") for the minimum guarantee would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State of California) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth ("ADA") and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita general fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

Supplemental Information Concerning Litigation Against the State of California

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al*. The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

Propositions 1A and 22

Proposition 1A (SCA 4) provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate from 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Under Proposition 1A, the State no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A restricts the State's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate the State's authority to temporarily borrow or redirect some city, county, and special district funds or the State's authority to redirect local redevelopment agency revenues. However, Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (1) to use State fuel tax revenues to pay debt service on state transportation bonds; (2) to borrow or change the distribution of state fuel tax revenues; (3) to direct redevelopment agency property taxes to any other local government; (4) to temporarily shift property taxes from cities, counties, and special districts to schools; (5) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to the LAO analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 would be approximately $1 billion in fiscal year 2010–11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's General Fund costs by approximately $1 billion annually for several decades.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

Article XIIIA of the California Constitution limits the amount of any *ad valorem* tax on real property, to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

Under Article XIIIB of the California State Constitution state and local government entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriations of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' 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.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

California Lottery

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery (the "State Lottery"), the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2010-11, the District received $4,726,168 in State Lottery aid and has budgeted $4,652,661 for such aid in 2011-12. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted. See "MT. DIABLO UNIFIED SCHOOL DISTRICT - State Budget" herein.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIIIA has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIIIA of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed $30 per $100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed $60 per $100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed $25 per $100,000 of taxable property. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Article XIIIC and XIIID of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 added Articles XIIIC and XIIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District's voters, depending upon the Article of the Constitution under which it is passed.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in Rossi v. Brown by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6,1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond or a Mello-Roos Community Facilities District bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 26 and 98 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 the District's revenues or their ability to expend revenues.

THE CONTRA COSTA COUNTY TREASURY POOL

This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been prepared by the Treasurer for inclusion in this Official Statement. Neither the District nor the Underwriters make any representation as to the accuracy or completeness of such information. Further information may be obtained from the office of the Treasurer-Tax Collector of the County of Contra Costa, Finance Building, Room 100, 625 Court Street, Martinez, California 94553.

The Treasurer manages the County Pool in which certain funds of the County and certain funds of other participating entities are invested pending disbursement (including the Debt Service Fund of the District). Amounts held for the County, school districts and special districts located within the County constitute most of the County Pool. The Treasurer is the *ex officio* treasurer of each of these participating entities, which therefore are legally required to deposit their cash receipts and revenues in the County treasury. Under State law, withdrawals are allowed only to pay for expenses, which have become due. The remaining amounts in the County Pool are not legally required to be maintained in the County Pool and can be withdrawn by the depositors for whom these amounts are held, provided such withdrawals conform to legal mandates and procedures.

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

Funds held in the County Pool are invested by the Treasurer in accordance with State law and the County's investment policy, which is prepared by the Treasurer and approved by the Contra Costa County Board of Supervisors. The District's bond proceeds will be invested at the direction of the District. The Treasurer neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds. The current investment policy was adopted by the Board of Supervisors in June 2010. 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.

As of June 30, 2011, over 87% or over $1.77 billion of the County Pool was invested in maturities of less than one year. As of that date, the weighted average maturity of the County Pool was approximately 151 days. A detailed description of the composition, cost, par value and market value of the County Pool is provided in the following table.

CONTRA COSTA COUNTY INVESTMENT POOL
As of June 30, 2011

TYPE	PAR VALUE	COST	FAIR VALUE	PERCENT OF TOTAL COST
A. Investments Managed by Treasurer's Office				
1. U.S. Treasuries (STRIPS, Bills, Notes)	$22,785,000.00	$22,639,286.12	$22,991,580.80	1.12%
2. U.S. Agencies				
Federal Agriculture Mortgage Corporation	4,272,000.00	4,536,864.00	4,384,140.00	0.22%
Federal Home Loan Banks	81,977,000.00	82,948,181.87	83,753,829.95	4.10%
Federal National Mortgage Association	45,121,000.00	46,011,036.36	46,105,116.28	2.28%
Federal Farm Credit Banks	6,637,000.00	6,720,229.82	6,740,604.69	0.33%
Federal Home Loan Mortgage Corporation	102,523,000.00	104,265,999.20	104,855,205.40	5.16%
Municipal Bonds	1,000,000.00	1,000,000.00	1,000,000.00	0.05%
Subtotal	241,530,000.00	245,482,311.25	246,838,896.32	12.15%
3. Money Market Instruments				
Bankers Acceptances	20,640,000.00	20,615,782.40	20,636,800.80	1.02%
Repurchase Agreement	118,920,000.00	118,920,000.00	118,920,000.00	5.88%
Commercial Paper	466,793,000.00	466,415,790.65	466,628,780.28	23.08%
Negotiable Certificates of Deposit	340,065,000.00	340,065,000.00	340,166,195.08	16.83%
Corporate Notes	89,540,000.00	90,199,323.08	90,353,699.27	4.46%
Time Deposit	3,200.00	3,200.00	3,200.00	0.00%
Subtotal	1,035,961,200.00	1,036,219,096.13	1,036,708,675.43	51.27%
TOTAL (Section A.)	1,300,276,200.00	1,304,340,693.50	1,306,539,152.55	64.54%
B. Investments Managed by Outside Contractors				
1. Local Agency Investment Fund	354,239,687.37	354,239,687.37	354,239,687.37	17.53%
2. Other				
a. Miscellaneous (BNY, Mechanics, CCFCU)	266,934.14	262,671.74	266,934.14	0.01%
b. Wells Fargo Asset Management	44,457,255.14	45,012,573.08	45,029,641.51	2.23%
c. BofA Global Capital Management	37,544,318.96	38,329,919.02	38,142,080.34	1.90%
d. CalTRUST (Short-Term Fund)	62,149,434.47	62,122,643.48	62,149,434.47	3.07%
e. CalTRUST (Heritage MMkt Fund)	125,221,024.20	125,207,057.22	125,221,024.20	6.19%
Subtotal	269,638,966.91	270,934,864.54	270,809,114.66	13.40%
TOTAL (Section B.)	623,878,654.28	625,174,551.91	625,048,802.03	30.93%
C. Cash	91,642,725.77	91,642,725.77	91,642,725.77	4.53%
***GRAND TOTAL (FOR A , B, & C)**	$2,015,797,580.05	$2,021,157,971.18	$2,023,230,680.35	100.00%

* Does not include the Futuris Public Entity Trust of the Contra Costa Community College District Retirement Board of Authority

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 270 days following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2010-11 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The District has entered into a Continuing Disclosure Agreement ("Continuing Disclosure Agreement") for the benefit of the Owners of the Bonds. The Annual Report and each notice of material events will be filed by the District with the Electronic Municipal Markets Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below under the caption "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). In the past five years, the District has never failed to comply with its continuing disclosure obligations.

LEGAL MATTERS

The legal opinion of Matt Juhl-Darlington & Associates, Chico, California, Bond Counsel to the District ("Bond Counsel"), attesting to the validity of the Bonds, will be supplied to the original purchasers of the Bonds without charge, a form of which is attached hereto as Exhibit A-1. A copy of the legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel to the District ("Special Tax Counsel") will be attached to the Bonds, a form of which is attached hereto as Exhibit A-2. Matt Juhl-Darlington & Associates is also acting as Disclosure Counsel to the District. Kutak Rock LLP is acting as counsel to the Underwriters ("Underwriters' Counsel"). Bond Counsel, Disclosure Counsel, Special Tax Counsel and Underwriters' Counsel will receive compensation contingent upon the sale and delivery of the Bonds.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and 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 comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the Bonds. 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 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel expresses no opinion.

Form of Special Tax Counsel Opinion. The form of the proposed opinion of Special Tax Counsel relating to the Bonds is attached to this Official Statement as Appendix A-2.

LEGALITY FOR INVESTMENT

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

RATING

Moody's Investors Service ("Moody's") has assigned its underlying municipal bond rating of "Aa3" to the Bonds. Such rating reflects only the views of Moody's and an explanation of the significance of such rating may be obtained as follows: Moody's Investors Service at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, tel. (212) 553-0300. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

ESCROW VERIFICATION

The sufficiency of amounts on deposit in the Escrow Fund together with investment earnings thereon to pay the principal, accrued interest and redemption premium requirements of the Refunded Bonds on July 1, 2013 will be verified by Causey, Demgen & Moore, Inc., certified public accountants (the "Verification Agent"). The Verification Agent will deliver a report to that effect on the date of delivery of the Bonds.

UNDERWRITING

Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg a Division of Stifel Nicolaus, as representative of itself and George K. Baum & Company, has agreed to purchase the Bonds at the purchase price of $49,292,697.20 (reflecting the principal amount of the Bonds plus a net original issue premium in the amount of $6,055,897.30 less an Underwriters' discount of $262,200.00 and payment of certain costs of issuance in the amount of $201,000.10), at the rates and yields shown on the cover hereof.

The Underwriters may offer and sell the Bonds to certain dealers and others at yields other than the yields stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

NO LITIGATION

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

OTHER INFORMATION

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made such documents and reports for full and complete statements of the contents thereof. Copies of the Resolution are available upon request from the Mt. Diablo Unified School District, 1936 Carlotta Drive, Concord, California 94519.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

By: /s/ Steven Lawrence
Superintendent

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APPENDIX A-1

FORM OF BOND COUNSEL OPINION

December 29, 2011

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

Re: $43,700,000 Mt. Diablo Unified School District General Obligation Refunding Bonds, Election of 2002, Series B

Ladies and Gentlemen:

We have acted as bond counsel for the Mt. Diablo Unified School District, County of Contra Costa, State of California (the "District"), in connection with the issuance by the District of $43,700,000 aggregate principal amount of the District's General Obligation Refunding Bonds, Election of 2002, Series B (the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53550), as amended and that certain resolution adopted by the Board of Education of the District on September 27, 2011 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution. Our services as such bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District and the County as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any effect on Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. We call attention to the fact that the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors, rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. The Resolution has been duly adopted and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

We express no opinion with respect to any federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results.

Respectfully submitted,

Matt Juhl-Darlington & Associates

APPENDIX A-2

FORM OF SPECIAL TAX COUNSEL OPINION

December 29, 2011

Board of Education
Mt. Diablo Unified School District
1936 Carlotta Drive
Concord, California 92780

OPINION: $47,300,000 Mt. Diablo Unified School District (Contra Costa County, California) General Obligation Refunding Bonds, Election of 2002, Series B

Members of the Board of Education:

We have acted as special tax counsel to the Mt. Diablo Unified School District (the "District") in connection with the issuance by the District, of the above-captioned bonds (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we deem necessary to render this opinion.

The Bonds are issued pursuant to a resolution of the Board of Education of the District adopted on September 27, 2011. Regarding questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

We have assumed the accuracy of the final approving opinion relating to the Bonds (the "Bond Counsel Opinion") of Matt Juhl Darlington & Associates, Bond Counsel, as to the matters covered in the Bond Counsel Opinion. We note that the Bond Counsel Opinion is subject to a number of qualifications and limitations. Failure of any of the matters covered in the Bond Counsel Opinion to be true may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

1. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, 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 sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal 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 interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

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. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX B

SELECTED INFORMATION REGARDING THE COUNTY OF CONTRA COSTA

The following information has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District or the Underwriters. The District comprises only a portion of the County of Contra Costa, and the Bonds are only payable from *ad valorem* property taxes levied on property in the District.

County of Contra Costa

The County of Contra Costa, California (the "County") was incorporated in 1850 as one of the original 27 counties of the State of California (the "State"), with the City of Martinez as the County Seat. It is one of the nine counties in the San Francisco-Oakland Bay Area. The County is the ninth most populous county in California, with its population reaching approximately 1,056,064 as of January 1, 2011.

The County provides services to residents through departments and agencies including the Departments of Building Inspection, Community Development, Economic & Redevelopment, Airports, Flood Control, Parks, and Road and Transportation. Each city within the County provides for local services such as police, fire, water, and various other services normally associated with municipalities.

Government

The County is governed by a County Administrator and a Board of Supervisors of five members. Each supervisor is responsible for one of five districts within the County.

The County Administrator's Office is responsible for staffing the Board and Board committees, planning and overseeing County operations, and ensuring that Board policies are carried out in the most efficient and service oriented manner.

The duties and responsibilities of the Board of Supervisors include appointing County department heads and employees, providing for the compensation of all County officials and employees, creating officers, boards and commissions as needed, awarding all contracts for Public Works and all other contracts exceeding $25,000, adopting an annual budget, and supervising the operations of departments and exercising executive and administrative authority through the County government and County Administrator.

Population

The population of Pleasant Hill, Concord and Walnut Creek, as well as the population in the County for calendar years 2007 through 2011 is presented in the following table.

CITIES OF PLEASANT HILL, CONCORD AND WALNUT CREEK
AND THE COUNTY
Calendar Years 2007 through 2011

Year	City of Pleasant Hill	City of Concord	City of Walnut Creek	Contra Costa County
2007	32,421	120,049	63,302	1,015,672
2008	32,793	120,592	63,339	1,027,264
2009	32,963	121,285	63,786	1,038,390
2010	33,152	122,067	64,173	1,049,025
2011	33,279	122,676	64,707	1,056,064

As of 2010 Census.
Population shown as of January 1st for 2007 through 2009 and for 2011; as of April 1st for 2010.
Source: California State Department of Finance 2007 through 2009 and for 2011. U.S. Bureau of the Census for 2010.

Employment

The civilian labor force in the County consists of an average of 522,400 workers as of 2010. The total employment component of the labor force is 463,700. County residents seeking employment averaged 58,700 during 2010.

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CONTRA COSTA COUNTY, CALIFORNIA, AND UNITED STATES
Labor Force, Employment, and Unemployment[1]

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate[2]
2006				
Contra Costa County	515,900	493,800	22,100	4.3%
California	17,821,100	16,948,400	872,700	4.9
United States	151,413,000	144,419,000	7,001,000	4.6
2007				
Contra Costa County	519,700	495,400	24,300	4.7
California	18,391,800	17,108,700	969,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Contra Costa County	529,200	496,400	32,700	6.2
California	18,391,800	17,059,600	1,332,300	7.2
United States	154,287,000	145,362,200	8,924,000	5.8
2009				
Contra Costa County	526,000	471,700	54,300	10.3
California	18,250,200	16,169,700	2,080,500	11.4
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
Contra Costa County	522,400	463,700	58,700	11.2
California	18,176,200	15,916,300	2,259,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6

(1) Data reflects employment status of individuals by place of residence.
(2) Unemployment rate is based on unrounded data.
Source: California State Employment Development Department and U.S. Department of Labor.

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Major Employers Within the County

Although the County is primarily suburban, the County is host to a diverse mix of major employers representing industries ranging from government and health services to diversified manufacturing. The following table lists the County's major employers.

COUNTY OF CONTRA COSTA
MAJOR EMPLOYERS

Employer	No. of Employees	Location	Industry
Chevron Corp	5,000-9,999	San Ramon	Oil Refiners (Manufacturers)
Chevron Global Downstream LLC	1,000-4,999	San Ramon	Petroleum Products (Wholesale)
Contra-Costa Regional Medical Center	1,000-4,999	Martinez	Hospitals
Doctor's Medical Center	1,000-4,999	San Pablo	Hospitals
John Muir Medical Center	1,000-4,999	Walnut Creek	Hospitals
John Muir Medical Center	1,000-4,999	Concord	Hospitals
John Muir Physical Rehab.	1,000-4,999	Concord	Rehabilitation Services
Kaiser Permanente Medical Center	1,000-4,999	Walnut Creek	Clinics
Kaiser Permanente Medical Center	1,000-4,999	Walnut Creek	Hospitals
St. Mary's College of California	1,000-4,999	Moraga	Schools – Universities & Colleges Academic
USS-POSCO Industries	1,000-4,999	Pittsburg	Steel Mills (Manufacturers)
Bank of the West	500-999	Walnut Creek	Banks
Bio-Rad Laboratories Inc	500-999	Hercules	Laboratory
C & H Sugar	500-999	Crockett	Sugar Refiners (Manufacturers)
Concord Naval Weapons Station	500-999	Concord	Federal Government-National Security
Department of Veteran Affairs	500-999	Martinez	Physicians & Surgeons
MuirLab	500-999	Richmond	Laboratories – Medical
Richmond City Offices	500-999	Richmond	Gov. Offices – City, Village & Township
San Ramon Regional Medical Center	500-999	San Ramon	Hospital
Shell Martinez Refinery	500-999	Martinez	Oil Refiners (Manufacturers)
Shell Oil Products Company	500-999	Martinez	Service Stations – Gasoline & Oil
Sutter Delta Medical Ctr.	500-999	Antioch	Hospitals
Tesoro Golden Eagle Refinery	500-999	Pacheco	Oil Refiners (Manufacturers)
VA Outpatient Clinic	500-999	Martinez	Physicians & Surgeons

Source: California Employment Development Department, America's Labor Market Information System Employer Database, 2010 1st Edition.

Industry

The table on the following page shows the estimated employment by industry group for 2006 through 2010, the most recent data available.

COUNTY OF CONTRA COSTA
NON-AGRICULTURAL EMPLOYMENT BY INDUSTRY
ANNUAL AVERAGES
2006 through 2010 by Class of Work

	2006	2007	2008	2009	2010
Goods Producing	50,400	49,700	46,500	40,200	36,500
Wholesale and Retail Trade	53,100	53,500	52,500	49,000	47,700
Transportation and Public Utilities	8,400	8,800	8,900	8,400	7,800
Finance, Insurance, and Real Estate	32,100	29,100	26,600	25,600	25,600
Other Services	12,200	12,500	12,400	11,700	11,700
Government	48,900	52,200	52,600	51,800	48,900
Non Agriculture Total	343,800	346,800	339,500	320,900	311,600

Source: California State Employment Development Department.

Building Permits

The following table provides a summary of the building permit valuations, and the number of new dwelling units authorized in the County from 2006 through 2010. The valuation of non-residential permits includes both private commercial construction and publicly funded, non-tax generating projects.

COUNTY OF CONTRA COSTA
Building Permit Valuations and Number of Dwelling Units
2006 through 2010

	2006	2007	2008	2009	2010
Valuation(1)					
Residential	$1,451,820	$1,216,666	$661,935	$504,632	$552,365
Nonresidential	412,505	491,318	459,935	314,305	285,419
Total	$1,864,325	$1,707,984	$1,121,870	$818,937	$837,784
Number of New Dwelling Units					
Single Family	3,310	2,698	985	1,038	808
Multiple Family	1,178	909	909	163	890
Total	4,488	3,607	1,894	1,201	1,698

(1) Valuation in thousands.
Source: Construction Industry Research Board.

Commercial Activity

Taxable transactions in the County occur in an extensive variety of commercial stores. Transactions from 2005 through 2009 are summarized on the following page.

COUNTY OF CONTRA COSTA
Taxable Sales

	2005	2006	2007	2008	2009
Sales Tax Permits	23,692	23,249	23,181	23,149	21,395
Taxable Sales (in thousands)	$13,480,075	$13,867,661	$14,086,295	$13,307,681	$11,883,049

Source: California State Board of Equalization.

Transportation

Centrally located in the east bay region of the San Francisco bay area, the County is accessible to major transportation resources including Bay Area Rapid Transit which connects five counties including the San Francisco peninsula, Oakland, Berkeley, Fremont, Walnut Creek, Pleasant Hill, Concord Dublin/Pleasanton, and other cities within and without the County. The County is also in close proximity to Highways 5, 205, 580 and 680 as well as approximately 20 miles east of Oakland International Airport and 30 miles northeast of San Francisco International Airport providing for convenient interstate transportation. The County is also home to two non-commercial airports; Buchanan Field Airport and Byron Airport, located in Concord and Byron, respectively.

Education

The County is comprised of 19 school districts, 5 community colleges, and is both home to and has access to major universities, including California State University, East Bay, University of California, Berkeley, Mills College, San Francisco State University, Golden Gate University, St Mary's College of California and John F. Kennedy University. The District serves approximately one-third of the County and is the largest school district within the County.

Community Facilities and Recreation

The County is home to Mt. Diablo State Park (the "Park"), which was designated a State park in 1921. Within the Park, Mount Diablo has an elevation of 3,849 feet providing a view west across the Golden Gate Bridge to the Farallon islands, southeast to the James Lick Observatory, south to the Santa Cruz mountains, east to the San Joaquin and Sacramento Rivers and north to Mount Saint Helens and Mount Lassen in the Cascades. The Park's 22,000 acres consist mostly of typical central California oak and grassland country with extensive areas of chaparral. Areas of riparian woodland, knobcone pine and coulter pine are also scattered throughout the park. Over 400 species of plants have been identified within the park as well as abundant wildlife including deer, raccoons, gray fox, bobcat, mountain lions and striped and spotted skunks. The Park provides guided hiking, rock climbing horseback riding, biking, camping and picnic facilities for visitors.

The County also contains numerous local parks and recreation facilities including Lefty Gomez Recreation Building and Ball Field Complex, an 11 acre park with ball fields, tennis courts, playground equipment, picnic and barbecue facilities and a community center, Montalvin Park, a seven acre community park with a basketball court, a tennis court and picnic facilities, MonTaraBay Park Community Center and Ball Field Complex, a four acre complex with a ball field and community center and Rodeo Creek Trail, a two and a half mile trail with indigenous trees, shrubs, grasses and wildflowers.

APPENDIX C

MT. DIABLO UNIFIED SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2010

MOUNT DIABLO
UNIFIED SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2010

christyWHITE A Professional Accountancy Corporation

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITOR'S REPORTS

FINDINGS AND QUESTIONED COSTS SECTION

christyWHITE A Professional Accountancy Corporation

Board of Trustees
Mount Diablo Unified School District
Concord, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Diablo Unified School District, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mount Diablo Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Diablo Unified School District, as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010 on our consideration of the Mount 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 considered in assessing the results of our audit.

2727 Camino Del Rio South ● Suite 219 ● San Diego, CA 92108
tel. 619.270.8222 ● fax. 619.260.9085
www.cwacpa.com

The management's discussion and analysis on pages 3 through 12, the budgetary comparison schedule on page 53, and the schedule of funding progress on page 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mount Diablo Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* the combining and individual non-major fund financial statements, and the schedule of financial trends and analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christy White Accountancy Corporation

San Diego, California
November 24, 2010

Management's Discussion and Analysis

This discussion and analysis of Mount Diablo Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Overall government-wide revenues were $306.4 million, $21.3 million less than expenses of $327.7 million.
- The District decreased its outstanding long-term debt $6.1 million or 2% over the prior year.
- Average daily attendance (ADA) in grades K-12 decreased by 546, or less than 2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Mount Diablo Unified School District's Annual Financial Report

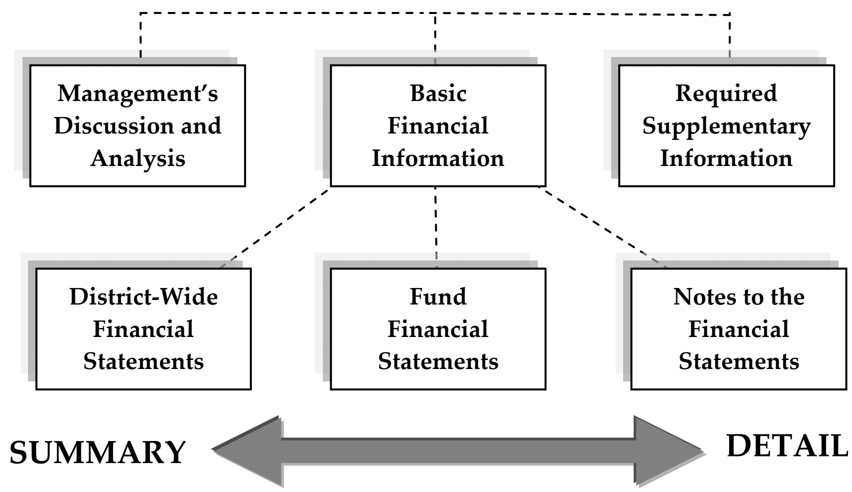

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

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

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

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

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets: The District's combined net assets as of June 30, 2010 were $193.0 million for governmental activities (See Table A-1).

Table A-1
Mount Diablo Unified School District's Net Assets

	Governmental Activities		Total Percentage Change
	2009	**2010**	**2009-10**
Current assets	$ 156,197,037	$ 133,528,242	-15%
Noncurrent assets	409,431,560	401,669,810	-2%
Total assets	565,628,597	535,198,052	-5%
Current liabilities	48,422,345	45,996,893	-5%
Noncurrent liabilities	302,978,853	296,228,089	-2%
Total liabilities	351,401,198	342,224,982	-3%
Total net assets	$ 214,227,399	$ 192,973,070	-10%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues were $306.4 million (See Table A-2).

The total cost of all programs and services was $327.7 million. The District's expenses are predominantly related to educating and caring for students, 77%. The purely administrative activities of the District accounted for just 4% of total costs. The total costs decreased by 4%, primarily due to cuts in books and supplies purchases.

Table A-2
Changes in Mount Diablo Unified School District's Net Assets

	Governmental Activities		Total Percentage Change
	2009	2010	2009-10
Revenues:			
Program revenues			
Charges for services	$ 5,604,850	$ 5,447,641	-3%
Operating grants and contributions	96,287,930	78,430,335	-19%
Capital grants and contributions	12,530,814	105,363	-99%
General revenues			
Property taxes	124,740,913	116,884,473	-6%
Other revenues	118,270,304	105,563,457	-11%
Total revenues	357,434,811	306,431,269	-14%
Expenses:			
Instructional services	231,178,261	221,760,445	-4%
Pupil support services	27,730,295	31,429,841	13%
Maintenance and operations	33,066,499	29,056,529	-12%
Administration	15,035,815	12,495,979	-17%
Other expenses	34,212,138	32,942,804	-4%
Total expenses	341,223,008	327,685,598	-4%
Change in net assets	$ 16,211,803	$ (21,254,329)	-231%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-3 presents the cost of five major District activities: instructional services; pupil support services; maintenance and operations; administration; and other expenses. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided by specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was $327.7 million.
- The federal and state governments subsidized programs with grants and contributions of $78.6 million, and those who benefited from the programs paid $5.4 million.
- Most of the District's costs ($243.7 million) for governmental activities were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities and business-type activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

Table A-3
Net Costs of Mount Diablo Unified School District's
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instructional services	$ 221,760,445	$ 164,024,112
Pupil support services	31,429,841	12,632,325
Maintenance and operations	29,056,529	27,148,605
Administration	12,495,979	9,467,132
Other expenses	32,942,804	30,430,085
Total expenses	$ 327,685,598	$ 243,702,259

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $100.4 million, which is less than last year's ending fund balance of $120.0 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. While the District's final budget for the General Fund anticipated expenditures would exceed revenues by $28.8 million, the actual results for the year show that expenditures exceeded revenues by $7.1 million. Actual revenues were $15.4 million less than anticipated, and expenditures were $37.1 million less than budgeted. That amount consists primarily of savings in services and other operating expenditures and books and supplies dollars that were not spent as of June 30, 2010 that will be carried over into the 2010-11 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009-10 the District had invested over $563.8 million in capital assets – as shown in the table below. (More detailed information about capital assets can be found in Note 6 to the financial statements.)

Table A-4
Mount Diablo Unified School District's Capital Assets

	Governmental Activities		Total Percentage Change
	2009	2010	2009-10
Land	$ 14,436,462	$ 14,436,462	0%
Site improvements	19,917,304	22,066,045	11%
Buildings	501,265,608	509,231,931	2%
Furniture and equipment	15,323,361	15,613,539	2%
Construction in progress	4,184,964	2,414,952	-42%
Total capital assets	$ 555,127,699	$ 563,762,929	2%

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had $306.7 million in general obligation bonds, capital leases, and compensated absences – a decrease of 2% from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

Table A-5
Mount Diablo Unified School District's Long-Term Debt

	Governmental Activities		Total Percentage Change
	2009	**2010**	**2009-10**
General obligation bonds	$ 212,965,000	$ 211,005,700	-1%
Mello-Roos bonds	63,600,000	60,058,079	-6%
Capitalized lease obligations	9,139,182	8,628,693	-6%
Certificates of participation	5,670,000	5,469,001	-4%
Compensated absences	3,558,522	3,359,989	-6%
Other post-employment benefits	8,622,710	12,689,288	47%
Other general long-term debt	9,306,882	5,539,042	-40%
Total long-term debt	$ 312,862,296	$ 306,749,792	-2%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The state's budget situation continues to reflect challenging economic conditions. The 2010 State Budget was balanced on optimistic state and federal revenue projections, the sale of state properties, additional borrowings, and the suspension of the Proposition 98 minimum guarantee. While the state's economy continues to gradually recover along with the nation's, a relatively slow pace of job growth in California presents a headwind for a more rapid rate of economic recovery.

The state's budget challenges have adversely impacted the K-12 education budget. As a result, the average unified school district in the state of California in 2010-11 is expected to lose approximately $25 per unit of average daily attendance over 2009-10 in revenue limit state funding, to an average funded revenue limit of approximately $6,386 per unit of average daily attendance. However, a corresponding decrease in the deficit factor offsets the loss keeping funding levels in 2010-11 the same as 2009-10, and without the $253 per ADA one-time funding reduction experienced in 2009-10.

Federal funding for categorical programs was given another one-time funding boost in 2010-11 with the Education Jobs Act funding. In addition, the final 10% of the State Fiscal Stabilization funds, part of the American Recovery and Reinvestment Act (ARRA), are to be paid in 2010-11. ARRA funds must be spent prior to the September 30, 2011.

State categorical program flexibility continues for 2009-10 and 2010-11 with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed for two more years and school agencies maintain the flexibility to shorten the school year until 2012-13. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2011-12.

Other Factors

Enrollment
Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the Mount Diablo Unified School District budget for the 2010-11 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at Mount Diablo Unified School District, 1936 Carlotta Drive, Concord, California, 94519.

Financial Section

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

	Total Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	$ 37,849,199
Investments	55,877,228
Accounts receivable	36,507,304
Inventories	587,039
Prepaid expenses	2,707,472
Total current assets	133,528,242
Noncurrent assets:	
Capital assets:	
Land	14,436,462
Site improvements	22,066,045
Buildings	509,231,931
Furniture and equipment	15,613,539
Construction in progress	2,414,952
Less accumulated depreciation	(162,093,119)
Total capital assets, net of depreciation	401,669,810
Total assets	535,198,052
LIABILITIES	
Current liabilities:	
Accounts payable	21,099,310
Current loans	12,000,000
Deferred revenue	2,375,880
Current portion of long-term debt	10,521,703
Total current liabilities	45,996,893
Noncurrent liabilities	296,228,089
Total liabilities	342,224,982
NET ASSETS	
Invested in capital assets, net of related debt	152,519,771
Restricted for:	
Capital projects	3,147,804
Debt service	14,991,754
Educational programs	10,343,950
Other purposes (expendable)	8,271,249
Other purposes (nonexpendable)	56,696
Unrestricted	3,641,846
Total net assets	$ 192,973,070

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary government:					
Governmental activities:					
Instructional services:					
Instruction	$ 185,499,865	$ 282,129	$ 49,976,692	$ 105,363	$ (135,135,681)
Instruction-related services:					
Supervision of instruction	11,633,733	20,302	5,584,729	-	(6,028,702)
Instructional library, media and technology	3,416,460	16,482	336,075	-	(3,063,903)
School site administration	21,210,387	9,196	1,405,365	-	(19,795,826)
Pupil support services:					
Home-to-school transportation	7,357,718	351,597	2,278,163	-	(4,727,958)
Food services	10,967,690	3,767,449	6,436,618	-	(763,623)
All other pupil services	13,104,433	270,504	5,693,185	-	(7,140,744)
General administration services:					
Data processing services	2,584,791	-	48,581	-	(2,536,210)
Other general administration	9,911,188	183,095	2,797,171	-	(6,930,922)
Plant services	29,056,529	358,817	1,549,107	-	(27,148,605)
Ancillary services	1,483,298	135,031	1,166,913	-	(181,354)
Community services	612,719	1,842	356,247	-	(254,630)
Enterprise activities	43,972	213	1,833	-	(41,926)
Interest on long-term debt	13,190,750	-	-	-	(13,190,750)
Other outgo	1,215,085	50,984	799,656	-	(364,445)
Depreciation (unallocated)	16,396,980	-	-	-	(16,396,980)
Total governmental activities	$ 327,685,598	$ 5,447,641	$ 78,430,335	$ 105,363	(243,702,259)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	93,953,354
Property taxes, levied for debt service	22,243,585
Property taxes, levied for other specific purposes	687,534
Federal and state aid not restricted to specific purpose	100,022,407
Interest and investment earnings	413,209
Miscellaneous	5,127,841
Total general revenues	222,447,930
Change in net assets	(21,254,329)
Net assets - July 1, 2009	214,227,399
Net assets - June 30, 2010	$ 192,973,070

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2010

	General Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 14,105,514	$ 3,186,254	$ 20,557,431	$ 37,849,199
Investments	13,534,506	24,337,624	18,005,098	55,877,228
Accounts receivable	35,092,430	-	1,414,874	36,507,304
Due from other funds	3,574,329	-	1,883,555	5,457,884
Inventories	447,156	-	139,883	587,039
Total assets	$ 66,753,935	$ 27,523,878	$ 42,000,841	$ 136,278,654
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 15,405,275	$ 134	$ 651,054	$ 16,056,463
Due to other funds	1,883,555	-	3,574,329	5,457,884
Deferred revenue	2,330,087	-	45,793	2,375,880
Current loans	12,000,000	-	-	12,000,000
Total liabilities	31,618,917	134	4,271,176	35,890,227
FUND BALANCES				
Reserved for:				
Inventories	447,156	-	139,883	587,039
Revolving cash	300,000	-	-	300,000
Debt service	-	27,523,744	8,884,108	36,407,852
Categorical programs	10,343,950	-	-	10,343,950
Unreserved; reported in:				
General fund	24,043,912	-	-	24,043,912
Special revenue funds	-	-	5,423,891	5,423,891
Capital project funds	-	-	23,281,783	23,281,783
Total fund balances	35,135,018	27,523,744	37,729,665	100,388,427
Total liabilities and fund balances	$ 66,753,935	$ 27,523,878	$ 42,000,841	$ 136,278,654

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds			$ 100,388,427
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 capital assets is $563,762,929 and the accumulated depreciation is ($162,093,119).			401,669,810
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(5,042,847)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in assets on the government-wide statement of net assets are:			2,707,472
In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	Capital leases payable	$ 8,628,693	
	Certificates of participation payable	5,469,001	
	Compensated absences payable	3,359,989	
	General obligation bonds payable	211,005,700	
	Mello-Roos payable	60,058,079	
	Net OPEB obligation	12,689,288	
	Other general long-term debt	5,539,042	(306,749,792)
Total net assets - governmental activities			$ 192,973,070

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2010

REVENUES	General Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
General revenues:				
Property taxes	$ 94,640,888	$ 6,654,419	$ 15,589,165	$ 116,884,472
Federal and state aid not restricted				
to specific purpose	99,238,378	-	784,032	100,022,410
Interest and investment earnings	266,124	67,740	79,343	413,207
Miscellaneous	3,022,059	-	2,105,785	5,127,844
Program revenues:				
Charges for services	1,201,244	-	4,246,397	5,447,641
Operating grants and contributions	69,951,568	-	8,478,769	78,430,337
Capital grants and contributions	-	-	105,363	105,363
Total revenues	268,320,261	6,722,159	31,388,854	306,431,274
EXPENDITURES				
Instructional services:				
Instruction	179,134,640	-	3,712,207	182,846,847
Instruction-related services:				
Supervision of instruction	10,909,736	-	523,048	11,432,784
Instructional library, media and technology	3,271,856	-	85,071	3,356,927
School site administration	19,139,010	-	1,773,630	20,912,640
Pupil support services:				
Home-to-school transportation	7,389,257	-	-	7,389,257
Food services	-	-	10,873,046	10,873,046
All other pupil services	12,812,202	-	34,924	12,847,126
General administration services:				
Data processing services	2,605,492	-	-	2,605,492
Other general administration	9,287,506	-	774,297	10,061,803
Plant services	25,689,713	-	2,757,926	28,447,639
Facility acquisition and construction	639,487	-	8,109,664	8,749,151
Ancillary services	1,485,522	-	-	1,485,522
Community services	527,657	-	70,110	597,767
Enterprise activities	43,972	-	-	43,972
Other outgo:				
Transfers between agencies	1,026,476	-	-	1,026,476
Debt service - principal	740,489	3,520,000	5,537,106	9,797,595
Debt service - interest	689,943	2,537,661	10,339,043	13,566,647
Debt service - issuance costs and discounts	1,995	-	18,132	20,127
Total expenditures	275,394,953	6,057,661	44,608,204	326,060,818
Excess (deficiency) of revenues				
over (under) expenditures	(7,074,692)	664,498	(13,219,350)	(19,629,544)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	7,986,744	7,986,744
Interfund transfers out	(7,176,802)	(809,942)	-	(7,986,744)
All other financing sources	2,169,387	-	(2,169,387)	-
Total other financing sources and uses	(5,007,415)	(809,942)	5,817,357	-
Net change in fund balances	(12,082,107)	(145,444)	(7,401,993)	(19,629,544)
Fund balances, July 1, 2009	47,217,125	27,669,188	45,131,658	120,017,971
Fund balances, June 30, 2010	$ 35,135,018	$ 27,523,744	$ 37,729,665	$ 100,388,427

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Total net change in fund balances - governmental funds			$ (19,629,544)
Amounts reported for governmental *activities* in the statement of activities are different because:			
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
	Expenditures for capital outlay	$ 8,635,230	
	Depreciation expense	(16,396,980)	(7,761,750)
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			9,797,595
Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:			182,954
In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. This year, the difference between OPEB costs and actual employer contributions was:			(4,066,577)
Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period was:			(168,482)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:			192,942
In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*).			198,533
Change in net assets of governmental activities			$ (21,254,329)

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2010

	Trust Fund	Agency Funds	
	Scholarship Fund	Student Body Funds	Total
ASSETS			
Cash in county treasury	$ 1,587	$ -	$ 1,587
Cash on hand and in banks	-	1,530,295	1,530,295
Investments	55,102	-	55,102
Accounts receivable	7	-	7
Total assets	$ 56,696	$ 1,530,295	$ 1,586,991
LIABILITIES			
Due to student groups	-	1,530,295	1,530,295
Total liabilities	-	1,530,295	1,530,295
NET ASSETS	$ 56,696	$ -	$ 56,696

The notes to financial statements are an integral part of this statement.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

	Trust Fund
	Scholarship Fund
ADDITIONS	
Interest	$ 1,480
Total additions	1,480
DEDUCTIONS	
Operating expenditures	3,068
Total deductions	3,068
Change in net assets	(1,588)
Net assets held in trust - July 1, 2009	58,284
Net assets held in trust - June 30, 2010	$ 56,696

The notes to financial statements are an integral part of this statement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

Mount Diablo Unified School District (the District) accounts for its financial transactions in accordance with the policies and procedures of the 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 (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District and Mount 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 District's reporting entity excludes Eagle Peak Montessori Charter School, a non-profit benefit corporation in the District's attendance area with a separate Board of Directors.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

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

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

Fund Financial Statements:

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fund Financial Statements (continued):

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

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

Expenses/expenditures:

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, 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 major, non-major, and fiduciary funds, as follows:

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Debt Service Fund for Blended Component Units* is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the LEA.

Non-major Governmental Funds:

- ***Special Revenue Funds*** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three non-major special revenue funds:

  1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
  2. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
  3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.

- ***Capital Projects Funds*** are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital project funds:

  1. The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
  2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
  3. The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.
  4. The *Capital Projects Fund for Blended Component Units Fund* is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the LEA.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds: (continued)

- ***Debt Service Funds*** are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one non-major debt service fund:

  1. *The Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Fiduciary Funds:

- ***Agency Funds*** are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.
- The ***Foundation Private-Purpose Trust Fund*** is used to account separately for gifts or bequests per Education Code Section 41031 that benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the LEA's own programs.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the supplementary information.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

2. Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure."

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	30 years
Furniture and Equipment	5-20 years
Vehicles	8 years

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, and 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.

4. Deferred Revenue

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

5. Compensated Absences

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

Compensated absences benefits in the amount of $3,359,989 are recorded as a liability of the District.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

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

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

9. Restricted Net Assets.

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid 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 of debt service represents that portion of net assets

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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. Actual results could differ from those estimates.

K. New GASB Pronouncement

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* was issued in February 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is required to be implemented in the 2010-11 fiscal year.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

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

	Governmental Funds	Fiduciary Funds
Cash in county treasury	$ 36,972,589	$ 1,587
Cash on hand and in banks	42,990	1,530,295
Cash in revolving fund	300,000	-
Cash with fiscal agent	512,447	-
Cash collections awaiting deposit	1,861	-
California Asset Management Program (CAMP)	24,356,936	-
Local Agency Investment Fund (LAIF)	31,539,604	55,102
Total cash and investments	$ 93,726,427	$ 1,586,984

Policies and Practices

Governmental agencies in the state of California are authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of the applicable agreements rather than the general provisions of the California Government Code.

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

Local Agency Investment Fund – The District is considered to be a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the County Office's investment in the pool is reported in the accompanying financial statement at amounts based upon the County Office's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the LAIF, which is recorded on the amortized cost basis.

NOTE 2 – CASH AND INVESTMENTS (continued)

California Asset Management Program – The 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. The District has an individually managed portfolio under a separate agreement with PFM Asset Management, LLC.

Cash with Fiscal Agent – Cash with Fiscal Agent represents treasury money market funds held by trustee Wells Fargo. The funds are restricted for debt repayment.

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

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

NOTE 2 – CASH AND INVESTMENTS (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Contra Costa County Investment Pool with a fair value of approximately $37,160,000 and an amortized book value of $36,974,176. The average weighted maturity for this pool is 122 days. In addition, the District maintains cash with fiscal agent through Wells Fargo money market mutual funds with an amortized book value of $512,447. Investments consist of amounts on deposit with the State's Local Agency Investment Fund with an amortized book value of $31,594,706 and a fair market value of approximately $31,672,000, which approximates cost.

Credit Risk
Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Contra Costa County Investment Pool is rated AAAf/S1+ by Standard & Poor's. The investments within the Local Agency Investment Fund is rated are least BBB by Standard & Poor's. The investment with the California Asset Management Program is rated AAAm by Standard & Poor's.

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the District's Governmental Funds bank balances were not exposed to custodial credit risk because they fell within the $250,000 FDIC insurance limit. However, within the District's Fiduciary Funds, there are three ASB bank balances which exceed the FDIC insurance limit by an aggregate amount of $255,056, as of June 30, 2010.

NOTE 2 – CASH AND INVESTMENTS (continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal	$ 7,574,720	$ 1,301,184	$ 8,875,904
State categorical	4,271,304	21,017	4,292,321
Other	23,246,406	92,673	23,339,079
Total accounts receivable	$ 35,092,430	$ 1,414,874	$ 36,507,304

NOTE 4 – INTERFUND TRANSACTIONS

Interfund activity is reported as 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 occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2010 are as follows:

	Due To Other Funds		
	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 3,574,329	$ 3,574,329
Non-Major Governmental Funds	1,883,555	-	1,883,555
Total	$ 1,883,555	$ 3,574,329	$ 5,457,884

General Fund due to Adult Education Fund for Tier 3 adult education funds, PERS Revenue Limit buyback adjustment and equivalent share of lottery revenue	$ 706,356
General Fund due to Cafeteria Fund for the 08-09 balance forward adjustment and needy meals	1,152,941
General Fund due to Building Fund 08-09 balance forward adjustment	22,528
General Fund due to Capital Facilities Fund for PERS Revenue Limit buyback adjustment	161
General Fund due to County School Facilities Fund for PERS Revenue Limit buyback	505
General Fund due to Capital Projects Fund for Blended Component Units for PERS Revenue Limit buyback adjustment	1,064
Adult Education Fund due to General Fund for classroom units, post retirement benefits and indirect costs	1,159,433
Cafeteria Fund due to General Fund for allocated classroom units and PERS Revenue Limit buyback adjustment	959,772
Deferred Maintenance Fund due to General Fund for Tier 3 deferred maintenance funds	1,455,000
Capital Project Fund for Blended Component Units to General Fund for PERS Revenue Limit buyback	124
Total	$ 5,457,884

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

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

Interfund transfers for the 2009-10 fiscal year are as follows:

	Transfers to Other Funds		
	General Fund	Debt Service Fund for Blended Component Units	Total
All Non-Major Funds	$ 7,176,802	$ 809,942	$ 7,986,744

Transfer from General Fund to Adult Education Fund for adult education's share of lottery revenue and Tier 3 adult education funds	$ 4,645,650
Transfer from General Fund to Deferred Maintenance Fund for Tier 3 deferred maintenance funds	2,531,152
Transfer from Debt Service Fund for Blended Component Units to Capital Project Fund for Blended Component Units for Measure A furniture and equipment.	809,942
Total	$ 7,986,744

NOTE 5 – FUND BALANCES

The following fund balance amounts were designated by the District's governing board as of June 30, 2010, as follows

	General Fund
Economic Uncertainties	$ 5,438,064
Tier 3 Categorical Programs:	
Cal Safe Academic	305,762
Cal Safe Child Care	362,099
CBET	40,972
PAR	39,293
CAHSEE Intensive	254,428
Supplemental Counseling	307,635
GATE	119,559
Instructional Materials	136,684
School Safety	981
Staff Development	402,127
Principal Training	118,996
Pupil Retention Block Grant	24,862
Teacher Credential BTSA Block Grant	117,071
Target Instructional Improvement Block Grant	1,193,227
School & Library Improvement Block Grant	1,027,866
SBX34 Sweeps	1,044,507
Site Based Carryovers	1,262,883
IRS Assessment	533,500
Total designations	$ 12,730,516

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 is shown below:

	Beginning Balance July 1, 2009	Transfers and Additions	Transfers and Deletions	Ending Balance June 30, 2010
Land	$ 14,436,462	$ -	$ -	$ 14,436,462
Site improvements	19,917,304	2,148,741	-	22,066,045
Buildings	501,265,608	7,966,323	-	509,231,931
Furniture and equipment	15,323,361	290,178	-	15,613,539
Construction in progress	4,184,964	8,345,052	10,115,064	2,414,952
Totals, at cost	555,127,699	18,750,294	10,115,064	563,762,929
Less accumulated depreciation:				
Site improvements	(1,181,979)	(737,461)	-	(1,919,440)
Buildings	(130,674,327)	(15,370,181)	-	(146,044,508)
Equipment	(13,839,833)	(289,338)	-	(14,129,171)
Total accumulated depreciation	(145,696,139)	(16,396,980)	-	(162,093,119)
Capital assets, net	$ 409,431,560	$ 2,353,314	$ 10,115,064	$ 401,669,810

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
Mello-Roos Bonds:					
Series 2002	$ 22,620,000	$ -	$ 1,205,000	$ 21,415,000	$ 1,255,000
Series 2005	14,245,000	-	550,000	13,695,000	565,000
Series 2006	26,735,000	-	1,765,000	24,970,000	1,815,000
Net issuance discount	(23,505)	-	(1,584)	(21,921)	(1,584)
General Obligation Bonds:					
Series 2002	44,430,000	-	1,655,000	42,775,000	1,720,000
Series 2004	109,155,000	-	3,285,000	105,870,000	3,420,000
Series 2006	59,380,000	-	500,000	58,880,000	790,000
Net issuance premium	3,663,357	-	182,657	3,480,700	182,657
Certificates of Participation	5,670,000	-	230,000	5,440,000	240,000
Net issuance premium	30,882	-	1,881	29,001	1,881
Construction loan	5,636,148	-	97,106	5,539,042	-
Capitalized lease obligations	9,139,182	-	510,489	8,628,693	533,749
Post-employment healthcare benefits	8,622,710	4,066,578	-	12,689,288	-
Compensated absences	3,558,522	-	198,533	3,359,989	-
Totals	$ 312,862,296	$ 4,066,578	$ 10,179,082	$ 306,749,792	$ 10,521,703

Payments on the Mello-Roos Bonds are made from the Debt Service Fund. Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the General Fund. Payments on the construction loan are made from the Capital Facilities Fund. Payments on the capitalized lease obligations are made from the General Fund. Payments on Post-Employment Healthcare benefits and compensated absences are made from the fund for which the related employee worked.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. 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 June 20, 2002, the District issued Series 2002 Measure "A" Bonds totaling $29,000,000. A portion of the bond proceeds were invested 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. The principal balance as of June 30, 2010 was $21,415,000.

On June 30, 2005, the District issued Series 2005 Measure "A" Bonds totaling $15,760,000. A portion of the bond proceeds were invested 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. The principal balance as of June 30, 2010 was $13,695,000.

On June 14, 2006, the District issued Series 2006 Special Tax Refunding Bonds totaling $29,995,000. A portion of the bond proceeds were invested 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. The principal balance as of June 30, 2010 was $24,970,000.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. Mello-Roos Measure "A" Bonds (continued)

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

Fiscal Year	Principal	Interest	Total
2010-11	$ 3,635,000	$ 2,406,430	$ 6,041,430
2011-12	3,770,000	2,270,530	6,040,530
2012-13	3,905,000	2,127,877	6,032,877
2013-14	4,055,000	1,977,763	6,032,763
2014-15	4,220,000	1,819,125	6,039,125
2016-2020	23,840,000	6,316,902	30,156,902
2021-2025	16,265,000	1,490,550	17,755,550
2026-2029	390,000	17,775	407,775
Total	$ 60,080,000	$ 18,426,952	$ 78,506,952

B. 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. The principal balance outstanding as of June 30, 2010 is $42,775,000.

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. The principal balance outstanding as of June 30, 2010 is $105,870,000.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. General Obligation Measure "C" Bonds (continued)

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. The principal balance as of June 30, 2010 is $58,880,000.

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

Fiscal Year	Principal	Interest	Total
2010-11	$ 5,930,000	$ 10,057,774	$ 15,987,774
2011-12	6,435,000	9,763,892	16,198,892
2012-13	7,010,000	9,422,549	16,432,549
2013-14	7,270,000	9,061,930	16,331,930
2014-15	7,030,000	8,717,421	15,747,421
2016-2020	40,155,000	38,273,979	78,428,979
2021-2025	49,230,000	27,459,306	76,689,306
2026-2030	71,135,000	13,772,900	84,907,900
2031	13,330,000	666,500	13,996,500
Total	$ 207,525,000	$ 127,196,251	$ 334,721,251

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. 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 Mount Diablo Unified School District Education Facilities Project.

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

	Fiscal Year	Payment
	2010-11	$ 502,958
	2011-12	506,445
	2012-13	504,159
	2013-14	501,266
	2014-15	497,683
	2016-2020	2,467,475
	2021-2025	2,402,375
	2026	471,500
Total		7,853,861
Less amount representing interest		(2,413,861)
Net present value of minimum payments		$ 5,440,000

D. 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, 2010 is $5,539,042.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

E. 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 obligation are as follows:

	Fiscal Year	Payment
	2010-11	$ 926,781
	2011-12	926,780
	2012-13	926,779
	2013-14	926,780
	2014-15	926,780
	2016-2020	4,633,900
	2021-2023	2,217,203
Total		11,485,003
Less amount representing interest		(2,856,310)
Net present value of minimum payments		$ 8,628,693

F. Other Leases

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

NOTE 8 – JOINT VENTURES

The Mount Diablo Unified School District participates in three joint powers agreement (JPA) entities, the Contra Costa County Schools Insurance Group (CCCSIG), Schools Excess Liability Fund, (SELF) and the Schools' Self Insurance of Contra Costa County (SSICCC).

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Mount Diablo Unified School District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationship between the Mount Diablo Unified School District and the JPAs are such that none of the three JPAs is a component unit of the District for financial reporting purposes. Current financial information for CCCSIG, SELF, and SSICCC can be obtained by contacting each JPA's management. The most currently available condensed financial information for the JPAs is shown below:

	CCCSIG June 30, 2010	SELF June 30, 2009	SSICCC June 30, 2009
Assets	$ 97,277,482	$ 209,217,000	$ 6,518,526
Liabilities	$ 72,699,996	$ 161,555,000	$ 1,008,968
Net assets	$ 24,577,486	$ 47,662,000	$ 5,509,558
Revenues	$ 41,747,625	$ 18,330,000	$ 15,155,408
Expenses	44,207,706	27,701,000	14,438,881
Operating income	(2,460,081)	(9,371,000)	716,527
Non-operating income	2,378,286	8,315,000	100,028
Change in net assets	$ (81,795)	$ (1,056,000)	$ 816,555

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants
The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

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

In 2008-09, the District received a judgment of approximately $2.7 million to $3.0 million to be awarded to Heathorn, Inc. The District is vigorously defending itself in the litigation. The judgment is currently being litigated in appellate court. If the appellate court upholds the judgment, the District will pay any resulting award in installments over a 10 year period. The appeal process may take several years to resolve. Accordingly, no provision has been made in the District's financial statements as of June 30, 2010.

C. IRS Audit
The District is currently involved in two IRS audits, one involving payroll and the other involving the issuance of bonded debt. The District has reserved the general fund balance in the amount of $533,500 to cover potential liabilities of the IRS audits. The District's management plan is to reconcile the discrepancies with the IRS. In response, the IRS had reduced one set of penalties from $322,488 to $342 in 2008-09.

D. Construction Commitments
As of June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately $3,979,961.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 9, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year.
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NOTE 11 – EMPLOYEE RETIREMENT PLANS

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 California State Teachers' Retirement System (CalSTRS), 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 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2009-10 was 9.709%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2009-10	$ 4,359,337	100%
2008-09	$ 4,386,622	100%
2007-08	$ 5,499,056	100%

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2009-10	$ 10,412,753	100%
2008-09	$ 10,954,293	100%
2007-08	$ 10,972,015	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately $5,385,602 to CalSTRS (4.267% of salaries subject to CalSTRS in 2009-10).

NOTE 12 – 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 8). 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.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

Mount Diablo Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	1,034
Active plan members	3,306
Total	4,340

**As of May 1, 2008 actuarial valuation*

Number of participating employers	1

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District and meet the age and service requirements for eligibility. The District offers subsidized health insurance until age 65.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2009-10, the District contributed $3,837,135.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

	Amount
Annual required contribution (ARC)	$ 8,043,769
Interest on net OPEB obligation	421,726
Adjustment to ARC	(373,591)
Annual OPEB cost	8,091,904
Contributions made:	
Pay-as-you-go amount	3,837,135
Total contributions made	3,837,135
Increase in net OPEB obligation	4,254,769
Net OPEB obligation - July 1, 2009, as previously stated	8,622,710
Decrease for prior year adjustment to ARC	(188,191)
Net OPEB obligation - July 1, 2009, as adjusted	8,434,519
Net OPEB obligation - June 30, 2010	$ 12,689,288

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-10 are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2010	$ 8,091,904	47%	$ 12,689,288

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans

As of June 3, 2008, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was $71.0 million and the unfunded actuarial accrued liability (UAAL) was $71.0 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	5/1/2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	28 Years
Actuarial Assumptions:	
Discount rate	5.0%
Inflation Rate	3.0%
Long-term Healthcare Cost Trend Rate	4.0%

NOTE 14 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures in excess of appropriations in the general fund for the fiscal year 2009-10 were as follows:

General Fund:		
	Classified salaries	$ 940,371

NOTE 15 – CURRENT LOAN

On March 4, 2010, the District issued Tax and Revenue Anticipation Notes (TRANs) totaling $12,000,000 which mature on October 30, 2010 with a coupon rate of 2.00% and a yield of 0.46%. 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.

NOTE 16 – SUBSEQUENT EVENTS

General Obligation Bond Issuance

On September 22, 2010, two Election 2010 general obligation bonds were issued. The Series A general obligation refunding bond was issued for an aggregate principal amount of $50,456,475 and consists of current interest bonds, capital appreciation bonds, and convertible capital appreciation bonds. The Series B general obligation bond was issued for an aggregate principal amount of $59,540,000 and consists of current interest bonds. The bonds have stated interest rates of 1.689% to 5.702% and mature on August 1, 2035 and August 1, 2027, respectively.

Required Supplementary Information

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
REVENUES				
Revenue limit sources	$ 174,716,743	$ 165,841,569	$ 165,118,381	$ (723,188)
Federal	22,746,451	37,865,380	27,932,051	(9,933,329)
Other state	60,890,740	67,725,882	62,989,934	(4,735,948)
Other local	8,454,135	12,250,022	12,279,895	29,873
Total revenues	266,808,069	283,682,853	268,320,261	(15,362,592)
EXPENDITURES				
Certificated salaries	123,663,118	130,074,406	127,856,813	2,217,593
Classified salaries	40,242,768	43,262,111	44,202,482	(940,371)
Employee benefits	53,707,432	55,328,687	53,003,053	2,325,634
Books and supplies	12,773,291	37,384,499	12,110,363	25,274,136
Services and other operating expenditures	33,963,449	41,448,032	35,546,947	5,901,085
Capital outlay	192,720	2,760,724	934,095	1,826,629
Transfers of indirect costs	(764,223)	(797,418)	(715,708)	(81,710)
Other outgo	3,434,397	3,026,350	2,456,908	569,442
Total expenditures	267,212,952	312,487,391	275,394,953	37,092,438
Excess (deficiency) of revenues over (under) expenditures	(404,883)	(28,804,538)	(7,074,692)	21,729,846
OTHER FINANCING SOURCES AND USES				
Interfund transfers in	-	2,147,036	-	(2,147,036)
Interfund transfers out	(6,409,846)	(7,777,164)	(7,176,802)	600,362
All other financing sources	-		2,169,387	2,169,387
Total other financing sources and uses	(6,409,846)	(5,630,128)	(5,007,415)	622,713
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(6,814,729)	(34,434,666)	(12,082,107)	22,352,559
Fund balances, July 1, 2009	47,217,125	47,217,125	47,217,125	-
Fund balances, June 30, 2010	$ 40,402,396	$ 12,782,459	$ 35,135,018	$ 22,352,559

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2010

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
5/1/2008	$ -	$ 71,018,299	$ 71,018,299	0%	$ 191,822,548	37%

Supplementary Information Section

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – All Non-Major Funds
June 30, 2010

	Adult Education Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
ASSETS									
Cash and cash equivalents	$ 1,060,248	$ 213,860	$ 2,724,823	$ 5,283,032	$ 952,995	$ 1,099,956	$ 338,409	$ 8,884,108	$ 20,557,431
Investments	612,239	699,267	867,338	-	2,193,856	11,591,602	2,040,796	-	18,005,098
Accounts receivable	270,863	1,114,327	1,202	-	3,042	22,469	2,971	-	1,414,874
Due from other funds	706,356	1,152,941	-	22,528	161	505	1,064	-	1,883,555
Inventories	-	139,883	-	-	-	-	-	-	139,883
Total assets	$ 2,649,706	$ 3,320,278	$ 3,593,363	$ 5,305,560	$ 3,150,054	$ 12,714,532	$ 2,383,240	$ 8,884,108	$ 42,000,841
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	$ 40,066	$ 337,346	$ 2,163	$ 6,807	$ 51,662	$ 210,537	$ 2,473	$ -	$ 651,054
Due to other funds	1,159,433	959,772	1,455,000	-	-	-	124	-	3,574,329
Deferred revenue	-	45,793	-	-	-	-	-	-	45,793
Total liabilities	1,199,499	1,342,911	1,457,163	6,807	51,662	210,537	2,597	-	4,271,176
FUND BALANCES									
Reserved for:									
Inventories	-	139,883	-	-	-	-	-	-	139,883
Debt service	-	-	-	-	-	-	-	8,884,108	8,884,108
Unreserved:									
Special revenue funds	1,450,207	1,837,484	2,136,200	-	-	-	-	-	5,423,891
Capital project funds	-	-	-	5,298,753	3,098,392	12,503,995	2,380,643	-	23,281,783
Total fund balances	1,450,207	1,977,367	2,136,200	5,298,753	3,098,392	12,503,995	2,380,643	8,884,108	37,729,665
Total liabilities and fund balances	$ 2,649,706	$ 3,320,278	$ 3,593,363	$ 5,305,560	$ 3,150,054	$ 12,714,532	$ 2,383,240	$ 8,884,108	$ 42,000,841

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures and Change in Fund Balance – All Non-Major Funds
For the Fiscal Year Ended June 30, 2010

	Adult Education Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
REVENUES									
General revenues:									
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,589,165	$ 15,589,165
Federal and state aid not restricted									
to specific purpose	184,032	600,000	-	-	-	-	-	-	784,032
Interest and investment earnings	5,438	-	9,058	17,650	17,339	-	14,661	15,197	79,343
Miscellaneous	1,460,242	-	-	1,284	643,632	-	627	-	2,105,785
Program revenues:									
Charges for services	-	4,246,397	-	-	-	-	-	-	4,246,397
Operating grants and contributions	1,063,312	7,380,083	-	-	-	35,374	-	-	8,478,769
Capital grants and contributions	-	-	-	-	-	105,363	-	-	105,363
Total revenues	2,713,024	12,226,480	9,058	18,934	660,971	140,737	15,288	15,604,362	31,388,854
EXPENDITURES									
Instructional services:									
Instruction	3,712,207	-	-	-	-	-	-	-	3,712,207
Instruction-related services:									
Supervision of instruction	523,048	-	-	-	-	-	-	-	523,048
Instructional library, media and technology	85,071	-	-	-	-	-	-	-	85,071
School site administration	1,773,630	-	-	-	-	-	-	-	1,773,630
Pupil support services:									
Food services	-	10,873,046	-	-	-	-	-	-	10,873,046
All other pupil services	34,924	-	-	-	-	-	-	-	34,924
General administration services:									
Other general administration	225,240	488,797	-	-	60,260	-	-	-	774,297
Plant services	1,214,390	906,436	38,070	-	-	-	599,030	-	2,757,926
Facility acquisition and construction	-	112,226	365,940	207,256	158,678	7,257,397	8,167	-	8,109,664
Community services	70,110	-	-	-	-	-	-	-	70,110
Other outgo:									
Debt service - principal	-	-	-	-	97,106	-	-	5,440,000	5,537,106
Debt service - interest	-	-	-	-	-	-	-	10,339,043	10,339,043
Debt service - issuance costs and discounts	-	-	-	585	-	-	17,547	-	18,132
Total expenditures	7,638,620	12,380,505	404,010	207,841	316,044	7,257,397	624,744	15,779,043	44,608,204
Excess (deficiency) of revenues									
over (under) expenditures	(4,925,596)	(154,025)	(394,952)	(188,907)	344,927	(7,116,660)	(609,456)	(174,681)	(13,219,350)
OTHER FINANCING SOURCES (USES)									
Interfund transfers in	4,645,650	-	2,531,152	-	-	-	809,942	-	7,986,744
All other financing sources	-	-	(2,169,387)	-	-	-	-	-	(2,169,387)
Total other financing sources and uses	4,645,650	-	361,765	-	-	-	809,942	-	5,817,357
Net change in fund balances	(279,946)	(154,025)	(33,187)	(188,907)	344,927	(7,116,660)	200,486	(174,681)	(7,401,993)
Fund balances, July 1, 2009	1,730,153	2,131,392	2,169,387	5,487,660	2,753,465	19,620,655	2,180,157	9,058,789	45,131,658
Fund balances, June 30, 2010	$ 1,450,207	$ 1,977,367	$ 2,136,200	$ 5,298,753	$ 3,098,392	$ 12,503,995	$ 2,380,643	$ 8,884,108	$ 37,729,665

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities – All Agency Funds
June 30, 2010

	OTHER SCHOOLS				
	Diablo Community Day School	Adult Education	Shadelands Preschool	Gateway NS High School	TOTAL OTHER SCHOOLS
ASSETS					
Cash on hand and in banks	$ 1,071	$ 10,597	$ 2,346	$ 15	$ 14,029
Total Assets	$ 1,071	$ 10,597	$ 2,346	$ 15	$ 14,029
LIABILITIES					
Due to student groups	$ 1,071	$ 10,597	$ 2,346	$ 15	$ 14,029
Total Liabilities	$ 1,071	$ 10,597	$ 2,346	$ 15	$ 14,029

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities - All Agency Funds (continued)
June 30, 2010

	ELEMENTARY SCHOOLS					
	Sunrise Elementary School	Bel Air Elementary School	Delta View Elementary School	Fair Oaks Elementary School	Gregory Gardens Elementary School	Hidden Valley Elementary School
ASSETS						
Cash on hand and in banks	$ 1,983	$ 3,402	$ 2,481	$ 1,399	$ 1,221	$ 2,335
Total Assets	$ 1,983	$ 3,402	$ 2,481	$ 1,399	$ 1,221	$ 2,335
LIABILITIES						
Due to student groups	$ 1,983	$ 3,402	$ 2,481	$ 1,399	$ 1,221	$ 2,335
Total Liabilities	$ 1,983	$ 3,402	$ 2,481	$ 1,399	$ 1,221	$ 2,335

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities - All Agency Funds (continued)
June 30, 2010

	ELEMENTARY SCHOOLS (continued)						
	Meadow Homes Elementary School	Pleasant Hill Elementary School	Sequoia Elementary School	Strandwood Elementary School	Sun Terrace Elementary School	Walnut Acres Elementary School	TOTAL ELEMENTARY SCHOOLS
ASSETS							
Cash on hand and in banks	$ 1,783	$ 2,629	$ 4,535	$ 3,361	$ 800	$ 5,501	$ 31,430
Total Assets	$ 1,783	$ 2,629	$ 4,535	$ 3,361	$ 800	$ 5,501	$ 31,430
LIABILITIES							
Due to student groups	$ 1,783	$ 2,629	$ 4,535	$ 3,361	$ 800	$ 5,501	$ 31,430
Total Liabilities	$ 1,783	$ 2,629	$ 4,535	$ 3,361	$ 800	$ 5,501	$ 31,430

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities - All Agency Funds (continued)
June 30, 2010

	MIDDLE SCHOOLS									
	Diablo View Middle School	El Dorado Middle School	Foothill Middle School	Glenbrook Middle School	Oak Grove Middle School	Pine Hollow Middle School	Pleasant Hill Middle School	Sequoia Middle School	Valley View Middle School	TOTAL MIDDLE SCHOOLS
ASSETS										
Cash on hand and in banks	$ 50,164	$ 10,984	$ 26,975	$ 17,885	$ 3,231	$ 9,342	$ 17,152	$ 13,267	$ 26,747	$ 175,747
Total Assets	$ 50,164	$ 10,984	$ 26,975	$ 17,885	$ 3,231	$ 9,342	$ 17,152	$ 13,267	$ 26,747	$ 175,747
LIABILITIES										
Due to student groups	$ 50,164	$ 10,984	$ 26,975	$ 17,885	$ 3,231	$ 9,342	$ 17,152	$ 13,267	$ 26,747	$ 175,747
Total Liabilities	$ 50,164	$ 10,984	$ 26,975	$ 17,885	$ 3,231	$ 9,342	$ 17,152	$ 13,267	$ 26,747	$ 175,747

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Combining Statement of Assets and Liabilities – All Agency Funds (continued)
June 30, 2010

	HIGH SCHOOLS							
	Clayton Valley High School	College Park High School	Concord High School	Crossroads High School	Mount Diablo High School	Northgate High School	Olympic High School	Ygnacio Valley High School
ASSETS								
Cash on hand and in banks	$ 330,646	$ 379,760	$ 69,188	$ 1,934	$ 127,100	$ 294,650	$ 5,428	$ 100,383
Total Assets	$ 330,646	$ 379,760	$ 69,188	$ 1,934	$ 127,100	$ 294,650	$ 5,428	$ 100,383
LIABILITIES								
Due to student groups	$ 330,646	$ 379,760	$ 69,188	$ 1,934	$ 127,100	$ 294,650	$ 5,428	$ 100,383
Total Liabilities	$ 330,646	$ 379,760	$ 69,188	$ 1,934	$ 127,100	$ 294,650	$ 5,428	$ 100,383

	ALL SCHOOLS				
	Other Schools	Elementary Schools	Middle Schools	High Schools	TOTAL ALL SCHOOLS
ASSETS					
Cash on hand and in banks	$ 14,029	$ 31,430	$ 175,747	$ 1,309,089	$ 1,530,295
Total Assets	$ 14,029	$ 31,430	$ 175,747	$ 1,309,089	$ 1,530,295
LIABILITIES					
Due to student groups	$ 14,029	$ 31,430	$ 175,747	$ 1,309,089	$ 1,530,295
Total Liabilities	$ 14,029	$ 31,430	$ 175,747	$ 1,309,089	$ 1,530,295

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2010

The Mount 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 Mount 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

Member	Office	Term Expires
Paul Strange	President	December 2010
Gary Eberhart	Vice-President	December 2012
Richard Allen	Member	December 2010
Linda Mayo	Member	December 2010
Sherry Whitmarsh	Member	December 2012

DISTRICT ADMINISTRATORS

Steven Lawrence, Ph.D.
Superintendent

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

Pete Pedersen
Assistant Superintendent-Administrative Services

Rose Lock
Assistant Superintendent-Elementary Services

Gail Isserman
Assistant Superintendent-Personnel Services

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

Bryan Richards
Chief Financial Officer

Gregory J. Rolen, Esq.
General Counsel

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2010

	Second Period Report	Second Period Report After Audit Finding Adjustments*	Annual Report	Annual Report After Audit Finding Adjustments*
Elementary:				
Kindergarten	2,391	2,391	2,399	2,399
Grades 1 through 3, regular classes	7,285	7,285	7,280	7,280
Grades 4 through 6, regular classes	7,179	7,179	7,170	7,170
Grades 7 and 8, regular classes	4,778	4,778	4,760	4,760
Home and hospital	25	25	29	29
Special education	794	794	803	803
Community day school	5	5	6	6
Extended year program - nonpublic, nonsectarian schools	12	12	12	12
Total Elementary	22,469	22,469	22,459	22,459
Secondary:				
Grades 9 through 12, regular classes	9,010	9,010	8,898	8,898
Continuation education	467	467	463	463
Opportunity schools	38	38	34	34
Home and hospital	58	58	62	62
Special education	531	531	519	519
Community day school	24	24	25	25
Extended year program - nonpublic, nonsectarian schools	12	12	12	12
Total Secondary	10,140	10,140	10,013	10,013
Total Average Daily Attendance	32,609	32,609	32,472	32,472

* Adjustments related to audit findings were not made to P-2 or Annual attendance reports. See finding #2010-5.

See accompanying note to supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2010

Grade Level	1982-83 Actual Minutes	1982-83 Reduced Minutes	1986-87 Minutes Requirement	1986-87 Reduced Minutes	2009-10 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,680	30,800	36,000	35,000	35,090	180	Complied
Grade 1	48,840	47,483	50,400	49,000	50,720	180	Complied
Grade 2	48,840	47,483	50,400	49,000	50,720	180	Complied
Grade 3	48,840	47,483	50,400	49,000	50,860	180	Complied
Grade 4	52,120	50,672	54,000	52,500	54,080	180	Complied
Grade 5	52,120	50,672	54,000	52,500	54,080	180	Complied
Grade 6	52,120	50,672	54,000	52,500	56,820	180	Complied
Grade 7	56,700	55,125	54,000	52,500	56,820	180	Complied
Grade 8	56,700	55,125	54,000	52,500	56,820	180	Complied
Grade 9	56,060	54,503	64,800	63,000	65,412	180	Complied
Grade 10	56,060	54,503	64,800	63,000	65,412	180	Complied
Grade 11	56,060	54,503	64,800	63,000	65,412	180	Complied
Grade 12	56,060	54,503	64,800	63,000	65,412	180	Complied

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2010

General Fund	(Budget) 2011**	2010	2009	2008
Revenues and other financing sources	$ 259,800,868	$ 270,489,648	$ 301,845,045	$ 300,635,903
Expenditures	268,417,158	275,394,953	287,063,698	298,596,706
Other uses and transfers out	3,486,037	7,176,802	1,294,106	2,105,819
Total outgo	271,903,195	282,571,755	288,357,804	300,702,525
Change in fund balance (deficit)	(12,102,327)	(12,082,107)	13,487,241	(66,622)
Ending fund balance	$ 23,032,691	$ 35,135,018	$ 47,217,125	$ 33,729,884
Available reserves*	$ 5,900,081	$ 16,751,459	$ 15,759,922	$ 13,283,094
Designated for economic uncertainties	$ 5,438,064	$ 5,438,064	$ 5,472,456	$ 5,992,757
Undesignated fund balances	$ 462,017	$ 11,313,395	$ 10,287,466	$ 7,290,337
Available reserves as a percentage of total outgo	2.2%	5.9%	5.5%	4.4%
Total long-term debt	$ 296,228,089	$ 306,749,792	$ 312,862,296	$ 315,295,084
Average daily attendance at P-2	32,344	32,609	33,155	33,357

The General Fund balance has increased by $1.4 million over the past two years. The fiscal year 2010-11 adopted budget projects a decrease in ending fund balance of $12.1 million. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo). ABX4 2 reduced the 2% reserve requirement by one-third for the 2009-10 year. Long-term debt has decreased by $8.5 million over the past two years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

** Revised Final Budget, September 2010.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	$ 4,943,301
National School Breakfast	10.553	13390	73,213
Especially Needy Breakfast	10.553	13526	1,363,191
Meal Supplements	10.556	13392	271,120
ARRA - Equipment Assistance Grant	10.579	15006	125,190
Nutrition Network	10.561	N/A	339,059
USDA Commodities (non-cash assistance)	10.565	13389	287,849
Total U.S. Department of Agriculture			7,402,923
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	14329	5,770,678
ARRA - Title I, Part A, Basic Grants	84.389	15005	439,204
Title I, Part A, School Improvement SAIT	84.010	14417	1,905
Title I, Part B, Reading First Special Education Teacher Professional Development Pilot	84.357	14911	364,039
Title I, School Improvement Grant for QEIA Schools	84.377	14971	903,377
ARRA - Title I, School Improvement Grant for QEIA Schools	84.389	15004	275,559
Title II, Part D Enhancing Education Through Technology (EETT)	84.318	14334	35,233
Title II, Part A Improving Teacher Quality	84.367	14341	962,843
Title III, Limited English Proficiency	84.365	10084	463,347
Title IV, Safe and Drug Free Schools	84.186	14347	94,426
Title IV, 21st Century Community Learning Centers Technical Assistance	84.287	14350	53,814
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681	802,689
Title V, Innovative Education	84.298A	14354	1,673
Title X, McKinney Vento Homeless Children Assistance Grant	84.196	14332	46,011
ARRA - Title X, McKinney Vento Homeless Children Assistance Grant	84.387	15007	17,122
Pell Grants	84.063	N/A	191,063
Adult Education: Adult Basic Education & ESL	84.002A	14508	353,359
Adult Education: Adult Secondary Education	84.002	13978	36,562
Adult Education: English Literacy & Civics Education	84.002A	14109	146,131
Vocational Programs: Adult	84.048	13923	71,067
Vocational Programs: Voc & Applied Tech Secondary II	84.048	13924	219,480
Teaching American History	84.215X	N/A	250,150
ARRA - State Fiscal Stabilization Fund, Recovery Act	84.394	25008	15,974,261
Individuals with Disabilities Education Act (IDEA):			
IDEA Quality Assurance & Focused Monitoring, Part B	84.027	13693	85,032
Special Ed: Alternative Dispute Resolution	84.027	13007	15,000
IDEA State Improvement Grant, Improving Special Ed Systems	84.323	14577	8,400
Preschool Grants	84.173	13430	233,904
ARRA - Preschool Grants	84.392	15000	86,888
Preschool Staff Development	84.173A	13431	3,399
Early Intervention Grants	84.181	23761	161,463
Preschool Local Entitlements, Part B	84.027A	13682	333,598
ARRA - Preschool Local Entitlements, Part B	84.391	15002	237,334
Basic Local Assistance Entitlement, Part B	84.027	13379	6,549,196
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	5,292,807
Basic Local Assistance Entitlement, Part B, Private Schools ISPs	84.027	10015	51,050
ARRA - Basic Local Assistance Entitlement, Part B, Private Schools ISPs	84.391	10123	13,040
Total U.S. Department of Education			40,545,104
U.S. Department of Defense:			
J.R.O.T.C.	12.UNKNOWN	N/A	109,539
Total U.S. Department of Defense			109,539
U.S. Department of Health & Human Services:			
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	408,639
Med-Cal Administrative Activities (MAA)	93.778	10060	105,027
Total U.S. Department of Health & Human Services			513,666
Total Expenditures of Federal Awards			$ 48,571,232

See accompanying note to supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2010

There were no differences between the annual financial and budget report and the audited financial statements.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2010

Charter School	Inclusion in Financial Statements
Eagle Peak Montessori Charter School	Not included

See accompanying note to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201. For 2009-10 through 2012-13, the instructional day and minute requirements have been reduced pursuant to Education Code Section 46201.2.

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Sub recipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to sub recipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the school district and displays information for each charter school on whether or not the charter school is included in the school district audit.

Other Independent Auditor's Reports

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Board of Trustees
Mount Diablo Unified School District
Concord, California

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

Independent Auditor's Report

We have audited the basic financial statements of Mount Diablo Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. 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 Mount 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 Mount Diablo Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mount Diablo Unified School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as Findings #2010-1 and #2010-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

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

Mount Diablo Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Mount Diablo Unified School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board, management, others within the entity, 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.

Christy White Accountancy Corporation

San Diego, California
November 24, 2010

christyWHITE A Professional Accountancy Corporation

Board of Trustees
Mount Diablo Unified School District
Concord, California

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

Independent Auditor's Report

Compliance

We have audited Mount Diablo Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mount Diablo Unified School District's major federal programs for the year ended June 30, 2010. Mount 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 grants applicable to each of its major federal programs is the responsibility of Mount Diablo Unified School District's management. Our responsibility is to express an opinion on Mount 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. 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 Mount 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 Mount Diablo Unified School District's compliance with those requirements.

In our opinion, Mount Diablo Unified School District's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the Board, management, others within the entity, 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 the specified parties.

Christy White Accountancy Corporation

San Diego, California
November 24, 2010

christyWHITE A Professional Accountancy Corporation

Board of Trustees
Mount Diablo Unified School District
Concord, California

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Mount Diablo Unified School District (the District), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10,* published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement – Receipt of Funds	1	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

Based on our audit, we found that, for the items tested, the Mount Diablo Unified School District complied with the state laws and regulations referred to above, except as noted in the accompanying schedule of findings and questioned costs as items #2010-3 through #2010-5. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Mount Diablo Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California Department of Finance, 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.

Christy White Accountancy Corporation

San Diego, California
November 24, 2010

Findings and Questioned Costs Section

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	No
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)	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.394	ARRA-State Fiscal Stabilization Fund, Recovery Act
	No Child Left Behind Act (NCLB)
84.010, 84.389	Title I, Part A, Basic Grants - including ARRA
84.027, 84.173, 84.391, 84.392	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,457,137
Auditee qualified as low-risk auditee?	No

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for state programs:	Qualified

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2010-1: Internal Audit and Audit Committee (30000)

Finding: The internal audit function in the District does not appear to have been effectively organized in the past and was eliminated during the fiscal year ended June 30, 2009. However, in a large district, these functions are an important part of the internal control structure, if properly organized and staffed appropriately. The internal auditor should report to a Board approved committee and/or the Superintendent thus providing independence from the business functions. Areas of internal audit focus would typically include: compliance monitoring, audits of high fraud risks, special financial audits and performance audits.

Recommendation: We recommend that the District consider reviving and restructuring the internal audit function to effectively monitor compliance and internal controls.

District's Corrective Action Plan: Due to the severe fiscal constraints imposed on the District by the State budget, it is not feasible to bring back the position of Internal Auditor at this time.

Section II – Financial Statement Findings (continued)

Finding #2010-2: Associated Student Body Internal Controls (30000)

Finding: We audited a sampling of eleven student body funds at District school sites to test internal control procedures over: cash disbursements, cash receipts, inventory, and minutes of meetings. A detailed list of the findings by school site was provided to the District. We did not find any improprieties, but lack of sound internal controls provides an opportunity for irregularities that might go undetected. A summary of the most common internal control deficiencies we observed is listed below:

- Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account
- Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit
- Expenditures are lacking proper approval and/or invoice

Recommendation: We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. Training of staff is recommended to take place at least annually. The required use of standardized procedures is recommended. Lastly, the District's internal audit function might assist in periodic monitoring of compliance with standardized District procedures.

District's Corrective Action Plan: The District has participated in the annual training on Associated Student Body funds provided by the Contra Costa County Office of Education. The District is not in a fiscal position to bring the position of Internal Auditor back at this time.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings and questioned costs in 2009-10.

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding #2010-3: After School Education and Safety Program Attendance (40000)

State Program: After School Education and Safety Program (ASES)

Criteria: Section 19846 of the Standards and Procedures for the Audits of California LEAs requires the auditor to: "Determine whether the reported number of students served, as that term is used in the report, for each selected school is supported by written records that document pupil participation, by tracing the reported numbers through any documentation used to summarize the numbers of students served, to written data origination documentation." (Education Code Sections 8482.3 and 8484)

Condition: ASES program attendance reported to CDE does not reconcile to the attendance summary reports and ASES attendance information per sign-in sheets does not reconcile to attendance information per sign-out sheets. This resulted in discrepancies of 23 student days overstated and 28 student days understated, resulting in a net understatement of 5 student days of attendance out of 1,561 student days tested.

Cause: There was a moderate lack of control over the sign-in and sign-out processes.

Fiscal Impact: None. The ASES program funding is not affected as long as the pupil participation level is 85% of the projected attendance or greater. Since the finding noted a net underreporting of 5 student days of attendance, program attendance did not fall below 85% of the projected attendance; therefore there is no questioned cost.

Effect: The internal control weakness over attendance recordkeeping allows for inaccurate amounts of program attendance to be reported.

Recommendation: The District should ensure that all source documents for ASES attendance match the reports being submitted for funding.

District's Corrective Action Plan: The District concurs with the finding. The affected sites have been reminded about the importance of proper sign in/sign out procedures for students.

Section IV – State Award Findings and Questioned Costs (continued)

Finding #2010-4: Short-Term Independent Study (40000)

Criteria: Section 51747 of the Education Code requires Independent Study contracts to be supported by proper documentation as a condition for apportionment attendance.

Condition: In testing short-term independent study we found two instances out of eleven sites tested in which there was no indication of the date the master agreement was signed, as required by Education Code Section 51747(c)(8).

Cause: The preparers of the agreements did not indicate the date the master contract was signed.

Fiscal Impact: The District should revise its 2009-10 P-2 and Annual attendance reports to remove the ADA for the non-compliant contracts. Additionally, since the ADA pertaining to the two non-compliant contracts amounted to 0.12 ADA overstated, the 2009-10 fiscal impact is $735.

Effect: The District claimed ADA for non-compliant short term independent study contracts.

Recommendation: The District needs to revise its 2009-10 P-2 and Annual attendance reports to exclude the attendance days inappropriately claimed.

We also recommend that training be provided on an annual basis to staff involved in the completion of short-term independent study master agreements, to better ensure that the contracts are properly completed in conformity with State law.

District's Corrective Action Plan: The District concurs with the finding. The attendance staff has been reminded that dates are required on all signatures on the short-term independent study contracts.

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding #2010-5: School Accountability Report Card (72000)

State Program: Compliance with Williams Act Requirements.

Criteria: School facilities conditions assessments as indicated in a school's annual School Accountability Report Card should match the information indicated in facility inspection tool (FIT) forms developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002. Auditors are required to verify compliance in Section 19837.1 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

Condition: Two out of 13 schools tested (Cambridge Elementary and Fair Oaks Elementary) had complaints on facilities that were not reported in the schools' 2008-09 School Accountability Report Cards, which were audited in 2009-10. Fully reporting complaints is a requirement of the Williams Act.

Cause: School Accountability Report Cards were not filled out correctly based on the most recent FIT forms. Cause unknown.

Fiscal Impact: None.

Effect: The 2008-09 School Accountability Report Cards as tested in the 2009-10 audit did not contain all required elements.

Recommendation: We recommend that a process be put into place to ensure that all school site complaints are reported in the SARC.

District's Corrective Action Plan: The District concurs with the finding. The District will have the maintenance department review the appropriate sections of the School Accountability Report Card and make any necessary adjustments before they are published.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding #2009-1: Associated Student Body Internal Controls	We audited a sampling of nine student body funds at District school sites to test internal control procedures over: cash disbursements, cash receipts, inventory, and minutes of meetings. A detailed list of the findings by school site was provided to the District. We did not find any improprieties, but lack of sound internal controls provides an opportunity for irregularities that might go undetected. A summary of the most common internal control deficiencies we observed is listed below: • Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account. • Budgets and revenue potentials are not used. • Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit. • Expenditures are lacking proper approval and/or invoice.	30000	We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. Training of staff is recommended to take place at least annually. The required use of standardized procedures is recommended. Lastly, the District's internal audit function might assist in periodic monitoring of compliance with standardized District procedures.	Not implemented, see finding #2010-2

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding #2009-2: Internal Audit and Audit Committee	The internal audit function in the District does not appear to have been effectively organized in the past and is being eliminated as of June 30, 2010. However, in a large district these functions are an important part of the internal control structure, if properly organized and staffed appropriately. The internal auditor should report to a board approved committee and/or the Superintendent thus providing independence from the business functions. Areas of internal audit focus would typically include: compliance monitoring, audits of high fraud risks, special financial audits and performance audits.	30000	We recommend that the District consider restructuring the internal audit function to effectively monitor compliance and internal controls.	Not implemented, see finding #2010-1
Finding #2009-3: Cash Clearing Accounts (30000)	**Criteria:** Internal controls and safeguarding of assets require proper accountability for District cash accounts. **Conditions:** The District has approximately 50 cash clearing banks accounts at various school sites that are not recorded in the District's General Ledger as of June 30, 2010. In some instances, these accounts are used to handle non-District funds such as student body and parent-teacher organization receipts. **Effect:** It is unknown the amount the District is understating the cash balance because no bank statements or bank reconciliations were provided. **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 always clearing the accounts in a timely manner and there are no controls to ensure proper reconciliation and recording of the account balances at year end.	30000	The district should record all accounts as of the end of the school year. The June 30 bank statements 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.	Implemented

Original Finding No.	**Finding**	**Code**	**Recommendation**	**Current Status**
Finding #2009-4: Short-Term Independent Study	**Criteria:** Section 51747 of the Education Code requires Independent Study contracts to be supported by proper documentation in conformity with State law. **Condition:** In testing short-term independent study (i.e., used for pupils temporarily availing themselves of the program while returning to a seat in their classroom), we found a streamlined master agreement is used for short term study independent study which does not include a place to indicate the date the contract was signed as required by EC Section 51747(c)(8). Note: no omissions were found in the master agreement for long-term independent study. **Cause:** The agreement lacks a date line. **Effect:** The District claimed ADA for non-compliant contracts. **Questioned Costs:** There is no questioned cost as the District revised the P-2 and annual attendance reports and removed the amounts of 14.19 ADA from the P-2 attendance report and 12.20 ADA from the annual attendance report for the inappropriate ADA claimed.	40000	The District needs to revise 2008-09 P-2 and Annual attendance reports to exclude the days inappropriately claimed for ADA. We also recommend the master agreement for short-term independent study be revised and more training be provided in the proper completion of the contracts. The main error was not signing and dating the contract prior to the commencement of the work. But, we also found instances where the work sample was not attached to the contract, as required by law, and yet apportionment was claimed.	Not implemented, see finding #2010-4

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	**Finding**	**Code**	**Recommendation**	**Current Status**
Finding #2009-5: School Accountability Report Card	**State Program:** Compliance with Williams Act requirements. **Criteria:** School facilities conditions assessments as indicated in a school's annual School Accountability Report Card should match the information indicated in facility conditions evaluation instruments developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002. Auditors are required to verify compliance in Section 19837.1 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies.* **Condition:** Five out of 18 School Accountability Report Cards (SARC) had complaints on facilities and teacher misassignments that did not get reported as a result. Five schools did not have sufficient textbooks per the board resolution in 2007-08 and it was not reported in the school's SARCs. Updating annually and fully reporting complaints is a requirement of the Williams Act. **Cause:** A School Accountability Report Card was not published in 2008-09 to reflect the data for 2007-08. Cause unknown. **Effect:** The 2007-08 School Accountability Report Cards did not contain all required elements.	72000	We recommend that a process be put into place to ensure that all school site complaints be reported in the SARC.	Not implemented, see finding #2010-5

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the Mt. Diablo Unified School District (the "District") in connection with the execution and delivery of $43,700,000 aggregate principal amount of the District's General Obligation Refunding Bonds Election of 2002, Series B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the Board of Education of the District on September 27, 2011 (the "Resolution"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolution.

In consideration of the execution and delivery of the Bonds by the District and the purchase of such Bonds by the Underwriter described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg a Division of Stifel Nicolaus and George K. Baum & Company (collectively, the "Underwriter") in complying with Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"Bondholder" or "Holder" means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

"Dissemination Agent" shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent or Chief Financial Officer (or otherwise by the District), which Agent has evidenced its acceptance in writing. Initially, and in the absence of the specific designation of a successor or alternate Dissemination Agent, the Dissemination Agent shall be the District.

"Listed Event" means any of the events listed in Section 6 of this Disclosure Agreement.

"Material Events Disclosure" means dissemination of a notice of a Material Event as set forth in Section 6.

"MSRB" shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at http://emma.msrb.org/, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated November 30, 2011 ("Final Official Statement").

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than 270 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the fiscal year ending June 30, 2011, to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The District's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the MSRB as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District's preceding fiscal year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) General fund budget and actual results;

(ii) Assessed valuations;

(iii) Largest local secured taxpayers; and

(iv) Secured tax charges and delinquencies, only if the County terminates or discontinues the Teeter Plan within the District.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each other document so incorporated by reference.

SECTION 6. Reporting of Significant Events.

(a) The District agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

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

(iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.

(iv) Substitution of or failure to perform by any credit provider.

(v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) Tender Offers;

(vii) Defeasances;

(viii) Rating changes; or

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

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten (10) Business Days after the occurrence of the event:

(i) Unless described in paragraph 6(a)(v) hereof, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) Modifications of rights to Bondholders;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

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

(vii) Appointment of a successor or additional Paying Agent or Trustee or the change of name of a Paying Agent or Trustee.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the District shall within ten (10) Business Days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Bonds.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions, provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only 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 the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 11. Default. The District shall give notice to each NRMSIR or to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder 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 Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

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

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: December 29, 2011

MT. DIABLO UNIFIED SCHOOL DISTRICT

By:____

Superintendent

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Mt. Diablo Unified School District

Name of Issue: $43,700,000 General Obligation Refunding Bonds, Election of 2002, Series B

Date of Issuance: December 29, 2011

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated December 29, 2011. The Issuer anticipates that the Annual Report will be filed by ___________________.

Dated: __________________________

[ISSUER/DISSEMINATION AGENT]

By:____

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are 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 securities depository).Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

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

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, transfer and exchange of the Bonds.

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in San Francisco, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least $1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in San Francisco, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.