NEW ISSUE – FULL BOOK-ENTRY

INSURED RATING: Standard & Poor's: "AA-"
UNDERLYING RATING: Standard & Poor's: "A+"
(See "RATING" herein)

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

$2,455,000
ELEMENTARY SCHOOLS FACILITIES IMPROVEMENT DISTRICT NO. 1 OF THE GRIDLEY UNIFIED SCHOOL DISTRICT (COUNTY OF BUTTE, CALIFORNIA) ELECTION OF 2012 GENERAL OBLIGATION BONDS, SERIES A (BANK QUALIFIED)

Dated: Date of Delivery

Due: February 1 and August 1 (as shown on inside cover page)

This cover page contains 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 an informed investment decision.

The Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District, Election of 2012 General Obligation Bonds, Series A (the "Bonds") are being issued by the Gridley Unified School District (the "School District"). The Bonds were authorized at an election of the registered voters of Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District ("Improvement District No. 1") held on June 5, 2012, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of not-to-exceed $2,500,000 principal amount of general obligation bonds of Improvement District No. 1 to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities and costs related thereto, as approved by the voters, for schools in Improvement District No. 1.

The Bonds represent an obligation of Improvement District No. 1 payable solely from *ad valorem* property taxes levied and collected by the County of Butte (the "County"). The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* taxes for the payment of principal of and interest on the Bonds upon all property subject to taxation by Improvement District No. 1, without limitation of rate or amount (except as to certain personal property which is taxable at limited rates).

Interest on the Bonds accrues from the date of their delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2013. The Bonds are issuable as fully registered Bonds in denominations of $5,000 principal amount or any integral multiple thereof. Payments of principal of and interest on the Bonds will be paid by the Bank of New York Mellon Trust Company, N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See "APPENDIX F – BOOK-ENTRY-ONLY SYSTEM" herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.

ASSURED GUARANTY® MUNICIPAL

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein.

Maturity Schedule
(see inside cover page)

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Denver, Colorado. The Bonds, in book-entry form, will be available for delivery through the facilities of the Depository Trust Company in New York, New York on or about February 7, 2013.

STONE & YOUNGBERG
A DIVISION OF STIFEL NICOLAUS

The date of this Official Statement is January 17, 2013.

MATURITY SCHEDULE

$2,455,000
ELEMENTARY SCHOOLS FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE GRIDLEY UNIFIED SCHOOL DISTRICT
(County of Butte, California)
Election of 2012 General Obligation Bonds, Series A

Base CUSIP†: 398101

$135,000.00 Serial Bonds

Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP†
2015	$5,000	2.00%	1.08%	AA3
2016	10,000	2.00	1.31	AB1
2017	10,000	2.00	1.50	AC9
2018	15,000	3.00	1.68	AD7
2019	20,000	3.00	1.89	AE5
2020	20,000	3.00	2.14	AF2
2021	25,000	3.00	2.38	AG0
2022	30,000	4.00	2.62	AH8

$110,000 3.00% Term Bonds due August 1, 2025 – Yield 3.10%; CUSIP† AL9

$105,000 3.00% Term Bonds due August 1, 2027 – Yield 3.23%; CUSIP† AN5

$600,000 3.50% Term Bonds due August 1, 2034 – Yield 3.66%; CUSIP† AV7

$1,505,000 3.75% Term Bonds due February 1, 2043 – Yield 3.94%; CUSIP† BE4

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter nor the District is responsible for the selection or correctness of the CUSIP numbers set forth herein.

GRIDLEY UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Richard Harp, *President*
Stacy Anthony, *Clerk*
Nicki Herrera Llerenas, *Member*
Kenneth Olson, *Member*
Eric Waterbury, *Member*
Kathy Wheeler, *Member*
Linda L. H. Wilson, *Member*

DISTRICT ADMINISTRATION

Rick Rubino, *Superintendent*
Heather Naylor, *Chief Business Official*

PROFESSIONAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

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

UNDERWRITER

Stone & Youngberg, a Division of Stifel Nicolaus
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

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

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This Official Statement does not constitute an offering of any security other than the original offering of the Bonds. No dealer, broker, salesperson or other person has been authorized by Improvement District No. 1 to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by Improvement District No. 1.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding Improvement District No. 1 and the School District herein.

Certain information set forth herein, other than that provided by Improvement District No. 1 and the School District, 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 Improvement District No. 1 or the School District. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of Improvement District No. 1 or the School District since the date hereof.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

The School District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "THE BONDS – Bond Insurance" and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

$2,455,000
ELEMENTARY SCHOOLS FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE GRIDLEY UNIFIED SCHOOL DISTRICT
(COUNTY OF BUTTE, CALIFORNIA)
ELECTION OF 2012 GENERAL OBLIGATION BONDS, SERIES A
(BANK QUALIFIED)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District (County of Butte, California) Election of 2012 General Obligation Bonds, Series A (the "Bonds").

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.

Changes since Preliminary Official Statement. Since the date of the Preliminary Official Statement, disclosure regarding the proposed fiscal year 2013-14 budget for the State of California has been added to this Official Statement. See "SCHOOL DISTRICT FINANCIAL INFORMATION – State Budget Measures."

The School District

The Gridley Unified School District (the "School District"), located in the southwestern portion of the County of Butte (the "County"), serves the city of Gridley and certain unincorporated areas of the County. The School District currently has one primary school (grades K-1), one elementary school, one middle school, and one comprehensive high school, in addition to an alternative education complex comprising a continuation high school (grades 10-12), a community day school program (grades K-12), a home school program (grades K-12), an independent study program (for students over 16 years of age), and an adult education program.

In 1997, voters of the former Gridley Union School District and Gridley Union High School District (the "High School District") approved the unification of the two districts to create the School District. The remaining feeder elementary school district for the High School District, Manzanita Elementary School District, did not unify and remains as an independent elementary school district (grades K-8) within the boundaries of the School District.

For more complete information concerning the School District, including certain financial information, see "THE SCHOOL DISTRICT" and "SCHOOL DISTRICT FINANCIAL INFORMATION." Excerpts from the School District's audited financial statements for the fiscal year ended June 30, 2012 are included as Appendix B and should be read in their entirety. The discussion of the School District's financial history and the financial information contained herein does not purport to be complete or definitive.

Improvement District No. 1

The Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District (the "Improvement District") includes all of the School District except for the portion lying within the Manzanita Elementary School District, representing approximately 86.4% of the total assessed valuation of property within the School District. See "IMPROVEMENT DISTRICT NO. 1" herein.

Sources of Payment for the Bonds

The Bonds represent an obligation of Improvement District No. 1 payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County (the "County Board") is empowered and obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within Improvement District No. 1 subject to taxation without limitation of rate or amount (except as to certain personal property which is taxable at limited rates). See "THE BONDS – Security and Sources of Payment" herein.

Purpose of Issue

The Bonds are being issued to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities and costs related thereto, as approved by the voters, for schools in Improvement District No. 1.

Description of the Bonds

Form and Registration. The Bonds will be issued in fully registered form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. See "THE BONDS – Description of the Bonds" and "APPENDIX F – BOOK-ENTRY ONLY SYSTEM." In the event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution (defined herein).

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of $5,000 principal amount or any integral multiple thereof.

Redemption. The Bonds maturing on or after August 1, 2024 are subject to redemption prior to their respective stated maturity dates, at the option of the School District, from any source of funds, on August 1, 2023, or on any date thereafter as a whole, or in part as described herein. The Term Bonds maturing on August 1, 2025, August 1, 2027, August 1, 2034, and February 1, 2043 are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Redemption" herein.

Payments. Interest on the Bonds accrues from the date of delivery of the Bonds (the "Date of Delivery") and is payable semiannually on each February 1 and August 1 (each a "Bond Payment Date"), commencing August 1, 2013. Principal on the Bonds is payable in the amounts and years as set forth on the inside cover page hereof. Payments of the principal of and interest on the Bonds will be made by the Bank of New York Mellon Trust Company, N.A., the designated paying agent, bond registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement through DTC Participants (defined herein) to the beneficial owners of the Bonds.

Bond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. See "THE BONDS – Bond Insurance."

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), based on existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See "TAX MATTERS" herein.

Bank Qualified

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

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and other applicable law, and pursuant to a resolution adopted by the Board of Trustees of the School District acting on behalf of Improvement District No. 1. See "THE BONDS – Authority for Issuance" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about February 7, 2013.

Continuing Disclosure

The School District will covenant for the benefit of bondholders to make available certain financial information and operating data relating to the School District and to provide notices of the occurrence of certain enumerated events, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

Forward-Looking Statements

When used in this Official Statement and in any continuing disclosure by the School District, in any press release and in any oral statement made with the approval of an authorized officer of Improvement District No. 1 or the School District, or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Chief Business Official, Gridley Unified School District, 429 Magnolia Way, Gridley, California 95948, telephone: (530) 846-4721. The School District may impose a charge for copying, mailing and handling.

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

The information set forth herein, other than that provided by the School District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the School District. The information and expressions of opinions 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 School District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Capitalized terms used but not otherwise defined herein will have the meaning assigned to such terms by the Bond Resolution (defined herein).

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and other applicable law (the "Act") and pursuant to a resolution adopted by the Board of Trustees of the School District, acting on behalf of Improvement District No. 1 on November 28, 2012 (the "Bond Resolution"). The County has adopted a resolution pursuant to Section 15140(b) of the Education Code, which authorizes the School District to issue the Bonds on its own behalf.

The Bonds received authorization at an election held on June 5, 2012, by an affirmative vote of 55% or more of the votes cast by eligible voters within Improvement District No. 1 to issue $2,500,000 of general obligation bonds (the "Authorization"). The Bonds represent the first issuance of bonds within the Authorization.

Security and Sources of Payment

The Bonds represent general obligations of the School District, payable solely from *ad valorem* taxes levied on property within Improvement District No. 1. The County Board is empowered and obligated to annually levy *ad valorem* taxes for the payment of principal of and interest on the Bonds upon all property within Improvement District No. 1 subject to taxation by such Improvement District No. 1 without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the fund designated as the "Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District Election of 2012 General Obligation Bonds, Series A Debt Service Fund" (the "Debt Service Fund"). The Debt Service Fund is held by the County and is required by the Act to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and will hold the Debt Service Fund, the Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same becomes due and payable, shall be transferred by the Paying Agent to DTC for remittance of such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds.

The rate of the annual *ad valorem* taxes levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in Improvement District No. 1 and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in Improvement District No. 1 may cause the annual tax rate to fluctuate. Economic and other factors beyond the School District's control, such as economic recession, deflation of land values, a relocation out of Improvement District No. 1 or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within Improvement District No. 1 and necessitate a corresponding increase in the annual tax rate in such Improvement District No. 1. For further information regarding Improvement District No. 1's assessed valuations, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive certificates representing their interest in the Bonds.

Interest with respect to the Bonds accrues from their date of delivery, and is payable semiannually on February 1 and August 1 of each year commencing August 1, 2013. Interest on the Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Each Bond shall bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Bond Payment Date to that Bond Payment Date, inclusive, in which event it shall bear interest from such Bond Payment Date, or unless it is authenticated on or before July 15, 2013, in which event it shall bear interest from the Date of Delivery. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on February 1 and August 1, in the years and amounts set forth on the inside cover page hereof.

Paying Agent

The Bank of New York Mellon Trust Company, N.A. will act as the Paying Agent for the Bonds. As long as 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 prepayment or other notices to owners only to DTC.

Neither the School District nor the Underwriter of the Bonds have any responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" herein.

Payment

The principal of the Bonds will be payable in lawful money of the United States of America to the registered owner thereof, upon the surrender thereof at the principal office of the Paying Agent. The interest on the Bonds will be payable in lawful money to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the 15th day of the month preceding any Bond Payment Date (a "Record Date"), whether or not such day is a business day, such interest to be paid by check or draft mailed on such Bond Payment Date to such registered owner at such registered owner's address as it appears on such registration books or at such address as the registered owner may have filed with the Paying Agent for that purpose. The interest payments on the Bonds will be made in immediately available funds (e.g., by wire transfer) to any registered owner of at least $1,000,000 of outstanding Bonds, who shall have requested in writing such method of payment of interest on the Bonds prior to the close of business on the Record Date immediately preceding any Bond Payment Date.

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2023, are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 2024, are subject to redemption prior to their respective stated maturity dates, at the option of the School District, from any source of available funds, as a whole or in part on any date on or after August 1, 2023, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus interest thereon to the date fixed redemption, without premium.

Mandatory Sinking Fund Redemption. The Term Bonds maturing on August 1, 2025, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2023, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date (August 1)	Principal Amount
2023	$30,000
2024	35,000
2025[1]	45,000
Total	$110,000

[1] Maturity.

The principal amount to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the School District, in integral multiples of $5,000, by any portion of the Term Bond optionally redeemed prior to the mandatory sinking fund redemption date.

The Term Bonds maturing on August 1, 2027, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2026, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

	Redemption Date (August 1)	Principal Amount
	2026	$50,000
	2027[(1)]	55,000
Total		$105,000

(1) Maturity.

The principal amount to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the School District, in integral multiples of $5,000, by any portion of the Term Bond optionally redeemed prior to the mandatory sinking fund redemption date.

The Term Bonds maturing on August 1, 2034, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2028, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

	Redemption Date (August 1)	Principal Amount
	2028	$65,000
	2029	70,000
	2030	75,000
	2031	85,000
	2032	95,000
	2033	100,000
	2034[(1)]	110,000
Total		$600,000

(1) Maturity.

The principal amount to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the School District, in integral multiples of $5,000, by any portion of the Term Bond optionally redeemed prior to the mandatory sinking fund redemption date.

The Term Bonds maturing on February 1, 2043, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2035, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date	Principal Amount
August 1, 2035	$120,000
August 1, 2036	130,000
August 1, 2037	140,000
August 1, 2038	155,000
August 1, 2039	165,000
August 1, 2040	180,000
August 1, 2041	190,000
August 1, 2042	205,000
February 1 2043[1]	220,000
Total	$1,505,000

[1] Final Maturity.

The principal amount to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the School District, in integral multiples of $5,000, by any portion of the Term Bond optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of Bonds for Redemption. Whenever provision is made for the redemption of Bonds and less than all Bonds are to be redeemed, the Paying Agent, upon written instruction from the School District, shall select Bonds for redemption as so directed by the School District and if not directed, in inverse order of maturity. 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. 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. Notice of any redemption of Bonds will be mailed, postage-prepaid, not less than 30 nor more than 45 days prior to the redemption date (i) by registered or certified mail to the respective registered owners thereof at the addresses appearing on the bond registration books, (ii) by registered or certified mail or overnight delivery service to the Securities Depository described below, and (iii) by registered or certified mail, telephonically confirmed transmission or overnight delivery service to one or more of the Information Services described below. Each notice of redemption will 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 Bond 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 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 notice will further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed at the redemption price thereof, together with the interest accrued to the redemption date, and that from and after such date, interest with respect thereto will cease to accrue.

With respect to any notice of optional redemption of Bonds described above, unless upon the giving of such notice such Bonds will be deemed to have been defeased pursuant to the Bond Resolution, such notice will state that redemption is conditional upon the receipt by an independent escrow agent selected by the School District on or prior to the date fixed for such redemption of the moneys necessary and sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed, and that if such moneys are not so received said notice will be of no force and effect, the Bonds will not be subject to redemption on such date and the Bonds will not be required to be redeemed on such date. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made and the Paying Agent will within a reasonable time thereafter give notice, to the persons to whom and in the manner in which the notice of redemption was given, that such moneys were not so received.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 1 Cragwood Road, 2nd Floor, South Plainfield, New Jersey 07080, Attention: Editor; Mergent, Inc., 585 Kingsley Park Drive, Fort Mill, South Carolina 29715, Attention: Called Bond Department; and Standard and Poor's J.J. Kenny Information Services' "Called Bond Record," 55 Water Street, 45th Floor, New York, New York 10041.

"Securities Depository" shall mean The Depository Trust Company, 55 Water Street, New York, New York 10041, Fax (212) 855-1000 or (212) 855-7320.

The actual receipt by the owner of any Bond or of any Securities Depository or Information Service of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice mailed, will not affect the validity of the proceedings for the redemption of such Bond or the cessation of interest on the date fixed for redemption. A certificate of the Paying Agent or the School District that notice of call and redemption has been given to owners and the appropriate Securities Depository or Information Services will be conclusive as against all parties.

Payment of Redeemed Bonds. When notice of redemption has been given, substantially as described above, and when the amount necessary for the payment of principal of and premium, if any, is set aside for the purpose in the Debt Service Fund, the Bonds designated for redemption will become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at said redemption price out of the Debt Service Fund, and no interest will accrue on such Bonds called for redemption after the redemption date specified in such notice, and the owners of said Bonds so called for redemption after such redemption date will look for the payment of such Bonds and the premium, if any, thereon only to such Debt Service Fund. All unpaid interest payable at or prior to the redemption date will continue to be payable to the respective Owners, but without interest thereon.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered (the "Transfer Amount"). Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the County, the School District and Improvement District No. 1 will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Notice of Redemption. If on the applicable designated redemption date, money for the redemption of the Bonds to be redeemed, together with interest accrued to such redemption date, is held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof will have been given substantially as described above, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient moneys shall be held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, and, accrued interest with respect thereto to the date fixed for redemption, then such Bonds will no longer be deemed Outstanding and shall be surrendered to the Paying Agent for cancellation.

Defeasance

All or any portion of the outstanding maturities of the Bonds may be defeased at any time prior to maturity in the following ways:

(a) Cash: by irrevocably depositing with an independent escrow agent selected by the School District an amount of cash which together with amounts transferred from the Debt Service Fund is sufficient to pay all Bonds outstanding and designated for defeasance, including all principal, interest and premium, if any; or

(b) Government Obligations: by irrevocably depositing with an independent escrow agent selected by the School District noncallable Government Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys transferred from the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds outstanding and designated for defeasance (including all principal and interest represented thereby and prepayment premiums, if any) at or before their maturity date;

then, notwithstanding that any Bonds shall not have been surrendered for payment, all obligations of the School District, Improvement District No. 1 and the Paying Agent with respect to all outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent or an independent escrow agent selected by the School District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of the Bonds not so surrendered and paid all sums due with respect thereto.

"Government Obligations" means direct and general obligations of the United States of America (which may consist of obligations of the Resolution Funding Corporation that constitute interest strips), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, or "prerefunded" municipal obligations rated in the highest rating category by Moody's Investors Service or Standard & Poor's. In the case of direct and general obligations of the United States of America, Government Obligations shall include evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances where (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed at least as high as direct and general obligations of the United States of America by either Standard & Poor's or by Moody's Investors Service.

Registration, Transfer and Exchange of Bonds

So long as any of the Bonds remain outstanding, the School District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Bonds as provided in the Bond Resolution (the "Bond Register"). Subject to the provisions of the Bond Resolution, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the Bond Resolution. Payment of or on account of the principal of and premium, if any, and interest on any Bond will be made only to or upon the order of that person; neither the School District nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Bond Resolution. All such payments will be valid and effectual to satisfy and discharge the School District's liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

Any Bond may be exchanged for Bonds of like tenor, maturity and Transfer 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 the Bond at the principal office of the Paying Agent together with an assignment executed by the 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 will 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 Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Bonds, the Paying Agent shall sign and authenticate and deliver Bonds in accordance with the provisions of the Bond Resolution. All fees and costs of transfer will be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer will be valid obligations of Improvement District No. 1, evidencing the same debt, and entitled to the same security and benefit under the Bond Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer shall be canceled by the Paying Agent. The School District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the School District may have acquired in any manner whatsoever, and those Bonds shall be promptly cancelled by the Paying Agent. As requested, written reports of the surrender and cancellation of Bonds shall be made to the School District by the Paying Agent. The cancelled Bonds shall be retained for six years, then returned to the School District or destroyed by the Paying Agent as directed by the School District.

Neither the School District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 15th business day next preceding either any Bond Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Bond Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

Bond Insurance

The following information has been provided by Assured Guaranty Municipal Corp. for use in this Official Statement, and neither the School District nor the Underwriter take any responsibility for the accuracy or completeness thereof. Reference is made to Appendix G for a specimen of the Policy of Assured Guaranty Municipal Corp.

Bond Insurance Policy. Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

<u>Current Financial Strength Ratings</u>.

On January 17, 2013, Moody's issued a press release stating that it had downgraded AGM's insurance financial strength rating to "A2" (stable outlook) from "Aa3." AGM can give no assurance as to any further ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-." At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, and its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012.

<u>Capitalization of AGM</u>.

At September 30, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,263,902,433 and its total net unearned premium reserve was approximately $2,153,794,346, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2011, for the quarterly period ended March 31, 2012, for the quarterly period ended June 30, 2012, and for the quarterly period ended September 30, 2012, which have been filed with the New York State Department of Financial Services and posted on AGL's website at http://www.assuredguaranty.com, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference.

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (filed by AGL with the SEC on February 29, 2012);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (filed by AGL with the SEC on May 10, 2012);

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (filed by AGL with the SEC on August 9, 2012); and

(iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 (filed by AGL with the SEC on November 9, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "THE BONDS – Bond Insurance – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters.

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "THE BONDS – Bond Insurance."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

Sources of Funds	
Principal Amount of Bonds	$2,455,000.00
Net Original Issue Discount	(59,415.85)
Total Sources	$2,395,584.15
Uses of Funds	
Building Fund	$2,134,712.95
Debt Service Fund	42,527.29
Costs of Issuance(1)	218,343.91
Total Uses	$2,395,584.15

(1) A portion of the proceeds of the Bonds will be used to pay costs of issuance thereof, including legal fees, Underwriter's discount, printing costs, bond insurance premium, the costs and fees of the Paying Agent and financial advisor, and other costs of issuance of the Bonds.

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DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions):

Period Ending August 1	Annual Principal Payment	Annual Interest Payment[(1)]	Total Debt Service
2013	--	$42,527.29	$42,527.29
2014	--	87,987.50	87,987.50
2015	$5,000.00	87,987.50	92,987.50
2016	10,000.00	87,887.50	97,887.50
2017	10,000.00	87,687.50	97,687.50
2018	15,000.00	87,487.50	102,487.50
2019	20,000.00	87,037.50	107,037.50
2020	20,000.00	86,437.50	106,437.50
2021	25,000.00	85,837.50	110,837.50
2022	30,000.00	85,087.50	115,087.50
2023	30,000.00	83,887.50	113,887.50
2024	35,000.00	82,987.50	117,987.50
2025	45,000.00	81,937.50	126,937.50
2026	50,000.00	80,587.50	130,587.50
2027	55,000.00	79,087.50	134,087.50
2028	65,000.00	77,437.50	142,437.50
2029	70,000.00	75,162.50	145,162.50
2030	75,000.00	72,712.50	147,712.50
2031	85,000.00	70,087.50	155,087.50
2032	95,000.00	67,112.50	162,112.50
2033	100,000.00	63,787.50	163,787.50
2034	110,000.00	60,287.50	170,287.50
2035	120,000.00	56,437.50	176,437.50
2036	130,000.00	51,937.50	181,937.50
2037	140,000.00	47,062.50	187,062.50
2038	155,000.00	41,812.50	196,812.50
2039	165,000.00	36,000.00	201,000.00
2040	180,000.00	29,812.50	209,812.50
2041	190,000.00	23,062.50	213,062.50
2042	205,000.00	15,937.50	220,937.50
2043[(2)]	220,000.00	4,125.00	224,125.00
Totals	$2,455,000.00	$2,027,227.29	$4,482,227.29

(1) Interest payments will be made semiannually on February 1 and August 1 of each year, commencing August 1, 2013.
(2) Final maturity is February 1, 2043.

APPLICATION OF PROCEEDS OF BONDS

Building Fund

The proceeds of the sale of the Bonds, net of costs of issuance, shall be deposited in the "Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District Election of 2012 General Obligation Bonds, Series A Building Fund" (the "Building Fund") and shall be applied only for the purposes for which the Bonds are issued. Any interest earnings on moneys held in the Building Fund shall be retained in the Building Fund.

Debt Service Fund

The *ad valorem* property taxes levied by the County for the payment of the Bonds, when collected, will be deposited into the Debt Service Fund. Any premium or accrued interest received on the sale of the Bonds shall be deposited in the Debt Service Fund. Any interest earnings on moneys held in the Debt Service Fund shall be retained in the Debt Service Fund. If, after all of the Bonds have been redeemed or paid and otherwise cancelled, there are moneys remaining in the Debt Service Fund or otherwise held in trust for the payment of the redemption price of the Bonds, said moneys shall be transferred to the general fund of the School District as provided and permitted by law.

Permitted Investments

In accordance with the Bond Resolution and subject to federal tax restrictions, moneys in the Debt Service Fund and Building Fund may be invested in any lawful investment permitted by Sections 16429.1 and 53601 of the Government Code of the State of California (the "Government Code"), in the Local Agency Investment Fund of the California State Treasurer (the "LAIF"), or in shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code which invests exclusively in investments permitted by Section 53635 of the Government Code, or in a guaranteed investment contract with a provider rated in the second highest category by each rating agency then rating the Bonds, or in the Butte County Investment Pool (the "Investment Pool") maintained by the Butte County Treasurer. Moneys in the Debt Service Fund and Building Fund are expected to be invested through the Investment Pool.

BUTTE COUNTY INVESTMENT POOL

The following information concerning the Investment Pool has been provided by the Treasurer-Tax Collector of the County (the "Treasurer") and has not been confirmed or verified by the School District or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The Treasurer accepts funds only from agencies located in the County. The moneys on deposit are predominantly derived from local government revenues consisting of property taxes, state and federal funding and other fees and charges. The Treasurer has authority to implement and oversee the investment of such funds in the Investment Pool in accordance with California Government Code Sections 53601 *et seq.*, 53653 *et seq.* and 16429.1 *et seq.* which govern legal investments by local agencies in the State, and by a more restrictive investment policy (the "Investment Policy") proposed by the Treasurer, monitored by the Treasury Oversight Committee and approved by the Board of Supervisors on an annual basis. There can be no assurance that State law and/or the Investment Policy will not be amended in the future to allow investments that are currently prohibited, or that the stated objectives of the County with respect to investments will not change. The duty of the Treasurer is to safeguard all public funds invested in the Investment Pool and managed by the Treasurer. The Investment Pool must maintain sufficient available cash to meet the disbursement needs of all participating agency depositors. Prudence must be used in obtaining a competitive yield while maintaining the safety of principal.

The Investment Policy allows for purchase of a variety of securities with limitations as to exposure, maturity and rating, varying with each type of security. The composition of the portfolio will change over time as securities mature or are sold, and new securities are purchased. The Fair Value of certain types of securities fluctuate, but the County does not anticipate that it will realize any losses with respect to any such investments since the County intends to hold such investments until their maturity. The Fair Value of each security is disclosed quarterly to pool participants in the Investment Report.

The following table summarizes the composition of the Investment Pool.

COUNTY OF BUTTE INVESTMENT POOL
Portfolio Composition
(November 30, 2012)

Actively Managed Portfolio:	Yield to Maturity	Weighted Average Maturity[1]	Par Value	Fair Value	Cost Carried Value
Local Agency Investment Fund (Laif)	0.320%	1	$104,487,997.18	$108,487,997.18	$108,487,997.18
Caltrust	0.362	1	4,474.71	4,474.71	4,474.71
Caltrust	0.875	30	5,003,485.00	4,998,539.41	5,003,485.00
Bank Money Market (Collateralized)	0.440	1	27,683,945.06	27,683,945.06	27,683,945.06
Commercial Paper	--	--	0.00	0.00	0.00
Municipal Bonds	0.410	672	1,000,000.00	1,004,260.00	1,004,650.00
Corporate Notes	0.921	153	5,000,000.00	5,090,725.00	5,095,454.09
Negotiable Cds	1.363	770	3,000,000.00	3,006,271.54	3,000,000.00
Certificates Of Deposit (Collateralized)	0.810	839	10,500,000.00	10,500,000.00	10,500,000.00
Federal Agency Notes	1.780	1,029	175,030,000.00	179,054,045.47	176,555,840.67
TOTAL ACTIVELY MANAGED PORTFOLIO:	1.123%	576	335,709,901.95	339,830,258.37	337,335,846.71
Investment Of Note/Bond Proceeds And Operating Cash					
School Bond Proceeds			13,268,261.68	13,269,514.48	13,271,229.17
Operating Accounts					
Us Bank Checking Account Deposits			17,848,019.39	17,848,019.39	17,848,019.39
Operating Cash			71,272.29	71,272.29	71,272.29
Other			5,383.72	5,383.72	5,383.72
TOTAL TREASURER'S FUND LEDGER BALANCE:			366,902,839.03	371,024,448.25	368,531,751.28

	Par Value	Fair Value	Cost Carried Value
INVESTMENTS UNDER MANAGEMENT OF TRUSTEES	4,133,032.68	4,151,711.78	4,146,994.72
Total Cash And Investments:	$371,035,871.71	$375,176,160.03	$372,678,746.00

[1] Actual Weighted Average Maturity will be shorter, and actual dollar amount of investments maturing in less than 12 months will be higher than stated, due to call features on investments.

As of November 30, 2012, the weighted average maturity of the Investment Pool, with the exception of investments with trustees, bond/note proceeds and operating cash, was 576 days. As of such date, the Investment Pool, with the exception of investments with trustees, bond/note proceeds and operating cash, had 53.9% of its assets invested in securities maturing in less than one year and 46.1% of its assets invested in securities maturing in more than one year.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem *tax levied by the County for the payment thereof. (See "THE BONDS – Security and Sources of Payment" herein.) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 98 and 111, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and the ability of the School District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Bonds. The taxes levied by the County for payment of the Bonds were approved by the voters of Improvement District No.1 in compliance with Article XIIIA, Article XIIIC, and all applicable laws.*

Article XIIIA of the California Constitution

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

Article XIIIA has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the adjusted base year value described above. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on the Bonds. See "THE BONDS – Security and Sources of Payment" and "TAX BASE FOR REPAYMENT OF BONDS – Assessed Valuations" herein.

Article XIIIA requires a vote of 66.67% or more of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property with certain exceptions. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by 66.67% or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception identified in clause (c) of the preceding sentence. In addition, Article XIIIA requires the approval of 66.67% or more of all members of the State legislature to change any State taxes for the purpose of increasing tax revenues.

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 relevant county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

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

Article XIIIB of the California Constitution

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

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

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

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

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

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

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

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

Article XIIIC and Article XIIID of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a 66.67% vote. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a 66.67% vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Article XIIIC also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the School District and the County with respect to such taxes which are pledged as security for payment of the Bonds. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

The School District and Improvement District No. 1 do not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. The School District does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the School District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the School District, thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the School District.

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.

Propositions 98 and 111

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

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

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

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIIIB and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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

a. <u>Annual Adjustments to Spending Limit</u>. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. <u>Treatment of Excess Tax Revenues</u>. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

c. <u>Exclusions from Spending Limit</u>. Two exceptions were added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over $15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

d. <u>Recalculation of Appropriations Limit</u>. The Article XIIIB appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

e. <u>School Funding Guarantee</u>. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capital personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than 66.67%) of the voters in local elections and permits property taxes to exceed the Article XIIIA 1% limit in order to repay such bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the School District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property, and property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that received 66.67% voter approval after July 1, 1978.

The 55% vote requirement applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, or equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for an elementary or high school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of the constitutional amendment and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Jarvis v. Connell

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the School District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the School District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the School District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the 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.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

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

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling $1.7 billion statewide. The School District can make no representations regarding what effect the implementation of ABx1 26 will have on the School District's future receipt of tax increment revenues.

Proposition 30

On November 6, 2012, California voters approved Proposition 30 ("Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 1/4% of gross receipts of any retailer from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013, and before January 1, 2017, for storage, use, or other consumption in the State, at the rate of 1/4% of the sales price of the property. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 (over $340,000 but less than $408,000 for joint filers) (ii) 2% for taxable income over $300,000 but less than $500,000 (over $408,000 but less than $680,000 for joint filers) and (iii) 3% for taxable income over $500,000 (over $608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Propositions 98 and 111" herein. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to school districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of A.D.A. and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

State Cash Management Legislation

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

On March 24, 2011, the Governor signed into law Senate Bill 82 ("SB 82"), which extended into fiscal year 2011-12 provisions of existing law designed to manage the State's cash resources. SB 82 authorizes the deferral of State apportionments during fiscal year 2011-12, as follows: (i) $700 million from July 2011 to September 2011, (ii) $700 million from July 2011 to January 2012, (iii) $1.4 billion from August 2011 to January 2012, (iv) $2.4 billion from October 2011 to January 2012, and (v) $1.4 billion from March 2012 to April 2012. Collectively, these deferrals are referred to as the "2011-12 Cash Management Deferrals." SB 82 required the State Department of Education to certify to school districts no later than April 15, 2011 which of the 2011-12 Cash Management Deferrals will be implemented, and in what amounts. On April 15, 2011, the Department of Education released a projected scheduled of State apportionments showing that all of the 2011-12 Cash Management Deferrals would be implemented. SB

82 provides for an exemption to the 2011-12 Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed.

On May 23, 2012, the Governor signed into law Assembly Bill ("AB 103"), which extends certain provisions of SB 82 into fiscal year 2012-13. AB 103 authorizes the deferral of State apportionments during fiscal year 2012-13, as follows: (i) $700 million from July 2012 to September 2012, (ii) $500 million from July 2012 to January 2013, (iii) $600 million from August 2012 to January 2013, (iv) $800 million from October 2012 to January 2013, and (v) $900 million from March 2013 to April 2013. Collectively, these deferrals are referred to as the "2012-13 Cash Management Deferrals," and together with the 2011-12 Cash Management Deferrals, are referred to as the "Cash Management Deferrals."

The State Department of Education is required to certify to school districts, county offices of education and charter schools, no later than five days after AB 103's adoption date, of the amounts and timing of payment deferrals for the 2012-13 fiscal year. As in the prior fiscal year, AB 103 provides for an exemption to the 2012-13 Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed. The School District has neither applied for nor received an exemption from any of the 2012-13 Cash Management Deferrals.

In the event any of the Cash Management Deferrals are implemented, the State Controller, State Treasurer and State Director of Finance are required to review, as necessary but no less than monthly, the actual State general fund cash receipts and disbursements in comparison to the Governor's most recent revenue and expenditure projections. If the Controller, Treasurer and Director of Finance determine that sufficient cash is available to pay the State apportionments being deferred while maintaining a prudent cash reserve, such State apportionments are required to be paid as soon as feasible. Unlike the 2011-12 Cash Management Deferrals, AB 103 authorizes the 2012-13 Cash Management Deferrals to be accelerated or delayed by up by one month, except that the March 2013 deferral must be paid no later than April 29, 2013.

Recent Litigation Regarding 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.

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

Future Initiatives

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

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TAX BASE FOR REPAYMENT OF THE BONDS

The information in this section describes ad valorem *property taxation, assessed valuation, and other measures of the tax base of Improvement District No. 1. The Bonds are payable solely from* ad valorem *taxes levied and collected by the County on taxable property in Improvement District No. 1. The School District's general fund is not a source for the repayment of the Bonds.*

Ad Valorem Property Taxation

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the Improvement District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and February 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing 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 lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Assessed Valuations

The assessed valuation of property in Improvement District No. 1 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. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

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

Property within Improvement District No. 1 has a net taxable assessed valuation for fiscal year 2012-13 of $709,886,387.

The following table shows the local secured, utility, unsecured and total assessed valuation in of Improvement District No. 1 for fiscal years 2003-04 through 2012-13.

ASSESSED VALUATION
Fiscal Years 2003-04 through 2012-13
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

	Local Secured	Utility	Unsecured	Total	Annual % Change
2003-04	$439,594,748	$772,238	$41,274,100	$481,641,086	--
2004-05	463,026,597	781,399	37,766,252	501,574,248	4.14%
2005-06	504,299,623	763,280	40,761,763	545,824,666	8.82
2006-07	595,857,592	571,142	42,885,034	639,313,768	17.13
2007-08	675,409,032	337,742	31,875,033	707,621,807	10.68
2008-09	696,607,896	337,742	35,031,372	731,977,010	3.44
2009-10	687,679,290	337,742	39,894,765	727,911,797	-0.56
2010-11	674,386,815	348,760	40,372,963	715,108,538	-1.76
2011-12	662,762,329	348,760	40,322,170	703,433,259	-1.63
2012-13	667,138,447	348,760	42,399,180	709,886,387	0.92

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the School District's control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or man-made disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within Improvement District No. 1. Any such reduction would result in a corresponding increase in the annual tax rates levied by the County to pay the debt service with respect to Improvement District No. 1's general obligation bonds. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Article XIIIA of the California Constitution" and "THE BONDS – Security and Sources of Payment" herein.

Appeals and Reductions of Assessed Valuation

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIIIA of the California Constitution" herein.

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

No assurance can be given that property tax appeals or unilateral County reductions in the future will not significantly reduce the assessed valuation of property within Improvement District No. 1 or the School District.

Assessed Valuation by Jurisdiction

The following table shows the assessed valuation by jurisdiction in fiscal year 2012-13 in Improvement District No. 1.

2012-13 ASSESSED VALUATION BY JURISDICTION(1)
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

Jurisdiction:	Assessed Valuation in SFID No. 1	% of SFID No. 1	Assessed Valuation of Jurisdiction(1)	% of Jurisdiction in SFID No 1
City of Gridley	$327,980,970	46.20%	$327,980,970	100.00%
Unincorporated Butte County	381,905,417	53.80	$7,454,423,347	5.12%
Total County	$709,886,387	100.00%	$17,681,327,207	4.01%

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

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Assessed Valuation and Parcels by Land Use

The following table shows the assessed valuation and parcels by land use in fiscal year 2012-13 in Improvement District No. 1.

2012-13 ASSESSED VALUATION AND PARCELS BY LAND USE
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

	2012-13 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% Total
Non-Residential:						
Agricultural	$199,021,430	29.83%	549	13.62%	545	13.59%
Commercial	60,643,382	9.09	219	5.43	219	5.46
Vacant Commercial	2,822,382	0.42	37	0.92	37	0.92
Industrial	28,478916	4.27	37	0.92	37	0.92
Vacant Industrial	182,325	0.03	5	0.12	5	0.12
Recreational	285,895	0.04	1	0.02	1	0.02
Government/Social/Institutional	0	0.00	16	0.40	0	0.00
Miscellaneous	1,040,557	0.16	2	0.05	2	0.05
Subtotal Non-Residential	$292,474,887	43.84%	866	21.48%	846	21.10%
Residential:						
Single Family Residence	$318,462,062	47.74%	2,513	62.34%	2,512	62.64%
Mobile Home	12,725,481	1.91	156	3.87	156	3.89
2-4 Residential Units	26,697,139	3.25	164	4.07	164	4.09
5+ Residential Units/Apartments	3,019,571	0.45	9	0.22	9	0.22
Miscellaneous Residential	6,368,164	0.95	55	1.36	55	1.37
Vacant Residential	12,391,143	1.86	268	6.65	268	6.68
Subtotal Residential	$374,663,560	56.16%	3,165	78.52%	3,164	78.90%
Total	$667,138,447	100.00%	4,031	100.00%	4,010	100.00%

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

Assessed Valuation Per Parcel of Single-Family Homes

The following table shows the assessed valuation per parcel of single-family homes in fiscal year 2012-13 in Improvement District No. 1.

2012-13 ASSESSED VALUATION PER PARCEL OF SINGLE-FAMILY HOMES
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

	No. of Parcels	2012-13 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	2,512	$318,462,062	$126,776	$108,735

2012-13 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	60	2.389%	2.389%	$1,109,484	0.348%	0.348%
$25,000 - $49,999	270	10.748	13.137	10,333,990	3.245	3.593
$50,000 - $74,999	344	13.694	26.831	21,700,552	6.814	10.408
$75,000 - $99,999	406	16.162	42.994	35,131,019	11.031	21.439
$100,000 - $124,999	424	16.879	59.873	46,775,594	14.688	36.127
$125,000 - $149,999	244	9.713	69.586	32,999,225	10.362	46.489
$150,000 - $174,999	198	7.882	77.468	31,816,299	9.991	56.480
$175,000 - $199,999	171	6.807	84.275	31,788,005	9.982	66.461
$200,000 - $224,999	148	5.892	90.167	31,437,315	9.872	76.333
$225,000 - $249,999	87	3.463	93.631	20,529,379	6.446	82.779
$250,000 - $274,999	47	1.871	95.502	12,145,128	3.814	86.593
$275,000 - $299,999	36	1.433	96.935	10,111,743	3.175	89.768
$300,000 - $324,999	17	0.677	97.611	5,274,352	1.656	91.424
$325,000 - $349,999	9	0.358	97.970	3,043,340	0.956	92.380
$350,000 - $374,999	14	0.557	98.527	5,019,153	1.576	93.956
$375,000 - $399,999	12	0.478	99.005	4,674,686	1.468	95.424
$400,000 - $424,999	5	0.199	99.204	2,056,707	0.646	96.070
$425,000 - $449,999	4	0.159	99.363	1,750,475	0.550	96.619
$450,000 - $474,999	2	0.080	99.443	913,408	0.287	96.906
$475,000 - $499,999	0	0.000	99.443	0	0.000	96.906
$500,000 and greater	14	0.557	100.000	9,852,208	3.094	100.000
Total	2,512	100.000%		$318,462,062	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of Improvement District No. 1 is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as individual pieces of real or personal property. The assessed value of unitary and certain other State-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including Improvement District No. 1) according to statutory formulae generally based on the distribution of taxes in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The School District is unable to predict the impact of these changes on utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including Improvement District No. 1 and the School District.

Because the School District is a not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "SCHOOL DISTRICT FINANCIAL INFORMATION – Revenue Sources" herein.

Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (each a "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 School 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's treasury is the legal depository of the tax collections. The School District will receive 100% of the *ad valorem* property tax to which the School District is entitled irrespective of actual delinquencies in the collection of the tax by the County. In addition, under the Teeter Plan, 100% of the *ad valorem* taxes levied to pay the principal of and interest on the Bonds will be available to pay such amounts, regardless of actual delinquencies in the collection of such 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 55% of the participating revenue districts in the County. In the event the Board of Supervisors of the County is to order discontinuance of its Teeter Plan subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the School District and Improvement District No. 1) for which the County acts as the tax-levying or tax-collecting agency.

Largest Property Owners

The following table shows the 20 largest property taxpayers in Improvement District No. 1 as determined by secured assessed valuation in fiscal year 2012-13.

LARGEST 2012-13 LOCAL SECURED PROPERTY TAXPAYERS
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

	Property Owner	Primary Land Use	2012-13 Assessed Valuation	% of Total[1]
1.	Jem Farms LP	Agricultural	$15,893,549	2.38%
2.	Jasswant Singh and Satwant Kaur Bains Family	Industrial	11,570,434	1.73
3.	Rio Pluma Company LLC	Industrial	10,965,573	1.64
4.	Gary Justeson	Agricultural	9,626,002	1.44
5.	Naumes Inc.	Agricultural	8,147,137	1.22
6.	Agromillora California	Agricultural	6,075,333	0.91
7.	Heritage Oaks Station LLC	Commercial	5,838,310	0.88
8.	Eric and Corina Waterbury	Agricultural	5,781,795	0.87
9.	Gary W. and Janet D. Little	Agricultural	4,896,206	0.73
10.	Garaventa Family Trust	Agricultural	4,623,944	0.69
11.	Gerald A. and Brit L. Fillmore	Agricultural	4,469,937	0.67
12.	Karmdeep S. and Harpreet B. Bains	Agricultural	4,295,738	0.64
13.	Rudd Farming Inc.	Agricultural	3,918,193	0.59
14.	Salute of California LLC	Agricultural	3,757,414	0.56
15.	Eretz Spruce Properties LLC	Assisted Living Facility	3,746,228	0.56
16.	Jasbir S. and Surinder K. Kullar	Industrial	3,679,588	0.55
17.	Retail Site Specialists LLC	Commercial	3,315,025	0.50
18.	Gridley Springs	Apartments	3,305,564	0.50
19.	One World Ranch LLC	Agricultural	3,121,737	0.47
20.	GSJ Company LLC	Residential Land	3,087,500	0.46
			$120,115,207	18.00%

(1) 2012-13 local secured assessed valuation: $667,138,447.
Source: California Municipal Statistics, Inc.

Debt Obligations

Set forth below is a direct and overlapping debt report regarding Improvement District No. 1 (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective January 1, 2013, for debt issued as of November 8, 2012. The Debt Report is included for general information purposes only. The School District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District No. 1 in whole or in part. Such long-term obligations generally are not payable from revenues of the School District (except as indicated) nor are they necessarily obligations secured by land within Improvement District No. 1. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report is as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the Improvement District; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the Improvement District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the Improvement

District, as determined by multiplying the total outstanding debt of each agency by the percentage of the Improvement District's assessed valuation represented in column 2.

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

2012-13 Assessed Valuation: $709,886,387

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 1/1/13	
Butte-Glenn Community College District	3.535%	$2,634,921	
Gridley Unified School District	**100.000**	**-**	(1)
Gridley Unified School District School Facilities Improvement District	**100.000**	**-**	(1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$2,634,921	
OVERLAPPING GENERAL FUND DEBT:			
Butte County Certificates of Participation	4.015%	$ 435,668	
Butte County Pension Obligations	4.015	2,003,284	
Butte-Glenn Community College District General Fund Obligations	3.535	87,668	
TOTAL OVERLAPPING GENERAL FUND DEBT		$2,526,620	
OVERLAPPING TAX INCREMENT DEBT:			
Gridley Redevelopment Agency	100.000%	$4,750,000	
TOTAL OVERLAPPING TAX INCREMENT DEBT		$4,750,000	
COMBINED TOTAL DEBT		$9,911,541	(2)

(1) Excludes the Bonds described herein.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2012-13 Assessed Valuation:
Direct Debt .... - %
Total Direct and Overlapping tax and Assessment Debt 0.37%
Combined Total Debt 1.40%

Ratio to Redevelopment Incremental Valuation ($59,279,992):
Total Overlapping Tax Increment Debt 8.01%

Source: California Municipal Statistics, Inc.

IMPROVEMENT DISTRICT NO. 1

General Description

The Bonds are being issued by the School District on behalf of Improvement District No. 1. Improvement District No. 1 was established by the Board of Trustees of the School District pursuant to a resolution of said Board of Trustees adopted on February 15, 2012, and the Act.

With respect to the authorization for the Bonds, the Board of Trustees ordered an election of the registered voters residing in the territory of Improvement District No. 1, which was held on June 5, 2012. At this election, 55.36% of the voters voting on the measure approved the issuance of not-to-exceed $2,500,000 principal amount of general obligation bonds for Improvement District No. 1.

Location and Territory

Improvement District No. 1 includes all of the School District except for the portion lying within the Manzanita Elementary School District, representing approximately 86.4% of the total assessed valuation of property within the School District.

THE SCHOOL DISTRICT

Introduction

The Gridley Unified School District (the "School District"), located in the southwestern portion of the County of Butte (the "County"), serves the city of Gridley and certain unincorporated areas of the County. The School District currently has one primary school (grades K-1), one elementary school, one middle school, and one comprehensive high school, in addition to an alternative education complex comprising a continuation high school (grades 10-12), a community day school program (grades K-12), a home school program (grades K-12), an independent study program (for students over 16 years of age), and an adult education program.

In 1997, voters of the former Gridley Union School District and Gridley Union High School District (the "High School District") approved the unification of the two districts to create the School District. The remaining feeder elementary school district for the High School District, Manzanita Elementary School District, did not unify and remains as an independent elementary school district (grades K-8) within the boundaries of the School District.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Gridley Unified School District, 429 Magnolia Way, Gridley, California 95948, Attention: Superintendent. The School District may impose a charge for copying, mailing and handling.

Administration

The governing board of the School District (the "Board") consists of seven elected members. Members are elected at-large to serve staggered four-year terms. Elections for positions to the Board are held every two years, alternating between three and four available positions. A president is elected by members of the Board each year. Current members of the Board, together with their offices and the dates their terms expire, are listed below:

Board Member	Office	Term Expires
Richard Harp	President	November 2014
Stacy Anthony	Clerk	November 2014
Nicki Herrera Llerenas	Member	November 2014
Kenneth Olson	Member	November 2014
Eric Waterbury	Member	November 2016
Kathy Wheeler	Member	November 2016
Linda L. H. Wilson	Member	November 2016

Mr. Rick Rubino, the Superintendent of the School District, is responsible for administering the affairs of the School District in accordance with the policies of the Board. Heather Naylor serves as the School District's Chief Business Official.

Recent Enrollment Trends

The following table shows a 15-year enrollment history for the School District.

ANNUAL ENROLLMENT
FISCAL YEARS 1998-99 THROUGH 2012-13
Gridley Unified School District

Year	Enrollment	Annual Change	Annual % Change
1998-99	2,087	--	--
1999-00	2,052	-35	-1.68%
2000-01	2,015	-37	-1.80
2001-02	2,145	130	6.45
2002-03	2,123	-22	-1.03
2003-04	2,072	-51	-2.40
2004-05	2,080	8	0.39
2005-06	2,031	-49	-2.36
2006-07	2,080	49	2.41
2007-08	1,969	-111	-5.34
2008-09	2,117	148	7.52
2009-10	2,155	38	1.79
2010-11	2,074	-81	-3.76
2011-12	2,072	-2	-0.10
2012-13(1)	2,113	41	1.98

(1) Budgeted.
Note: Enrollment as of October CBEDS in each school year.
Source: The School District.

Labor Relations

As of January 1, 2013, the School District employed 115 full-time equivalent certificated and administrative employees, and 79 full-time equivalent classified employees. The School District employees, except management, confidential and some part-time employees are represented by the bargaining units noted in the following table.

LABOR BARGAINING UNITS
Gridley Unified School District

Labor Organization	Number of Employees In Organization	Contract Expiration Date
Gridley Teachers' Association	110	June 30, 2013
California School Employees Association	110	June 30, 2010(1)

(1) Employees continue to work under the terms of the expired contract.
Source: The School District.

School District Retirement Systems

The information set forth below regarding the STRS and PERS programs, other than the information provided by the School District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the School District or the Underwriter.

STRS. All full-time certificated employees, as well as certain classified employees, are members of the State Teachers' Retirement System ("STRS"). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. The School District is currently required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contribute 8% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 2.791% of teacher payroll. The State's contribution reflects a base contribution of 2.017% and a supplemental contribution of 0.774% that will vary from year-to-year based on statutory criteria.

The School District's contribution to STRS was $637,282 for fiscal year 2009-10, $624,895 for fiscal year 2010-11, and $619,050 for fiscal year 2011-12. The School District has budgeted $693,942 as its contribution to STRS for fiscal year 2012-13.

PERS. Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provision are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. The School District is currently required to contribute to PERS at an actuarially determined rate, which is 11.417% of eligible salary expenditures for fiscal year 2012-13, while participants contribute 7% of their respective salaries.

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

The School District's contribution to PERS was $246,434 for fiscal year 2009-10, $278,220 for fiscal year 2010-11, and $278,612 for fiscal year 2011-12. The School District has budgeted $334,947 as its contribution to PERS for fiscal year 2012-13.

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

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

FUNDED STATUS
STRS (Defined Benefit Program) and PERS
As of the June 30, 2011 Valuation Date
(Dollar Amounts in Millions) [(1)]

Plan	Accrued Liability	Value of Trust Assets	Unfunded Liability
Public Employees Retirement Fund (PERS)	$58,358	$45,901[(2)]	($12,457)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	208,405	143,930[(3)]	(64,475)

(1) Amounts may not add due to rounding.
(2) Reflects market value of assets as of June 30, 2011.
(3) Reflects actuarial value of assets as of June 30, 2011.
Source: CalPERS State & Schools Actuarial Valuation; CalSTRS Defined Benefit Program Actuarial Valuation.

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

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employee's Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary; (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (currently 12 months for STRS members who retire with 25 years of service); and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

Other Postemployment Benefits

The School District provides postemployment health care benefits, in accordance with School District employment contracts, through a single-employer defined benefit health care plan administered by the School District. The School District contributes a limited amount in respect of premiums incurred by retirees and their dependents until retirees reach age 65.

As of June 30, 2012, the School District had a net obligation in respect of such post-employment benefits of $466,475. See Note 16 to the fiscal year 2011-12 audited financial statements of the School District, portions of which are included as Appendix B hereto.

Joint Powers Agreements

The School District participates in joint ventures under joint powers agreements with the following joint powers authorities (each a "JPA"): the Butte Schools Self-Funded Program ("BSSP"); the North Valley Schools Insurance Group ("NVSIG"); and the Bay Area Schools Insurance Cooperative ("BASIC"). The relationship between the School District and the JPAs is such that the JPAs are not component units of the School District for financial reporting purposes. The JPAs arrange for and provide property and liability, workers' compensation, health benefits, and excess liability coverage for their respective members.

SCHOOL DISTRICT FINANCIAL INFORMATION

The information in this section concerning the School District's general fund 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 School District. The Bonds are payable from the proceeds of an ad valorem *tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE BONDS – Security and Sources of Payment."*

Accounting Practices

The accounting practices of the School District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts.

The School District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the School District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

In addition, the Governmental Accounting Standards Board ("GASB") has released Statement No. 34, which makes certain changes in the annual financial statements for all governmental agencies in the United States who report in accordance with GASB, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. These requirements became effective for the fiscal year ended June 30, 2003 for the School District, as well as for any other governmental agency with annual revenues of $10 million or more but less than $100 million in the first fiscal year after June 15, 1999.

The School District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not requiring a special type of fund. The School District's fiscal year begins on July 1 and ends on June 30.

Financial Statements

The School District's general fund finances the legally authorized activities of the School District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the School District for the fiscal year ended June 30, 2012, and prior fiscal years are on file with the School District and available for public inspection at the Office of the Superintendent of the School District, 429 Magnolia Way, Gridley, California 95948, telephone: (530) 846-4721. Portions of the audited financial statements for the year ended June 30, 2012, are included in Appendix B hereto.

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The following table reflects the School District's general fund revenues, expenditures and fund balances for fiscal years 2007-08 through 2011-12.

AUDITED GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES
Fiscal Years 2007-08 through 2011-12 (1)
Gridley Unified School District

	Audited Actuals 2007-08	Unaudited Actuals 2008-09(2)	Audited Actuals 2009-10	Audited Actuals 2010-11	Audited Actuals 2011-12
REVENUES:					
Revenue limit sources	$11,616,850	$11,689,873	$10,198,087	$10,667,589	$10,568,960
Federal sources	1,613,783	2,163,535	2,336,420	2,134,573	1,803,353
Other State sources	3,387,907	3,329,912	3,752,002	3,591,401	3,661,204
Other local sources	576,317	738,751	673,184	546,233	522,420
Total Revenues	17,194,857	17,922,071	16,959,693	16,939,796	16,555,937
EXPENDITURES:					
Certificated salaries	7,888,134	7,729,996	7,930,647	7,809,334	7,860,094
Classified salaries	2,572,938	2,433,969	2,398,685	2,405,532	2,425,445
Employee benefits	3,222,767	3,162,262	3,093,354	3,131,365	3,080,351
Books & supplies	1,061,961	835,217	907,682	1,030,730	903,493
Services & other operating expenditures	1,278,991	1,130,513	1,296,696	1,120,097	1,634,389
Capital outlay	152,200	47,921	123,438	123,791	294,153
Other outgo	403,852	383,179	339,064	452,738	434,000
Indirect/direct support costs	(25,130)	(36,190)	(36,883)	(32,980)	--
Total Expenditures	16,555,713	15,686,867	16,052,683	16,040,607	16,631,925
Excess (Deficiency) Of Revenues Over Expenditures	639,144	2,235,204	907,010	899,189	(75,988)
Other Financing Sources (Uses):					
Transfers in	--	--	--	--	--
Transfers out	(89,000)	(107,593)	(32,003)	--	--
Net Financing Sources (Uses)	(89,000)	(107,593)	(32,003)	--	--
NET CHANGE IN FUND BALANCE	550,144	2,127,611	875,007	899,189	(75,988)
Fund Balance, Beginning	1,800,410	2,350,554	4,517,157	5,694,663(3)	6,593,852
Fund Balance, Ending	$2,350,554	$4,478,165	$5,392,164	$6,593,852	$6,517,864

(1) For projected general fund revenues, expenditures and changes in fund balance for fiscal year 2012-13, see " – General Fund Budget" below.
(2) Unaudited actual results presented for comparison with other years shown. School District audited financial statements for fiscal year 2008-09 reports results in a different format.
(3) Reflects adjustment for reclassification pursuant to GASB Statement 54.
Source: The School District.

Budget Process

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

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

For both dual and single budgets submitted on July 1, the counties superintendents will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than September 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. 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 for the 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 subsequent two fiscal years.

The School District has never had an adopted budget disapproved by the county superintendent of schools, and has never received a "qualified" or "negative" certification of an Interim Financial Report pursuant to AB 1200.

General Fund Budget

The School District's general fund adopted budgets for fiscal years 2009-10 through 2012-13 and general fund actual results for the fiscal years 2009-10 through 2011-12 are set forth in the following table.

COMPARISON OF GENERAL FUND BUDGETS AND ACTUAL RESULTS
Fiscal Years 2009-10 through 2012-13
Gridley Unified School District

	Adopted Budget 2009-10	Audited Actuals 2009-10	Adopted Budget 2010-11	Audited Actuals 2010-11	Adopted Budget 2011-12	Audited Actuals 2011-12	Adopted Budget 2012-13[1]
REVENUES:							
Revenue limit sources	$10,785,586	$10,198,087	$10,062,306	$10,667,589	$10,557,948	$10,568,960	$9,721,355
Federal sources	2,078,913	2,336,420	1,559,535	2,134,573	1,519,625	1,803,353	1,307,699
Other State sources	3,179,647	3,752,002	3,089,156	3,591,401	3,453,486	3,661,204	3,407,640
Other local sources	426,267	673,184	450,952	546,233	474,288	522,420	452,610
Total Revenues	16,470,413	16,959,693	15,161,949	16,939,796	16,005,347	16,555,937	14,889,304
EXPENDITURES:							
Certificated salaries	7,725,870	7,930,647	7,653,639	7,809,334	7,923,877	7,860,094	7,968,894
Classified salaries	2,425,465	2,398,685	2,372,274	2,405,532	2,468,346	2,425,445	2,419,736
Employee benefits	3,139,330	3,093,354	3,130,902	3,131,365	3,264,462	3,080,351	3,143,115
Books & supplies	1,332,563	907,682	1,078,367	1,030,730	1,173,979	903,493	826,668
Services & other operating expenditures	1,582,367	1,296,696	1,571,325	1,120,097	1,437,864	1,634,389	1,424,695
Capital outlay	105,900	123,438	85,900	123,791	46,000	294,153	68,000
Other outgo	360,801	339,064	479,752	452,738	436,113	434,000	495,362
Indirect/direct support costs	--	(36,883)	--	(32,980)	--	--	(30,000)
Total Expenditures	16,672,296	16,052,683	16,372,159	16,040,607	16,750,641	16,631,925	16,316,470
Excess (Deficiency) Of Revenues Over Expenditures	(201,883)	907,010	(1,210,210)	899,189	(745,294)	(75,988)	(1,427,166)
Other Financing Sources (Uses):							
Transfers in	--	--	--	--	--	--	--
Transfers out	--	(32,003)	--	--	--	--	--
Net Financing Sources (Uses)	--	(32,003)	--	--	--	--	--
NET CHANGE IN FUND BALANCE	(201,883)	875,007	(1,210,210)	899,189	(745,294)	(75,988)	(1,427,166)
Fund Balance, Beginning	4,517,157	4,517,157	5,694,663[2]	5,694,663[2]	6,593,852	6,593,852	6,517,864
Fund Balance, Ending	$4,315,274	$5,392,164	$4,484,453	$6,593,852	$5,848,558	$6,517,864	$5,090,698

(1) From the School District's adopted budget for fiscal year 2012-13.
(2) Reflects adjustment for reclassification pursuant to GASB Statement 54.
Source: The School District.

State Funding of Education

The information in this section concerning State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable solely from the proceeds of an ad valorem *tax which is required to be levied by the County in an amount sufficient for the payment thereof.*

Most California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts.

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of average daily attendance ("A.D.A."). School districts that can improve their actual attendance rate will receive additional funding.

Generally, these apportionments of basic and equalization aid amount to the difference between a district's revenue limit and its property tax allocation. The revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

The following table shows the School District's average daily attendance, deficited revenue limit per A.D.A., and enrollment for the last five years, as well as projected figures for fiscal years 2011-12.

AVERAGE DAILY ATTENDANCE, REVENUE LIMIT, AND ENROLLMENT
Fiscal Years 2006-07 through 2012-13
Gridley Unified School District

Fiscal Year	Average Daily Attendance[1]	Revenue Limit Per A.D.A.[2]	Enrollment
2006-07	1,950	$5,656.87	2,080
2007-08	1,962	5,908.87	1,969
2008-09	2,012	5,748.57	2,117
2009-10	1,992	5,306.82	2,155
2010-11	1,989	5,311.79	2,074
2011-12	1,979	5,276.24	2,072
2012-13[3]	1,979	5,276.24	2,113

Note: All amounts are rounded to the nearest whole number.
(1) Data based on state legislation which reconfigured Average Daily Attendance to represent actual attendance without regard to excused absences.
(2) The State's practice of deficit revenue limit funding, which reduced the amount of revenue limit funds received by school districts, was eliminated effective in fiscal year 2000-01, reinstated beginning in fiscal year 2003-04, eliminated again effective in fiscal year 2006-07, and reinstated again in fiscal year 2008-09.
(3) Projected.
Source: The School District.

Revenue Sources

Major revenue sources of the School District are described below.

Revenue Limit Sources. As described above, funding of the School District's revenue limit is provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amount to the difference between the School District's revenue limit and its local property tax revenues.

Certain schools districts, known as "basic aid" districts, have local property tax collections of such a large magnitude that, when compared to the district's total revenue limit, result in the receipt of the minimum State aid of $120 per pupil. This amount is defined in the State's constitution as basic aid. The implication for basic aid districts is that the legislatively determined annual cost of living adjustment and other politically determined factors are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The School District is not a basic aid district.

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

The revenue limit sources constituted approximately 63.0% of general fund revenues in fiscal year 2010-11, 63.8% of such revenues in fiscal year 2011-12, and are budgeted to be 65.3% of such revenues in fiscal year 2012-13.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as the No Child Left Behind Act, Drug Free Schools, and the free and reduced lunch program. The federal revenues, most of which are restricted, constituted approximately 12.6% of general fund revenues in fiscal year 2010-11, 10.9% of such revenues in fiscal year 2011-12, and are budgeted to be 8.8% of such revenues in fiscal year 2012-13.

Other State Revenues. As discussed above, the School District receives State apportionment of basic and equalization aid in an amount equal to the difference between the School District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the School District receives some other State revenues. These other State revenues are primarily restricted revenues funding items such as the Class Size Reduction Program, Economic Impact Aid, mandated cost reimbursements and instructional materials, among others. Other State revenues constituted approximately 21.2% of general fund revenues in fiscal year 2010-11, 22.1% of such revenues in fiscal year 2011-12, and are budgeted to be 22.9% of such revenues in fiscal year 2012-13.

Other Local Revenues. In addition to property taxes, the School District receives additional local revenues from items such as leases and rentals, interest earnings, interagency services, and other local sources. Other local revenues constituted approximately 3.2% of general fund revenues in fiscal year 2010-11, 3.2% of such revenues in fiscal year 2011-12, and are budgeted to be 3.0% of such revenues in fiscal year 2012-13.

School District Debt Structure

Changes in Long-Term Debt. A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2012 is shown below:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Compensated absences	$41,155	--	$10,585	$30,570
Note payable	27,596	--	27,596	--
Net OPEB obligation	343,770	$253,090	130,385	466,475
Total	$412,521	$253,090	$168,566	$497,045

State Budget Measures

The following information concerning the State's budgets has been obtained from publicly available information which the School District believes to be reliable; however, the School District does not guarantee the accuracy or completeness of this information and has not independently verified such information.

2012-13 Budget. On June 27, 2012, the Governor signed into law the State budget for fiscal year 2012-13 (the "2012-13 Budget"). The Department of Finance has released its summary of the 2012-13 Budget (the "Department of Finance Report"). The following information is drawn from the Department of Finance Report.

The 2012-13 Budget seeks to close a budget gap of $15.7 billion through a combination of measures totaling $16.6 billion. Specifically, the 2012-13 Budget authorizes $8.1 billion of expenditure reductions (including $1.9 billion in reductions to Proposition 98 spending), $6 billion of revenue increases, and $2.5 billion of other measures. The 2012-13 Budget assumed voter approval of a modified tax initiative proposed by the Governor in his May revision to the proposed State budget (the "May Revision"). The tax initiative, labeled as "Proposition 30," was approved by the voters at the November 6, 2012 general election. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 30." The 2012-13 Budget estimates that the tax initiative will generate approximately $8.5 billion through fiscal year 2012-13. The 2012-13 Budget assumes an attendant increase of $2.9 billion to State funding for school districts and community colleges, resulting in a net benefit to the State's general fund of $5.6 billion.

With the implementation of all measures, the 2012-13 Budget assumes, for fiscal year 2011-12, total revenues of $86.8 billion and expenditures of $87.0 billion. The State is projected to end fiscal year 2011-12 with a total budget deficit of $3.6 billion. For fiscal year 2012-13, the 2012-13 Budget projects total revenues of $95.9 billion and authorizes total expenditures of $91.3 billion. The State is projected to end the 2012-13 fiscal year with a total budget surplus of $948 million.

The 2012-13 Budget authorized an additional $6 billion of trigger reductions which were to become effective in the event Proposition 30 did not pass. The trigger reductions included approximately $5.4 billion of reductions to Proposition 98 funding for schools and community colleges. Additional triggers included the following: (i) $250 million reduction to each of the University of California and California State University systems; (ii) $50 million reduction to the Department of Developmental Services; (iii) $20 million reflecting the elimination of certain city police grants; (iv) $5 million reduction to local water safety patrols; (v) $10 million reduction to the Department of Forestry and Fire Protection; (vi) $6.6 million reduction to Department of Water Resources flood control programs; which would reduce channel and levee maintenance and floodplain mapping; (vii) $1.1 million reduction to the departments of Parks and Recreation and Fish and Game reflecting a reduced number of state public safety officers; (viii) $1.4 million reduction reflecting the elimination of State beach lifeguards; and (ix) $1 million reduction to Department of Justice law enforcement programs.

For fiscal year 2012-13, the Proposition 98 minimum funding guarantee is set at $53.6 billion, including $36.8 billion from the State general fund. This funding level reflects the following significant adjustments and changes:

- *Proposition 98 Adjustments.* A funding decrease of approximately $630 million due to (1) eliminating the hold-harmless adjustment provided to schools from the elimination of the sales tax on gasoline in fiscal year 2010-11, and (2) a rebenching of the minimum funding guarantee to account for the exclusion of child care programs and the inclusion of special education mental health services from within the guarantee, as well as new and existing property tax shifts. Additionally, the 2012-13 Budget reduces fiscal year 2012-13 appropriations for a number of different programs by $220.1 million, backfilling them with available one-time funds.

- *Quality Education Investment Act ("QEIA").* The 2012-13 Budget authorizes the use of a fiscal year 2011-12 overappropriation of the Proposition 98 minimum funding guarantee to prepay legal settlement obligations required by QEIA. As a result, the 2012-13 Budget estimates a one-time savings during fiscal year 2012-13 of $450 million. The 2012-13 Budget also authorizes the use of this overappropriation to prepay QEIA obligations in fiscal years 2013-14 and 2014-15 to achieve projected savings in such fiscal years of $181 million and $40.8 million, respectively.

- *K-12 Deferral Reduction.* An increase of $2.1 billion in Proposition 98 funding to reduce K-12 inter-fiscal year apportionment deferrals from $9.5 billion to $7.4 billion. This deferral reduction was contingent on voter approval of Proposition 30.

- *Charter Schools*. A funding increase of $53.7 million to the Proposition 98 funding for charter school categorical programs to fund growth in charter school enrollment. In addition, the 2012-13 Budget implementing legislation expands the ability of school districts to convey surplus property to charter schools, while also increasing financing assistance to charter schools by allowing county treasurers to provide them with short-term loans, and by authorizing charter schools to participate in short-term tax and revenue anticipation note borrowing mechanisms already available to schools and county offices of education.

- *Educational Mandates*. An increase of $86.2 million funding support for K-12 educational mandates through a new voluntary block grant. Participating school districts and county offices of education would receive a $28 per-student allocation, while participating charter schools would receive $14 per student. Districts and county offices of education that choose not to participate in this block grant program would retain their right to submit claims for reimbursement, subject to audits by the State Controller.

- *State Preschool Programs*. The 2012-13 Budget includes a number of adjustments to State preschool programs, including (i) an increase of $163.9 million in Proposition 98 funding to cover the cost of part-day preschool services, (ii) an increase of $3.4 million to reflect increased fee assessments for preschool programs on families that are currently exempt from such fees (this is expected to offset Proposition 98 expenditures by a like amount); (iii) a decrease of $30 million in Proposition 98 funding to reflect an 8.7% across-the-board reduction to general child care programs, and (iv) a decrease of $11.9 million to reflect the suspension of the statutory cost of living adjustment for preschool programs.

In addition, the 2012-13 Budget assumes an increase of $1.3 billion in local property taxes for fiscal year 2012-13 resulting from the distribution of property taxes previously allocated to redevelopment agencies. These increased local property taxes would offset Proposition 98 spending by an identical amount. The 2012-13 Budget notes that the May Revision assumed that K-14 school districts would receive $818 million in property tax revenues during fiscal year 2011-12 to offset State expenditures on Proposition 98 funding. The full amount of these payments were not made due to the timing of the Supreme Court's ruling in *Matosantos*, as well as inconsistent interpretations of ABx1 26 at the local level. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A and Proposition 22." The 2012-13 Budget seeks to create a one-time process to recapture these property tax revenues by requiring county auditor-controllers to bill successor agencies for the amounts that should have been distributed to the affected taxing agencies.

Additional information regarding the 2012-13 Budget may be obtained from the Department of Finance at www.dof.ca.gov. However, such information is not incorporated herein by any reference.

Proposed 2013-14 Budget. On January 10, 2013, the Governor released his proposed State budget for fiscal year 2013-14 (the "Proposed Budget"). The following information is drawn from the LAO's summary of the Proposed Budget.

The Proposed Budget reflects a projected improvement to State finances due to a continuing modest economic recovery, prior budgetary actions, and voter approval of certain revenue-raising measures at the November 6, 2012 general election. For fiscal year 2012-13, the Proposed Budget currently projects year-end revenues of $95.4 billion and expenditures of $93 billion. The State is currently expected to end the current fiscal year with a surplus of $167 million. For fiscal year 2013-14, the Proposed Budget projects revenues of $98.5 billion and expenditures of $97.7 billion. The State is projected to end fiscal year 2013-14 with a $1 billion surplus. The Governor's multi-year forecast projects that revenues will continue to exceed expenditures annually, accumulating to a projected $2.5 billion general fund surplus by fiscal year 2016-17.

For fiscal year 2012-13, the Proposed Budget revises the Proposition 98 minimum funding guarantee at $53.5 billion, approximately $54 million less than the level set by the current State budget. To bring Proposition 98 spending in line with the reduced guarantee, the Proposed Budget reclassifies a fiscal year 2012-13 appropriation towards prefunding legal settlement obligations under the Quality Education Investment Act of 2006 (the "QEIA"). For fiscal year 2013-14, the minimum funding guarantee is set at $56.2 billion, including $40.9 billion from the State general fund. This represents a net increase of $2.7 billion (or 9%) over the revised funding level for fiscal year 2012-13. The increase in spending is driven largely by year-to-year increases in baseline State revenues and the minimum funding guarantee's share of Proposition 30 revenues.

Proposition 98 funding for K-12 education in fiscal year 2013-14 is set at $49.2 billion, including $36.1 billion from the State general fund. This represents an increase of approximately $2.1 billion (or 4%) from the prior year. Significant features include the following:

- *Deferral Reduction.* The 2012-13 Budget provides $1.9 billion to pay down school district and community college apportionment deferrals. The Proposed Budget includes a plan to eliminate all remaining apportionment deferrals by fiscal year 2016-17.

- *Growth Funding.* The 2012-13 Budget provides $63 million to fund a 1.65% cost-of-living adjustment to certain categorical programs, including special education, child nutrition, and California American Indian Education Centers. Cost-of-living adjustments for school district and county office of education revenue limits will be provided through the proposed funding increase designed to implement a new K-12 funding formula (described below). The Proposed Budget also funds a 0.10% increase in K-12 ADA, but assumes no increase in funded enrollment levels at community colleges.

- *New K-12 Funding Formula.* The Proposed Budget would significantly restructure State funding for K-12 education by consolidating revenue limits and almost all categorical programs into a single funding formula. This formula would provide a base funding grant per pupil, with supplemental funding for school districts that serve English learners and students from low income families, provide lower class sizes in grades K-3, or offer career technical education classes in high school. The Proposed Budget allocates $1.6 billion to begin increasing funding levels to a target base rate, with supplemental grants adjusted in tandem with the base increase. The Proposed Budget estimates the new formula will be fully implemented by fiscal year 2019-20.

- *Energy Efficiency Projects*. The 2012-13 Budget allocates supplemental corporate tax revenues raised by Proposition 39 (approved at the November 2012 general election) to schools and community colleges. Proposition 39 requires most interstate businesses to determine their taxable income using a single sales factor method, and provides that all revenues raised from the measure be transferred to a Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects. The Proposed Budget would allocate all Proposition 39-related funding over the next five years exclusively to schools and community colleges, in an amount equal to $450 million in fiscal year 2012-13 and $550 million annually thereafter. For fiscal year 2013-14, this would include $400.5 million for school districts. Under the proposal, the California Department of Education and California Community College Chancellor's Office, in consultation with the California Energy Commission and California Public Utilities Commission, would develop guidelines for schools and community colleges in prioritizing the use of the funds.

- *Adult Education.* The Proposed Budget includes several changes to adult education funding, including narrowing State support to core instructional programs such as adult elementary and secondary education, vocational training, English as a second language, and citizenship. The Proposed Budget would also eliminate school district adult education categorical programs and consolidate the associated funding (approximately $600 million) into the proposed new K-12 funding formula. Adult education, under the Governor's plan, would be funded entirely through the community college system. The Proposed Budget would provide $300 million to create a new adult education categorical program within the statewide community college budget. Funds would be distributed to colleges based on the number of students served in the prior fiscal year. While community colleges would be responsible for administering adult education, they would be authorized to contract with school districts to provide instruction through the latter's adult schools.

- *K-12 Educational Mandates.* The Proposed Budget provides $100 million to augment the existing block grant program, reflecting the addition of two large educational mandates within the program: the Graduation Requirements ("GR") mandate and Behavioral Intervention Plans ("BIP"). Unlike other mandates included in the block grant program, the Proposed Budget does not provide school districts the option to submit independent claims for reimbursement in connection with GR and BIP.

- *Retiring K-14 Obligations.* The Proposed Budget would use half of the projected year-to-year growth in Proposition 98 spending in fiscal years 2013-14 through 2015-16 to reduce outstanding obligations to schools and community colleges, including the reduction of all apportionment deferrals, funding settle-up payments to reduce outstanding mandate claims, and retiring the State's obligations associated with the Emergency Repair Program and the QEIA.

- *Redevelopment Agency Funds.* The Proposed Budget assumes lower State general fund savings from the distribution of offsetting residual property tax revenues and redevelopment agency liquid assets. For the current year, the Proposed Budget projects that redevelopment-related distributions will be $1.1 billion less than what was assumed by the State budget for fiscal year 2012-13. For fiscal year 2013-14, the Proposed Budget projects that such distributions will be $494 million less than previously assumed. The LAO notes that, while the Governor's projections are reasonable, the process for dissolving redevelopment agencies has yet to be fully implemented, subjecting associated State general fund savings projections to considerable uncertainty.

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

Recent Litigation Regarding State Budgetary Provisions. On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified

School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the County of San Francisco (the "CSBA Petition"). The petitioners allege that the State budget for fiscal year 2011-12 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. 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 School District makes no representations regarding the viability of the claims in the CSBA Petition, nor can the School District predict whether the petitioners will be successful. Moreover, the School District makes no representations as to how a final decision by the Superior Court would affect the State's ability to fund education in fiscal year 2012-13, or in future fiscal years.

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

TAX MATTERS

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

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

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

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

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

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

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

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

The proposed form of opinion of Bond Counsel for the Bonds is included in Appendix D hereto.

LEGAL MATTERS

Continuing Disclosure

The School District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the School District and Improvement District No. 1 (each an "Annual Report") by not later than nine months following the end of the School District's fiscal years (which shall be March 31 of each year, so long as the School District's fiscal year ends on June 30), commencing with the report for the 2012-13 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of material events will be filed by the School District with the Municipal Securities Rulemaking Board. The specific nature of the information to be made available and to be contained in the notices of enumerated events is summarized under the caption "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

The School District has not in the past been subject to an obligation to file annual reports and notices of enumerated events notices pursuant to the Rule.

Bank Qualified

The School District has designated the Bonds as "qualified tax-exempt obligations," thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution's interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Code.

Legality for Investment in California

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

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate or certificates to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The School District is not aware of any litigation pending or threatened questioning the political existence of Improvement District No. 1 or the School District or contesting Improvement District No.1's ability to levy *ad valorem* taxes for payment of the Bonds or contesting the School District's ability to request the issuance the Bonds.

The School District is occasionally subject to lawsuits and claims in the ordinary course of its operations. In the opinion of the School District, the aggregate amount of the uninsured liabilities of the School District under these lawsuits and claims will not materially affect the finances of the School District.

Information Reporting Requirements

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

Financial Statements

Excerpts from the financial statements with supplemental information for the year ended June 30, 2012, the independent auditor's report of the School District, and the related statements of activities and of cash flows for the year then ended, and the report dated December 6, 2012 of Tittle & Company, LLP, independent accountants (the "Auditor"), are included in this Official Statement as Appendix B. In connection with the inclusion of the financial statements and the report of the Auditor thereon in Appendix B to this Official Statement, the School District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, as Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Denver, Colorado. Stradling Yocca Carlson & Rauth and Kutak Rock LLP will receive compensation contingent upon the sale and delivery of the Bonds.

RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), is expected to assign a rating of "AA-" (Stable Outlook) to the Bonds, based upon the issuance of the Policy by AGM. See "THE BONDS – Bond Insurance – Assured Guaranty Municipal Corp." S&P has assigned an underlying rating of "A+" to the Bonds.

Such ratings reflect only the views of S&P and any desired explanation of the significance of such ratings should be obtained from S&P at the following address: Standard & Poor's, a Standard & Poor's Financial Services LLC business, 55 Water Street, 45th Floor, New York, NY 10041. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter") pursuant to a purchase contract by and among the School District and the Underwriter, at a purchase price of $2,345,740.24 (which is equal to the principal amount of the Bonds of $2,455,000.00, less net original issue discount of $59,415.85, less Underwriter's discount of $31,915.00, and less a bond insurance premium of $17,928.91 to be paid by the Underwriter to AGM).

The purchase contract for the Bonds provide that the Underwriter will purchase all of the applicable Bonds if any are purchased, the obligations to make such purchases being subject to certain terms and conditions set forth in said agreements, the approval of certain legal matters by Bond Counsel, and certain other conditions.

The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Bond Resolution providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from School District records. Appropriate officials of Improvement District No. 1 and the School District, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the School District's Board of Trustees.

GRIDLEY UNIFIED SCHOOL DISTRICT

By /s/ Rick Rubino
Superintendent

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APPENDIX A

VICINITY OF IMPROVEMENT DISTRICT NO. 1 AND THE SCHOOL DISTRICT – LOCATION MAP

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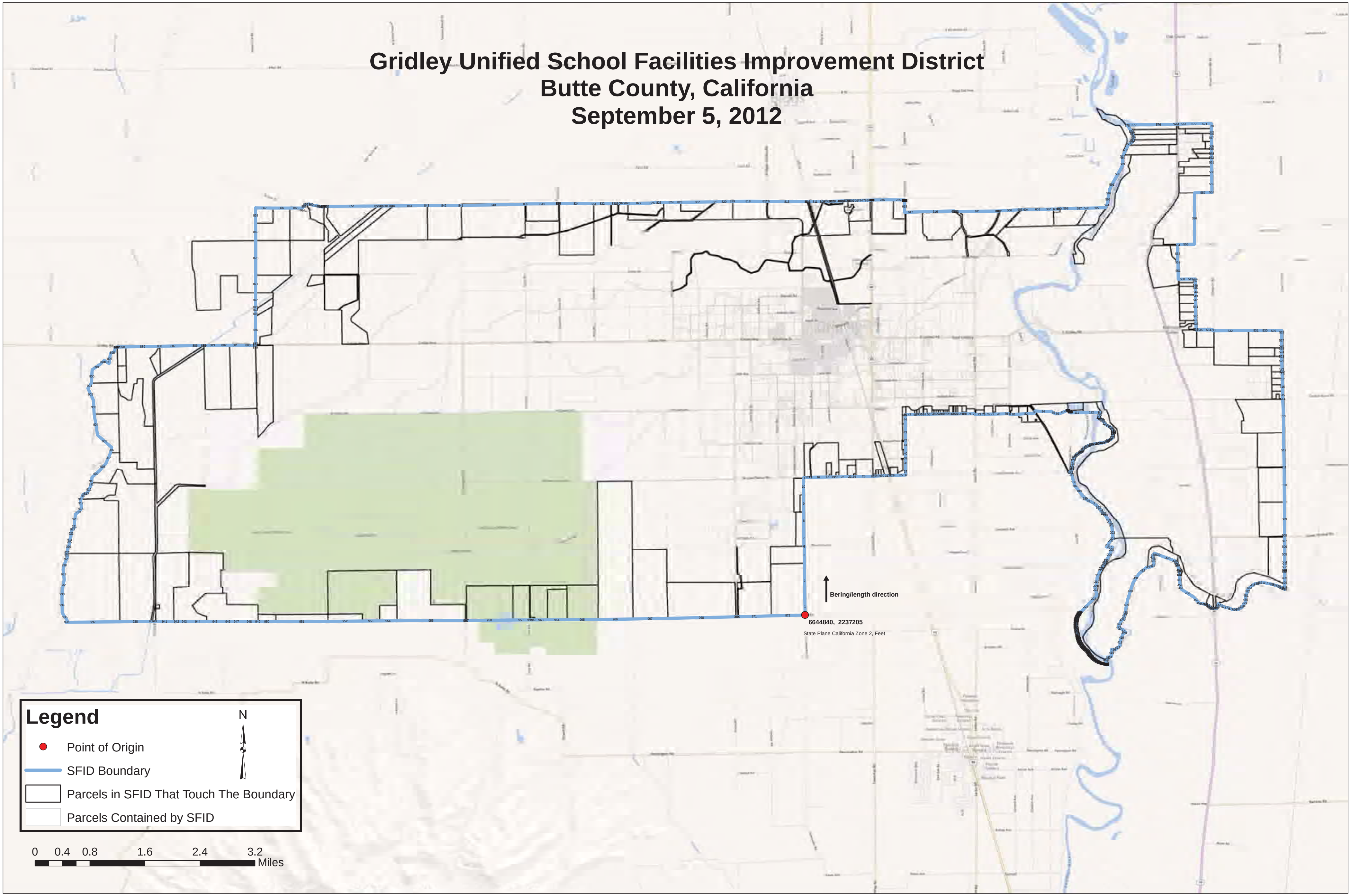
Gridley Unified School Facilities Improvement District
Butte County, California
September 5, 2012
Bering/length direction
6644840, 2237205
State Plane California Zone 2, Feet
Legend
N
Point of Origin
SFID Boundary
Parcels in SFID That Touch The Boundary
Parcels Contained by SFID
0 0.4 0.8 1.6 2.4 3.2
Miles

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APPENDIX B

EXCERPTS FROM THE 2011-12 AUDITED FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT

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GRIDLEY UNIFIED SCHOOL DISTRICT

ANNUAL AUDIT REPORT

June, 30, 2012

TITTLE
& COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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FINDINGS AND QUESTIONED COSTS SECTION

FINANCIAL SECTION

TITTLE & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS
TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Gridley Unified School District
Gridley, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gridley Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

265 Airpark Blvd., Suite 100, Chico, California 95973 ■ Voice 530.898.8647 ■ Fax 530.893.0302

INDEPENDENT AUDITORS' REPORT
Continued

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress for other postemployment benefits plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying financial information listed as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Tittle & Company, LLP

December 6, 2012

This section of the Gridley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the independent auditors' report and the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total current year revenues exceeded total current year expenses by $104,639.
- Capital assets, net of depreciation, increased by $122,264.
- Long-term debt has increased by $84,524.
- Enrollment in the District increased by two students based on CBEDS.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, General Fund expenditures and other financing uses totaled $16,631,925 at June 30, 2012; the District has available reserves of $6,144,749 in the General Fund, which represents a reserve of 37%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report consists of three separate parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two financial statements, provide both short-term and long-term information about the District's overall financial position.

- Fund financial statements that focus on individual parts of the District reporting the District's operations in more detail than the government-wide financial statements.
  - The governmental fund financial statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - The proprietary fund financial statements offer short and long-term financial information about the activities of the District that operate like businesses.
  - The fiduciary fund financial statements provide information about the financial relationships in which the District acts solely as an agent or trustee for the benefit of others to whom the resources belong.

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

Reporting the District as a Whole

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

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

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

In the statement of net assets and the statement of activities, the activities are divided into two categories:

Governmental Activities

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

Business-Type Activities

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

Reporting the District's Most Significant Funds

The District's fund financial statements provide detailed information about the District's most significant funds, not the District as a whole. Some funds are required to be established by state law and bond covenants. However, the District establishes other funds as needed to control and manage money for specific purposes.

Governmental Funds

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

Proprietary Funds

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. Proprietary funds are reported in the same way as the government-wide financial statements. The District does not operate a proprietary fund.

Fiduciary Funds

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net assets were $10,996,070 for the fiscal year ended June 30, 2012. Of this amount $6,454,729 is unrestricted. Restricted net assets are reported separately and are not available for day-to-day operations or their use is constrained to a particular purpose by statutes, rules or entities with authority over the LEA.

Table 1: Statement of Net Assets – Governmental Funds

	Governmental Activities		Percentage Change
	2011	2012	2011-2012
ASSETS			
Cash and investments	$ 6,020,900	$ 5,466,815	-9.2%
Accounts receivable	3,801,485	4,009,614	5.5%
Inventories - supplies and materials	10,831	10,831	0.0%
Capital assets - net	2,892,083	3,014,347	4.2%
Total Assets	$ 12,725,299	$ 12,501,607	-1.8%
LIABILITIES			
Accounts payable and other current liabilities	$ 1,490,098	$ 1,008,492	-32.3%
Long-term obligations	343,770	497,045	44.6%
Total Liabilities	$ 1,833,868	$ 1,505,537	-17.9%
NET ASSETS			
Invested in capital assets - net of related debt	$ 2,864,487	$ 2,517,302	-12.1%
Restricted	1,936,498	2,024,039	4.5%
Unrestricted	6,090,446	6,454,729	6.0%
Total Net Assets	$ 10,891,431	$ 10,996,070	1.0%

Table 2: Statement of Activities - Governmental Funds

	Governmental Activities 2011	Governmental Activities 2012	Percentage Change 2011-2012
REVENUES			
PROGRAM REVENUES			
Charges for services	$ 244,377	$ 257,689	5.4%
Operating grants and contributions	4,085,847	3,773,806	-7.6%
GENERAL REVENUES			
Federal and state aid not restricted	10,372,214	10,313,185	-0.6%
Property taxes	2,929,847	2,944,179	0.5%
Other	283,334	474,136	67.3%
Total Revenues	17,915,619	17,762,995	-0.9%
EXPENSES			
Instruction	10,394,948	10,347,230	-0.5%
Instruction-related services	1,320,085	1,421,682	7.7%
Pupil services	2,209,968	2,413,936	9.2%
Ancillary	275,088	286,472	4.1%
General administration	910,562	1,026,389	12.7%
Plant services	1,487,532	1,586,757	6.7%
Community services	2,111	10,667	405.3%
Other outgo	452,738	470,180	3.9%
Interest on long-term debt	3,379	1,741	-48.5%
Depreciation (unallocated-excludes direct expense)	90,718	93,302	2.8%
Total Expenses	17,147,129	17,658,356	3.0%
Change in Net Assets	$ 768,490	$ 104,639	-86.4%

Governmental Activities

Table 3: Net Cost of Governmental Activities:

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2011	2012	2011-2012	2011	2012	2011-2012
Instruction	$10,394,948	$10,347,230	-0.5%	$ 8,060,685	$ 8,416,234	4.4%
Supervision of instruction	1,320,085	1,421,682	7.7%	1,293,373	1,375,353	6.3%
Pupil services	2,209,968	2,413,936	9.2%	737,313	762,921	3.5%
General administration	910,562	1,026,389	12.7%	796,655	95,391	-88.0%
Maintenance and operations	1,487,532	1,586,757	6.7%	1,471,532	1,571,024	6.8%
Ancillary services	275,088	286,472	4.1%	238,144	253,012	6.2%
Community services	2,111	10,667	405.3%	2,111	10,667	405.3%
Interest on long-term debt	3,379	1,741	-48.5%	3,379	1,741	-48.5%
Other outgo	452,738	470,180	3.9%	122,995	207,416	68.6%
Depreciation (unallocated)	90,718	93,302	2.8%	90,718	93,302	2.8%
Total	$17,147,129	$17,658,356	3.0%	$12,816,905	$12,787,061	-0.2%

The above table presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's general revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Governmental Funds

The District's governmental funds reported a combined fund balance of $8,478,786, which is an increase of $66,899 from the previous year. The following is a summary of the District's fund balances.

Table 4: Governmental Fund Balances

	2011	2012	Increase (Decrease)
General	$ 6,289,135	$ 6,210,284	$ (78,851)
Cafeteria Special Revenue	188,036	173,953	(14,083)
Special Reserve Special Revenue	304,717	307,580	2,863
Capital Facilities	1,629,981	1,786,951	156,970
Total	$ 8,411,869	$ 8,478,768	$ 66,899

The Cafeteria Special Revenue Fund decrease is primarily from increased expenditures for food and equipment.

The Capital Facilities Fund increase is due to interest earnings and the collection of developer fees.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May revise figures and updated 45 days after the state approves its final budget. In addition, the District revises its budget at first and second interim. The budget amendments for the year typically fell into the following categories:

- Adjustment of revenue to actual enrollment and ADA data.
- Inclusion of new grants.
- Addition of grant and entitlement funds from the prior year.

CAPITAL ASSETS AT YEAR END

By June 30, 2012, the District had invested $9,458,515 in a broad range of capital assets including land, school buildings, equipment, and administrative offices.

Table 5: Capital Assets – Governmental Funds

	Governmental Activities		Percentage Change
	2011	2012	2011-2012
Land	$ 583,206	$ 583,206	0.0%
Sites improvements	1,335,771	1,441,015	7.9%
Buildings and improvements	5,683,542	5,702,998	0.3%
Furniture and equipment	1,734,266	1,731,296	-0.2%
Subtotal	9,336,785	9,458,515	1.3%
Less: Accumulated depreciation	(6,444,702)	(6,444,168)	0.0%
Total Capital Assets	$ 2,892,083	$ 3,014,347	4.2%

OUTSTANDING DEBT AT YEAR END

Table 6: Outstanding Debt – Governmental Funds

	Governmental Activities		Percentage Change
	2011	2012	2011-2012
Net OPEB obligation	$ 343,770	$ 466,475	35.7%
Note payable	27,596	-	-100.0%
Compensated absences	41,155	30,570	-25.7%
Total Long-Term Debt	$ 412,521	$ 497,045	20.5%

The decrease in compensated absences is due to employees utilizing their accumulated vacation days. Note payable decreased with normally scheduled payments.

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

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The state budget included triggers that launch mid-year budget cuts should the Governor's tax initiative fail in November. It is estimated that the District could lose up to $441 per ADA, or approximately $860,000 if this happens.
- In absence of mid-year cut, state revenue limit funding will remain flat-funded in the subsequent year, with revenue limit COLA of 3.24% and a deficit factor of 22.72%.
- District enrollment has been consistent. The revenue limit will be funded on prior year's ADA.
- Due to the State implementation of revenue limit funding deferrals, the district will continue to receive 29% of its funding after the end of the fiscal year.
- Special education revenue is anticipated to decrease by 4% due to change in the SELPA allocation formula.
- The district will be selling the elementary bond in the 2012-2013 year. Improvements to the elementary sites will begin once funding is in place.
- There may be unpredictable increases in fuel and electric costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Heather Naylor, Chief Business Official
Gridley Unified School District
429 Magnolia Street
Gridley, CA 95948

GRIDLEY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

		Governmental Activities
ASSETS		
Cash and investments	$	5,466,815
Accounts receivable		23,307
Due from other governments		3,986,307
Stores inventory		10,831
Capital assets:		
Land		583,206
Improvement of sites		1,441,015
Buildings		5,702,998
Equipment		1,731,296
Less accumulated depreciation		(6,444,168)
Total Assets	$	12,501,607
LIABILITIES		
Accounts payable	$	900,613
Due to other governments		97,171
Deferred revenue		10,708
Long-term liabilities:		
Due within one year		30,570
Due in more than one year		466,475
Total Liabilities	$	1,505,537
NET ASSETS		
Invested in capital assets, net of related debt	$	2,517,302
Restricted for:		
Capital projects		1,786,951
Educational programs		237,088
Unrestricted		6,454,729
Total Net Assets	$	10,996,070

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

GRIDLEY UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
Instruction	$ 10,347,230	$ 8,831	$ 1,922,165	$ (8,416,234)
Instruction-related services:				
Supervision of instruction	52,146	-	35,380	(16,766)
Instructional library, media and technology	224,910	-	10,949	(213,961)
School site administration	1,144,626	-	-	(1,144,626)
Pupil services:				
Home-to-school transportation	564,882	16,225	358,487	(190,170)
Food services	891,317	209,886	682,380	949
All other pupil services	957,737	3,781	380,256	(573,700)
General administration:				
Data processing services	2,080	-	-	(2,080)
All other general administration	1,024,309	8,669	82,529	(933,111)
Plant services	1,586,757	3,701	12,032	(1,571,024)
Ancillary services	286,472	765	32,695	(253,012)
Community services	10,667	-	-	(10,667)
Interest on long-term debt	1,741	-	-	(1,741)
Other outgo	470,180	5,831	256,933	(207,416)
Depreciation (unallocated - excludes direct expense)	93,302	-	-	(93,302)
Total Governmental Activities	$ 17,658,356	$ 257,689	$ 3,773,806	(13,626,861)
General Revenues				
Property taxes - levied for general purposes				2,914,042
Property taxes - levied for other specific purposes				30,137
Federal and state aid not restricted to specific purposes				10,313,185
Interest and investment earnings				57,372
Interagency revenues				95,316
Miscellaneous				321,448
Total General Revenues				13,731,500
Change in Net Assets				104,639
Net Assets - July 1, 2011				10,891,431
Net Assets - June 30, 2012				$ 10,996,070

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

GRIDLEY UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
ASSETS				
Cash and investments	$ 3,635,717	$ 1,781,151	$ 49,947	$ 5,466,815
Accounts receivable	17,507	5,800	-	23,307
Due from other governments	3,867,119	-	119,188	3,986,307
Due from other funds	13,578	-	41,648	55,226
Stores inventory	-	-	10,831	10,831
Total Assets	$ 7,533,921	$ 1,786,951	$ 221,614	$ 9,542,486
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 866,530	$ -	$ 34,083	$ 900,613
Due to grantor governments	97,171	-	-	97,171
Due to other funds	41,648	-	13,578	55,226
Deferred revenue	10,708	-	-	10,708
Total Liabilities	1,016,057	-	47,661	1,063,718
FUND BALANCES				
Nonspendable	2,400	-	11,331	13,731
Spendable				
Restricted	63,135	1,786,951	162,622	2,012,708
Unassigned	6,452,329	-	-	6,452,329
Total Fund Balances	6,517,864	1,786,951	173,953	8,478,768
Total Liabilities and Fund Balances	$ 7,533,921	$ 1,786,951	$ 221,614	$ 9,542,486

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

GRIDLEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND
BALANCES TO GOVERNMENT-WIDE NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		$ 8,478,768
Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:		
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds. The historical cost of the assets is $9,458,515 and the accumulated depreciation is $6,444,168.		3,014,347
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Compensated absences payable	$ 30,570	
Net OPEB obligation	466,475	(497,045)
Total Net Assets - Governmental Activities		$ 10,996,070

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

GRIDLEY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
REVENUES				
Federal revenue	$ 1,803,353	$ -	$ 664,705	$ 2,468,058
Revenue limit sources	7,664,027	-	-	7,664,027
Property taxes	2,904,933	-	-	2,904,933
Other state revenue	3,661,204	-	56,432	3,717,636
Other local revenue	522,420	263,505	222,510	1,008,435
Total Revenues	16,555,937	263,505	943,647	17,763,089
EXPENDITURES				
Current				
Instruction	10,243,358	-	-	10,243,358
Instruction related services	1,390,566	-	-	1,390,566
Pupil services	1,716,235	-	-	1,716,235
Food services	-	-	905,582	905,582
General administration	933,114	-	36,180	969,294
Plant services	1,544,795	8,872	15,968	1,569,635
Facility acquisition and construction	61,961	68,283	-	130,244
Ancillary services	261,049	-	-	261,049
Community Services	10,667	-	-	10,667
Transfers between agencies	470,180	-	-	470,180
Debt service				
Principal	-	27,596	-	27,596
Interest and other charges	-	1,784	-	1,784
Total Expenditures	16,631,925	106,535	957,730	17,696,190
Net Change in Fund Balances	(75,988)	156,970	(14,083)	66,899
Fund Balances - July 1, 2011	6,593,852	1,629,981	188,036	8,411,869
Fund Balances - June 30, 2012	$ 6,517,864	$ 1,786,951	$ 173,953	$ 8,478,768

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

GRIDLEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF NET CHANGE IN FUND
BALANCES TO CHANGE IN NET ASSETS
JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds	$ 66,899
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:	
Capital outlays are reported in governmental funds as expenditures in the period when the assets are acquired. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay ($391,783) exceeds depreciation expense ($239,761) in the period.	152,022
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(29,758)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	27,596
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, compensated absences are measured by the amount paid during the year. The difference between compensated absences paid and earned was:	10,585
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:	(122,705)
Total Change in Net Assets - Governmental Activities	$ 104,639

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

GRIDLEY UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Fund Student Body
ASSETS	
Cash on hand and in banks	$ 125,578
Accounts receivable - other	92
Total Assets	$ 125,670
LIABILITIES	
Accounts payable - vendors	$ 16,612
Due to student groups	109,058
Total Liabilities	$ 125,670

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The District is governed by an elected seven member board. The District operates two elementary schools, one middle school, one high school, one continuation school, one community day school and an adult education program in Butte County, California.

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 accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Government activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each major function/program of the District's governmental activities. Direct expenses are those that are specifically associated with a program. Program revenues include (a) fees, fines, and charges paid by recipients of goods or services offered by the major programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and unrestricted grants and contributions, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

> Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
>
> Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the District are described below:

Major Governmental Funds

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.

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

Non-Major Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

1. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service program.

Fiduciary Funds

Agency Funds are used to account for assets of others for whom the District acts as an agent. The District maintains agency funds for student body accounts, 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.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net assets and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

> All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
>
> The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
>
> Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to pay liabilities of the current fiscal year. For the District, "available" means collectible within the period or within 60 days after year-end.

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

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, if measurable, and typically paid within 60 days. However, under the modified accrual basis of accounting, debt service expenditures (including related interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, 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.

Cash and Investments

The District considers demand deposits and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury (the County) as part of the common investment pool. The District is considered to be an involuntary participant in the external investment pool. The County pools these funds with those of other districts in the county and invests the cash. Interest earned is deposited into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Information regarding the amount of dollars invested in derivatives with the County was not available. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Accounts Receivable and Due from Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed but not received as of June 30, 2012. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated but has not received as of June 30, 2012. At June 30, 2012, no allowance for doubtful accounts was deemed necessary.

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Stores Inventory

Inventories are valued at average cost and consist of expendable supplies held for consumption. Expenses are recorded as the supplies and materials are consumed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of $5,000 or more and over one year useful life. Depreciation on all capital assets is computed using a straight-line basis over the estimated useful lives of the various classes of depreciable capital assets as follows: buildings, 25 to 50 years; portable classrooms, 25; site improvements/infrastructure, 7 to 30 years; equipment, 5 to 20 years; and vehicles, 8 years.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

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.

Long-Term Debt

The accounting treatment for long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from government and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if it has matured, for example, as a result of employee resignations and retirements.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

> *Invested in capital assets, net of related debt* consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, leases, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets.
>
> *Restricted net assets* consists of net assets with constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation.
>
> *Unrestricted net assets* consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance. Governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form-prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the board of trustees-the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of trustees removes the specified use by taking some type of action imposing the commitment.

Assigned fund balance reflects the amounts constrained by the District's own "intent" to be used for specific purposes, but are neither restricted nor committed. The board of trustees and designee of the board of trustees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, and then unrestricted resources-committed, assigned, and unassigned-in order as needed.

Consistent with the Criteria and Standards for fiscal solvency adopted by the State Board of Education, the District maintains a Reserve for Economic Uncertainties to safeguard the District's financial stability. The minimum recommended reserve for a district of this size is a minimum of three percent of budgeted general fund expenditures and other financing uses.

Revenue Limit and Property Tax

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

Butte 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. Secured property taxes attach as an enforceable lien on property as of March 1. Property taxes on the secured roll are due on December 10 and April 10 and become delinquent after December 10 and April 10, respectively.

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 alternate 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.

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's 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2012 consist of the following:

Deposits	
Cash in bank	$ 135,578
Cash in revolving fund	2,900
Investments	
County treasurer's investment pool	5,453,915
Total Cash and Investments	5,592,393
Less agency fund cash and investments	125,578
Total Cash and Investments per Statement of Net Assets	$ 5,466,815

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 deposit policy for custodial credit risk. As of June 30, 2012, all of the District's deposits were insured.

Investments

Credit Risk

California Government Code Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the county investment pool is unrated.

Interest Rate Risk

California Government Code Section 53601 limits the District's investments to maturities of five years. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County Treasurer's investment pool has an average maturity of 2 years.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, for the District's individual major funds and nonmajor governmental funds in the aggregate are as follows:

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Activities
Other receivables	$ 17,507	$ 5,800	$ -	$ 23,307
Total	$ 17,507	$ 5,800	$ -	$ 23,307

NOTE 4. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2012, for the District's individual major funds and nonmajor governmental funds in the aggregate are as follows:

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Activities
Due from Federal government	$ 84,706	$ -	$ 105,324	$ 190,030
Due from State government	3,757,529	-	9,003	3,766,532
Due from local governments	24,884	-	4,861	29,745
Total	$ 3,867,119	$ -	$ 119,188	$ 3,986,307

NOTE 5. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Individual fund interfund receivable and payable balances at June 30, 2012, are as follows:

Fund	Interfund Receivables	Interfund Payables
General	$ 13,578	$ 41,648
Nonmajor governmental	41,648	13,578
Total	$ 55,226	$ 55,226

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012, is shown below:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 583,206	$ -	$ -	$ 583,206
Total capital assets, not being depreciated	583,206	-	-	583,206
Capital assets, being depreciated:				
Buildings	5,683,542	25,000	5,544	5,702,998
Improvements of sites	1,335,771	105,244	-	1,441,015
Furniture and equipment	1,734,266	261,539	264,509	1,731,296
Total capital assets, being depreciated	8,753,579	391,783	270,053	8,875,309
Less accumulated depreciation for:				
Buildings	4,429,770	97,972	4,102	4,523,640
Improvements of sites	718,190	86,634	-	804,824
Furniture and equipment	1,296,742	55,155	236,193	1,115,704
Total accumulated depreciation	6,444,702	239,761	240,295	6,444,168
Total capital assets, being depreciated, net	2,308,877	152,022	29,758	2,431,141
Governmental activities capital assets, net	$ 2,892,083	$ 152,022	$ 29,758	$ 3,014,347

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Depreciation (unallocated)	$ 93,302
Instruction	79,569
Instruction-related services	4,667
Pupil services	37,667
Ancillary services	3,760
General administration	6,784
Plant services	14,012
Total Depreciation Expense	$ 239,761

NOTE 7. ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consist of the following:

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Activities
Vendors	$ 201,419	$ -	$ 6,159	$ 207,578
Salaries and benefits	665,111	-	27,924	693,035
Total	$ 866,530	$ -	$ 34,083	$ 900,613

NOTE 8. DUE TO OTHER GOVERNMENTS

Amounts due to other governments at June 30, 2012, for the District's individual major funds and nonmajor governmental funds in the aggregate are as follows:

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Activities
Due to State government	$ 95,372	$ -	$ -	$ 95,372
Due to local governments	1,799	-	-	1,799
Total	$ 97,171	$ -	$ -	$ 97,171

NOTE 9. OPERATING LEASES

The District has entered into various operating leases for facilities with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Rent expense for the year ended June 30, 2012, was $108,200. Future minimum lease payments are as follows:

	Lease Payments
2013	$ 92,000
2014	92,000
2015	30,000
Total	$ 214,000

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

NOTE 10. LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt is shown below:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Compensated absences	$ 41,155	$ -	$ 10,585	$ 30,570	$ 30,570
Note payable	27,596	-	27,596	-	-
Net OPEB obligation	343,770	253,090	130,385	466,475	-
Total	$ 412,521	$ 253,090	$ 168,566	$ 497,045	$ 30,570

The accrued vacation and OPEB obligations will be paid by the fund for which the employee worked. Payments on the note payable are made by the capital facilities fund with developer fees.

NOTE 11. FUND BALANCES

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2012, are as follows:

	General	Capital Facilities	Nonmajor Governmental	Total Governmental Funds
Nonspendable:				
Revolving fund	$ 2,400	$ -	$ 500	$ 2,900
Stores inventory	-	-	10,831	10,831
Restricted:				
Educational programs	63,135	-	-	63,135
Food services	-	-	162,622	162,622
Capital projects	-	1,786,951	-	1,786,951
Unassigned:				
Economic uncertainties	817,580	-	-	817,580
Other unassigned	5,634,749	-	-	5,634,749
Total	$6,517,864	$1,786,951	$ 173,953	$ 8,478,768

NOTE 12. JOINT POWERS AGREEMENTS

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Butte Schools Self-Funded Program (BSSP), North Valley Schools Insurance Group (NVSIG), and Bay Area Schools Insurance Cooperative (BASIC). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property and liability, workers' compensation, health benefits, and excess liability coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. The Boards control the operations of the JPAs including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA. Condensed financial information of the JPAs is as follows:

	June 30, 2011		
	BSSP	BASIC	NVSIG
Total assets	$ 15,534,166	$ 1,586,215	$ 2,862,063
Total liabilities	5,683,776	1,077,446	1,658,220
Net Assets (Liabilities)	$ 9,850,390	$ 508,769	$ 1,203,843
Operating revenues	$ 48,767,065	$ 3,474,383	$ 9,675,785
Operating expenses	46,837,825	3,418,434	9,850,913
Other income (expenses)	248,334	8,149	15,023
Excess Revenues (Expenses)	$ 2,177,574	$ 64,098	$ (160,105)

NOTE 13. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

NOTE 14. RISK MANAGEMENT

The District is exposed to various risks including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under JPAs for property and liability, health benefits, and workers' compensation coverage.

NOTE 15. EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to 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, 100 Waterfront Place, Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010 were $619,050, $624,895 and $637,282, respectively, and equal 100% of the required contributions for each year.

California Public Employees Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under 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 CalPERS, 400 Q 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 rate for fiscal year 2011-12 was 10.923%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2012, 2011, and 2010 were $278,612, $278,220, and $246,434, respectively, and equal 100% of the required contributions for each year.

NOTE 16. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit health care plan administered by the District. The District provides postemployment health care benefits to all certificated employees who retire from the District on or after attaining the age of 58 with at least 15 years of service in the District or on or after attaining age 50 with at least 30 years of service in the District. The District provides medical benefits to certificated retirees and their dependents until age 65. At June 30, 2012, nine retirees met these eligibility requirements.

The District also provides postemployment health care benefits to all classified employees and their dependents who retire from the District on or after attaining age 56 with 28 years of service to the District; or on or after attaining age 58 with 23 years of service to the District; or on or after attaining age 60 with 18 years of service to the District. The classified retirees shall be included in the program until age 65. At June 30, 2012, 11 retirees met these eligibility requirements.

Funding Policy

The District contributes the full cost of current year premiums for eligible retired members.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities 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 (including implicit subsidy), and the changes in the District's net OPEB obligation:

	2011-2012	2010-2011
Annual required contribution (ARC)	$ 258,264	$ 242,586
Interest adjustment	17,189	12,012
Amortization of unfunded actuarial liablilities	(22,363)	(15,628)
Annual OPEB cost (expense)	253,090	238,970
Contributions made, adjusted for implicit subsidy	130,385	135,446
Increase in net OPEB obligation	122,705	103,524
Net OPEB obligation, July 1	343,770	240,246
Net OPEB obligation, June 30	$ 466,475	$ 343,770

The District's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	$ 289,822	$ 144,466	50%	$ 145,356
6/30/10	$ 240,398	$ 145,508	61%	$ 240,246
6/30/11	$ 238,970	$ 135,446	57%	$ 343,770
6/30/12	$ 253,090	$ 130,385	52%	$ 466,475

Funding Status and Funding Progress

The funded status of the plan as of July 1, 2011, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	$ 2,049,173
Actuarial value of assets	-
Unfunded AAL (UAAL)	$ 2,049,173
Funded ratio	0%
Covered payroll	$ 10,598,497
UAAL as % of covered payroll	19%

The projected benefit payments for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, will present multi-year 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 benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011, actuarial valuation, the projected unit credit using full accrual at full eligibility age actuarial method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of eight percent initially, reduced by decrements to an ultimate rate of five percent after three years. The actuarial method used for valuing assets is market. The plan's unfunded actuarial accrued liability is being amortized over 30 years in level dollar amounts on a closed basis. Demographic and other assumptions include (1) mortality rates; (2) public education retirement rates; (3) termination rates by age, gender, and years of service; and (4) district salary schedules.

NOTE 17. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2011-12, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

NOTE 18. UPCOMING ACCOUNTING PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus.* This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The District is currently evaluating the effect this standard will have on the financial statements when adopted during the District's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* This incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The District is currently evaluating the effect this standard will have on the financial statements when adopted during the District's 2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The statement will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will affect the format and reporting of the balance sheet at the government-wide level and also at the fund level.

REQUIRED SUPPLEMENTARY INFORMATION

GRIDLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
GENERAL FUND
JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	(GAAP Basis)	Favorable (Unfavorable)
REVENUES				
Federal revenue	$ 1,519,625	$ 1,697,090	$ 1,803,353	$ 106,263
Revenue limit sources	7,705,792	7,779,544	7,664,027	(115,517)
Property taxes	2,852,156	2,786,617	2,904,933	118,316
Other state revenue	3,453,486	3,435,201	3,661,204	226,003
Other local revenue	474,288	482,390	522,420	40,030
Total Revenues	16,005,347	16,180,842	16,555,937	375,095
EXPENDITURES				
Certificated salaries	7,923,877	7,940,740	7,860,094	80,646
Classified salaries	2,468,346	2,433,495	2,425,445	8,050
Employee benefits	3,264,462	3,207,793	3,080,351	127,442
Books and supplies	1,173,979	1,048,833	903,493	145,340
Services and other operating	1,437,864	1,591,608	1,634,389	(42,781)
Capital outlay	46,000	131,000	294,153	(163,153)
Other outgo	436,113	415,127	434,000	(18,873)
Total Expenditures	16,750,641	16,768,596	16,631,925	136,671
Net Change in Fund Balances	(745,294)	(587,754)	(75,988)	511,766
Fund Balances - July 1, 2011	6,593,852	6,593,852	6,593,852	-
Fund Balances - June 30, 2012	$ 5,848,558	$ 6,006,098	$ 6,517,864	$ 511,766

See the accompanying notes to the required supplementary information.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts a budget for the General Fund and each major Special Revenue Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedules of the General Fund and each major Special Revenue Fund present actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budget as amended. Unexpended appropriations on the annual budget lapse at the end of each fiscal year.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, expenditures exceeded appropriations by the following amounts:

Appropriations Category	Excess Expenditures
General Fund:	
Services and other operating	$ 42,781
Capital outlay	$ 163,153
Other Outgo	$ 18,873

These excess expenditures were offset by unexpended appropriations in other categories.

GRIDLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER
POSTEMPLOYMENT BENEFITS PLAN
JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
July 1, 2011	$ -	$ 2,049,173	$ 2,049,173	0%	$ 10,598,497	19%
July 1, 2009	$ -	$ 1,913,951	$ 1,913,951	0%	$ 10,667,161	18%
July 1, 2007	$ -	$ 2,321,687	$ 2,321,687	0%	$ 10,526,211	22%

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APPENDIX C

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF GRIDLEY AND THE COUNTY OF BUTTE

The following information concerning the County of Butte and the City of Gridley is included only for the purpose of supplying general information regarding the community. The Bonds are not a debt of the County or the City.

General

County of Butte. The County of Butte (the "County") is located 60 miles north of Sacramento in northern California. The County was incorporated in 1850, encompasses 1,639 square miles and is bordered by the Sacramento river on the west and the Sierra Nevada mountains on the east. The local economy has historically been strongly rooted in agriculture/ranching with some retail and service components. In recent years, the services, government and retail trade sectors dominated the County's total employment.

The County is a charter county governed by a five-member Board of Supervisors with the county seat located at the city of Oroville.

City of Gridley. Gridley (the "City") is a historic city located in the County. A general law city, Gridley is governed by a Council/City Administrator system.

Population

The following table summarizes population estimates for the County and the City for years 2001 through 2012.

POPULATION ESTIMATES
The County of Butte and City of Gridley
2001-2012

Year[1]	County of Butte	City of Gridley
2001	204,591	5,531
2002	206,942	5,694
2003	209,389	5,796
2004	211,419	5,806
2005	212,955	5,761
2006	214,690	5,989
2007	216,401	6,250
2008	217,801	6,466
2009	218,887	6,532
2010	219,967	6,589
2011	220,465	6,582
2012	221,273	6,576

(1) January 1 data.
Source: California State Department of Finance, Demographic Research Unit. March 2010 Benchmark.

Personal Income

The following tables summarize personal income and per capita personal income for the County, State of California and United States from 2005 through 2011.

PERSONAL INCOME
County of Butte, State of California, and United States
2005-2011
(In Thousands)

Year	County of Butte	California	United States
2005	$6,010,821	$1,387,661,013	$10,476,669,000
2006	6,479,108	1,495,533,388	11,256,516,000
2007	6,874,370	1,566,400,134	11,900,562,000
2008	7,092,108	1,610,697,843	12,380,225,000
2009	6,917,870	1,516,676,660	12,168,161,000
2010	7,155,660	1,564,209,194	12,353,577,000
2011	7,347,286	1,645,138,372	12,981,740,848

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

PER CAPITA PERSONAL INCOME(1)
County of Butte, State of California, and United States
2005-2011

Year	County of Butte	California	United States
2005	$27,990	$38,767	$38,731
2006	29,882	41,567	41,518
2007	31,611	43,240	43,211
2008	32,379	43,853	44,003
2009	31,267	42,395	41,034
2010	32,033	42,514	41,893
2011	33,356	44,481	43,647

(1) Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment

The following table summarizes labor force, employment and unemployment figures for the City, County and State from 2007 through 2011.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT(1)
City of Gridley, County of Butte and the State of California
2007-2011

Year and Area	Labor Force	Employment	Unemployment(2)	Unemployment Rate (%)(3)
2007				
City of Gridley	2,600	2,200	400	16.2%
County of Butte	101,400	94,600	6,800	6.7
California	17,921,000	16,960,700	960,300	5.4
2008				
City of Gridley	2,700	2,100	500	19.9
County of Butte	103,000	94,300	8,600	8.4
California	18,203,100	16,890,000	1,313,100	7.2
2009				
City of Gridley	2,900	2,100	800	28.0
County of Butte	103,900	90,800	13,100	12.6
California	18,208,300	16,144,500	2,063,900	11.3
2010				
City of Gridley	2,900	2,000	900	30.4
County of Butte	103,600	89,200	14,400	13.9
California	18,316,400	16,051,500	2,264,900	12.4
2011				
City of Gridley	2,800	2,000	800	29.8
County of Butte	101,700	87,900	13,800	13.6
California	18,384,900	16,226,600	2,158,300	11.7

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
(2) Includes persons involved in labor-management trade disputes.
(3) Includes all persons without jobs who are actively seeking work.
Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2010 Benchmark.

Industry

The following table summarizes industry employment in the County from 2007 through 2011.

AVERAGE ANNUAL INDUSTRY EMPLOYMENT
Chico MSA (County of Butte)
2007-2011

Type of Employment	2007	2008	2009	2010	2011
Total Farm	2,600	2,800	2,700	2,800	2,600
Natural Resources, Mining & Construction	3,800	3,300	2,600	2,400	2,400
Manufacturing	4,200	4,000	3,500	3,500	3,600
Trade, Transportation & Utilities	14,200	13,600	12,900	12,700	12,400
Information	1,200	1,200	1,100	1,000	1,000
Financial Activities	4,200	4,400	4,400	3,100	3,000
Professional and Business Services	5,500	5,300	4,800	4,900	5,200
Education and Health Services	13,000	13,400	13,300	13,600	13,400
Leisure and Hospitality	8,000	7,900	7,300	7,100	7,000
Other Services	3,600	3,600	3,500	3,600	3,700
Government	18,500	18,200	17,300	16,900	15,700
Total, All Industries	78,900	77,700	73,300	71,600	70,000

Source: California Employment Development Department, Labor Market Information Division. March 2010 Benchmark.

Largest Employers

The following table summarizes the largest employers in the County.

LARGEST EMPLOYERS
County of Butte
2011

	Employer	Employees
1.	Enloe Medical Center	2,275
2.	County of Butte	2,250
3.	California State University, Chico	1,825
4.	Butte Glenn Community College	1,500
5.	Chico Unified School District	1,400
6.	Oroville Hospital	1,233
7.	Pacific Coast Producers	725
8.	Feather River Hospital	620
9.	Associated Students California	600
10.	County of Butte Office of Education	600

Source: County of Butte 'Comprehensive Annual Financial Report' for the year ending June 30, 2011.

Commercial Activity

The following tables summarize taxable sales within the City and County for years 2005 through 2010.

TAXABLE SALES
City of Gridley
2005-2010
(Dollars in Thousands)

Year	Retail and Food Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2005	107	$80,093	192	$88,103
2006	105	84,197	197	93,404
2007	105	81,950	184	89,223
2008	120	78,911	189	88,603
2009	127	67,195	176	79,305
2010	129	68,942	180	81,660

Note: In 2009, retail permits expanded to include permits for food services.
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

TAXABLE SALES
County of Butte
2005-2010
(Dollars in Thousands)

Year	Retail Permits	Retail Stores Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2005	2,900	$2,058,367	6,357	$2,730,636
2006	2,942	2,150,225	6,305	2,825,547
2007	2,892	2,096,141	6,231	2,778,076
2008	3,025	1,944,144	6,300	2,678,170
2009	3,982	1,711,587	5,840	2,348,900
2010	4,078	1,773,107	5,961	2,459,719

Note: In 2009, retail permits expanded to include permits for food services.
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

Building Activity

The following charts summarize building activity and valuations for the County and the City from 2007 through 2011.

BUILDING PERMITS AND VALUATIONS
County of Butte
2007-2011

	2007	2008	2009	2010	2011
Valuation ($000s)					
Residential	$139,222	$95,090	$73,163	$76,459	$57,889
Nonresidential	86,335	55,348	39,707	59,430	44,945
Total Valuation	$225,557	$150,438	$112,870	$135,891	$102,835
Units					
Single-Family	733	532	308	157	170
Multi-Family	198	60	54	350	89
Total:	931	592	362	507	259

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

BUILDING PERMITS AND VALUATIONS
City of Gridley
2007-2011

	2007	2008	2009	2010	2011
Valuation ($000s)					
Residential	$4,663	$1,900	$824	$531	$711
Nonresidential	1,480	1,717	669	349	226
Total Valuation	$6,142	$3,617	$1,492	$880	$937
Units					
Single-Family	25	12	2	1	3
Multi-Family	0	0	0	0	0
Total:	25	12	2	1	3

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

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

February 7, 2013

Governing Board
Gridley Unified School District
Elementary Schools Facilities Improvement District No. 1

Members of the Governing Board:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of $2,455,000 Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District Election of 2012 General Obligation Bonds, Series A (the "Bonds"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

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

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to Title 1, Division 1, Part 10, Chapters 1 and 2 of the California Education Code, a 55% vote of the qualified electors of the Elementary Schools Facilities Improvement District No. 1 (the "Improvement District") of the Gridley Unified School District (the "School District") voting at an election held on June 5, 2012, and a resolution of the Board of Trustees of the Gridley Unified School District, (the "School District"), acting on behalf of Improvement District No. 1 (the "Resolution").

2. The Bonds constitute valid and binding general obligations of the School 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 Improvement District No. 1, which taxes are unlimited as to rate or amount.

3. Under existing statutes, regulations, rulings and judicial decisions, 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 calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

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

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

6. The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

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

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

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

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

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Gridley Unified School District (the "District") in connection with the issuance of $2,455,000 of the Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District Election of 2012 General Obligation Bonds, Series A (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of Trustees of the School District, acting on behalf of the Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District (the "Improvement District") dated November 28, 2012 (the "Resolution"). The School District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the School District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

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

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

"Holders" shall mean registered owners of the Bonds.

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

"Participating Underwriter" shall mean Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus or any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean the Municipal Securities Rulemaking Board, which can be found at http://emma.msrb.org/, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

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

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The School District shall, or shall cause the Dissemination Agent to, not later than nine months following the end of the School District's fiscal year (which shall be March 31 of each year, so long as the School District's fiscal year ends on June 30), commencing with the report for the 2012-13 Fiscal Year, provide to the Participating Underwriter and each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the School District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

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

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

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

1. The audited financial statements of the School District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the School District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information and operating data with respect to the School District and Improvement District No. 1 of the type included in the Official Statement in the following categories (to the extent not included in the School District's audited financial statements):

(a) The School District's approved annual budget for the then-current fiscal year;

(b) Assessed value of taxable property in Improvement District No. 1 as shown on the most recent equalized assessment roll;

(c) If the County no longer includes the tax levy for payment of the Bonds in their Teeter Plan, the property tax levies, collections and delinquencies for the Improvement District for the most recently completed fiscal year; and

(d) Top ten property owners in the Improvement District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value and their percentage of total secured assessed value, if material.

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

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

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.

2. tender offers.

3. defeasances.

4. rating changes.

5. the issuance by the Internal Revenue Service of adverse tax opinions, proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).

6. unscheduled draws on the debt service reserves reflecting financial difficulties.

7. unscheduled draws on credit enhancement reflecting financial difficulties.

8. substitution of the credit or liquidity providers or their failure to perform.

9. bankruptcy, insolvency, receivership or similar event of the District. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

1. non-payment related defaults.

2. modifications to rights of Bondholders.

3. optional, contingent or unscheduled bond calls.

4. unless described under Section 5(a)(5) above, other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

5. release, substitution or sale of property securing repayment of the Bonds.

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

7. Appointment of a successor or additional trustee or paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.

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

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

SECTION 6. Termination of Reporting Obligation. The School District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the School District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a) or 5(b), as applicable.

SECTION 7. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the School District. Upon such resignation, the School District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the School District pursuant to this

Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the School District. The School District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

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

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

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

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

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

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the School District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the School District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The School District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the School District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the School District has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall not be required to monitor or enforce the School District's duty to comply with its continuing disclosure requirements hereunder.

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

Dated: February 7, 2013

GRIDLEY UNIFIED SCHOOL DISTRICT

By: ____

Heather Naylor
Chief Business Official

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Gridley Unified School District

Name of Bond Issue: Elementary Schools Facilities Improvement District No. 1 of the Gridley Unified School District Election of 2012 General Obligation Bonds, Series A

Date of Issuance: February 7, 2013

NOTICE IS HEREBY GIVEN that the School District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The School District anticipates that the Annual Report will be filed by _____________.

Dated:_______________________

GRIDLEY UNIFIED SCHOOL DISTRICT

By ______[form only; no signature required]_________

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the accuracy or completeness thereof. The School 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) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption 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 "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distribution 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 School 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 School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distribution to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the School 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 School District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates 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 School District believes to be reliable, but the School District takes no responsibility for the accuracy thereof.

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY® MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

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United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

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ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer