NEW ISSUE -- FULL BOOK-ENTRY
BANK QUALIFIED

INSURED RATING: Standard & Poor's: "AA+"
UNDERLYING RATING: Standard & Poor's: "A+"
See "RATINGS" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California ("Bond Counsel") subject, however, to certain qualifications described herein, under existing law, the interest on the Series B Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Series B Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$6,999,907.50
MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
General Obligation Bonds, Election of 2008
Series B

***Dated*: Date of Delivery** — ***Due*: August 1, as shown on inside cover**

Issuance. The McKinleyville Union School District (Humboldt County, California) General Obligation Bonds, Election of 2008 Series B (the "Series B Bonds") are being issued by the McKinleyville Union School District (the "District") pursuant to a resolution of the Board of Trustees of the District adopted on February 9, 2011 (the "Bond Resolution"). The Series B Bonds were authorized at an election of the registered voters of the District held on June 3, 2008, which authorized a total of $14,000,000 principal amount of general obligation bonds to finance new construction and additions to and modernization of school facilities for the District. The Series B Bonds, which are being issued as Capital Appreciation Bonds and Convertible Capital Appreciation Bonds, are the second and final issue pursuant to such authorization.

***Security*.** The Series B Bonds represent a general obligation of the District. The Board of Supervisors of Humboldt County has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Series B Bonds. The County of Humboldt (the "County") has previously issued, on behalf of the District, General Obligation Bonds, Election of 2008, Series A, which are payable from *ad valorem* taxes on parity with the Series B Bonds. See "The SERIES B BONDS - Security."

***Redemption*.** The Series B Bonds are subject to optional redemption and redemption from mandatory sinking fund payments prior to maturity. See "THE SERIES B BONDS - Redemption."

***Book Entry Only*.** The Series B Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Series B Bonds. See "APPENDIX F - Book-Entry-Only System."

Payments. The Series B Bonds are dated the date of delivery and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing on August 1, 2011 (each, a "Bond Payment Date"). Payments of Accreted Value on the Series B Bonds will be paid by U.S. Bank National Association, San Francisco, California, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Series B Bonds. On the respective Conversion Dates set forth on the inside cover page, the Convertible Capital Appreciation Bonds will convert to Current Interest Bonds in principal amounts equal to the Accreted Value (defined herein) thereof. After the Conversion Date, interest with respect to the Convertible Capital Appreciation Bonds will accrue and be payable semiannually on February 1 and August 1 of each year.

***Bond Insurance*.** The scheduled payment of principal of and interest on (or, in the case of Capital Appreciation Bonds, the accreted value of) the Series B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series B Bonds by ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.). See "BOND INSURANCE."

ASSURED GUARANTY® MUNICIPAL

MATURITY SCHEDULE
(See inside front cover)

***Cover Page*.** This cover page contains information for quick reference only. It is not a summary of all the provisions of the Series B Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters also will be passed upon for the District by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel to the District. It is anticipated that the Series B Bonds in definitive form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about March 2, 2011, in New York, New York.

PiperJaffray®

Dated: February 17, 2011

MATURITY SCHEDULE

Base CUSIP(†): 581725

$1,142,123 Initial Principal Amount Capital Appreciation Bonds

Maturity Date (August 1)	Initial Principal Amount	Approximate Reoffering Yield To Maturity	Maturity Value	CUSIP(†)
2019	$ 69,393.50	5.110%	$ 185,000	BB3
2020	88,467.60	5.460	265,000	BC1
2021	69,823.20	5.740	235,000	BD9
2023	8,236.90	6.330	35,000	BF4
2024	14,661.50	6.530	70,000	BG2
2025	21,437.15	6.670	115,000	BH0
2026	26,545.60	6.860	160,000	BJ6
2028	7,227.55	7.040	55,000	BL1
2029	13,450.40	7.120	115,000	BM9
2030	14,052.15	7.200	135,000	BN7
2031	33,350.40	7.270	360,000	BP2
2032	18,139.00	7.350	220,000	BQ0
2033	31,186.50	7.430	425,000	BR8
2034	230,065.55	7.470	1,495,000	BS6
2035	247,120.50	7.930	1,650,000	BT4
2036	248,965.50	7.960	1,810,000	BU1

$665,811.30 Term Bonds Maturing to $6,270,000((1) on August 1, 2039; Yield: 8.050%; CUSIP†: BX5

$1,408,778.20 Term Bonds Maturing to $24,260,000(1) on August 1, 2046; Yield: 8.200%; CUSIP†: CE6

$1,037,462.40 Term Bonds Maturing to $26,080,000(1) on August 1, 2050; Yield: 8.350%; CUSIP†: CJ5

$2,745,732.60 Denominational Amount ($6,545,000 Conversion Value)
Convertible Capital Appreciation Bonds

Maturity (August 1)	Initial Principal Amount	Accretion Rate to Conversion	Conversion Date (August 1)	Conversion Value	Interest Rate after Conversion	Price	CUSIP†
2040	$ 898,932.60	7.375%	2026	$2,745,000	7.375%	100	BY3
2041	1,846,800.00	7.050	2021	3,800,000	7.050	100	BZ0

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(1) Total not paid at maturity; subject to mandatory sinking fund redemption. See "THE SERIES B BONDS – Redemption."

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Series B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the District or the Underwriter.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Series B Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Involvement of Underwriter. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Insurer's Disclaimer. Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Series B Bonds or the advisability of investing in the Series B 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 "BOND INSURANCE" and "Appendix G - Specimen Municipal Bond Insurance Policy".

Document Summaries. All summaries of the Bond Resolution, the Paying Agent Agreement or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Series B Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Series B Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Series B Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

The Series B Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exception from the registration requirements contained in such act. The Series B Bonds have not been registered or qualified under the securities laws of any state.

MCKINLEYVILLE UNION SCHOOL DISTRICT
COUNTY OF HUMBOLDT
STATE OF CALIFORNIA

DISTRICT BOARD OF TRUSTEES

DISTRICT ADMINISTRATION

Dena McCullough, *Superintendent*
Lisa Jones, *Business Director*

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL CONSULTANT

KNN Public Finance
A Division of Zions First National Bank
Oakland, California

PAYING AGENT, TRANSFER AGENT, AND BOND REGISTRAR

U.S. Bank National Association
San Francisco, California

TABLE OF CONTENTS

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OFFICIAL STATEMENT

$6,999,907.50
MCKINLEYVILLE UNION SCHOOL DISTRICT
(County of Humboldt, California)
General Obligation Bonds, Election of 2008
Series B

The purpose of this Official Statement, which includes the cover page and attached appendices, is to set forth certain information concerning the sale and delivery by the McKinleyville Union School District (the "**District**") of the bonds captioned above (the "**Series B Bonds**").

All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Paying Agent Agreement (as defined below).

INTRODUCTION

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

The District. The McKinleyville Union School District provides services to the community of McKinleyville. The District operates two elementary schools and one middle school. Enrollment in the District for the 2009-10 school year was 1,165 students and is estimated to be 1,144 for 2010-11.

Description of the Series B Bonds. The Series B Bonds will be issued as capital appreciation bonds ("**Capital Appreciation Bonds**") and convertible capital appreciation bonds ("**Convertible Capital Appreciation Bonds**"); the interest component of the Bonds is compounded semiannually on each February 1 and August 1, commencing on August 1, 2011 (each, a **"Bond Payment Date"**) to maturity as shown in the table of Accreted Values attached hereto. The Convertible Capital Appreciation Bonds will initially be issued as Capital Appreciation Bonds and will convert to Current Interest Bonds on the Conversion Date set forth on the inside cover page hereof. The Convertible Capital Appreciation Bonds will be dated the Dated Date, and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 Conversion Value (where the **"Conversion Value"** means the accreted value of a Convertible Capital Appreciation Bond on the Conversion Date for such Bond) and any integral multiple thereof. The Conversion Value of each Capital Appreciation Bond is equal to its Accreted Value, being comprised of its Initial Principal Amount and the semi-annually compounded interest between the delivery date and its respective Conversion Date. See "APPENDIX G – Accreted Value Tables".

The Series B Bonds will be dated the Dated Date, and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 Maturity Value (where the "**Maturity Value**" means the accreted value of a Series B Bond on the date such Bond matures) and any integral multiple thereof. The Maturity Value of each Series B Bond is equal to its accreted value ("**Accreted Value**"), being comprised of its initial principal amount ("**Denominational Amount**") and the compounded interest between the delivery date and its respective maturity or mandatory redemption date, if applicable.

Registration. The Series B Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"), and will be available to actual purchasers of the Series B Bonds (the "**Beneficial Owners**") in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series B Bonds. See "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 Series B Bonds, the Series B Bonds will be registered in accordance with the Paying Agent Agreement. See "THE SERIES B BONDS -- Registration, Transfer and Exchange of Bonds."

Redemption. The Series B Bonds are subject to optional redemption and mandatory redemption from sinking fund payments prior to maturity.

Authority for Issuance of the Series B Bonds. Issuance of the Series B Bonds was approved by approximately 55.44% of the voters of the District voting at an election held on June 3, 2008 (the "**Bond Election**"). The Series B Bonds will be issued pursuant to (i) provisions of the Government Code of the State of California (the "**State**"); (ii) a resolution adopted by the Board of Trustees of the District on February 9, 2011 (the "**Bond Resolution**"); and (iii) a Paying Agent Agreement, dated as of February 1, 2011 (the "**Paying Agent Agreement**"), between the District and U.S. Bank National Association, as paying agent (the "**Paying Agent**"). See "THE SERIES B BONDS - Authority for Issuance" herein.

Security for the Series B Bonds. The Series B Bonds represent a general obligation of the District. The Board of Supervisors of the County of Humboldt (the "**County**") has the power and is obligated to annually levy *ad valorem* taxes for the payment of the Series B Bonds and the interest thereon upon all property within the District subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "THE SERIES B BONDS -- Security" herein. The Series B Bonds are the second issue of the authorization; the County of Humboldt (the "**County**") in 2009 issued, on behalf of the District, $7,000,000 of General Obligation Bonds, Election of 2008, Series A, which are payable from *ad valorem* taxes on parity with the Series B Bonds. After the Bonds are issued there will be no usable Authorization remaining.

Purpose of Issue. The net proceeds of the Series B Bonds will be used to finance school construction and improvements to the school facilities as approved by the voters at the Bond Election. See "THE SERIES B BONDS -- Purpose of Issue" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Bond Insurance. The scheduled payment of principal of and interest on (or, in the case of Capital Appreciation Bonds, the accreted value of) the Series B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series B Bonds by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM" or the "Bond Insurer"). See "BOND INSURANCE" herein.

Offering and Delivery of the Bonds. The Series B Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel.

It is anticipated that the Series B Bonds will be available for delivery in New York, New York on or about March 2, 2011.

Legal Matters. Issuance of the Series B Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California ("**Bond Counsel**"), to be delivered in substantially the form attached hereto as Appendix D. Jones Hall, A Professional Law Corporation, San Francisco, California, will serve as Disclosure Counsel to the District. *Payment of the fees of Bond Counsel and Disclosure Counsel is contingent upon issuance of the Series B Bonds.*

Tax Matters. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Series B Bonds will not be included in gross income for federal income tax purposes although it may be included in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Series B Bonds will be exempt from State of California personal income taxes. See "TAX MATTERS" herein.

Bank Qualified. The District has designated the Series B Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986. Such section provides an exception to the prohibition against the ability of a "financial institution" (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to tax-exempt interest. See "TAX MATTERS" herein.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. The form of a Continuing Disclosure Certificate is included in Appendix E hereto. See "CERTAIN LEGAL MATTERS - Continuing Disclosure" herein.

Other Information. For limiting factors about this Official Statement, see "General Information About This Official Statement" inside the cover hereof.

Copies of documents referred to herein and information concerning the Series B Bonds are available from the Superintendent, McKinleyville Union School District, 2275 Central Avenue, McKinleyville, CA 95519; telephone: (707) 839-1549. The District may impose a charge for copying, mailing and handling.

THE SERIES B BONDS

Definitions With Respect to the Bonds

The terms set forth below have the following meanings:

"Accreted Interest" means the Accreted Value thereof minus the Denominational Amount thereof as of the date of calculation.

"Accreted Value" means, as of the date of calculation, the Denominational Amount thereof, plus Accreted Interest, compounded semiannually on each February 1 and August 1, commencing from the date of issuance of the Series B Bonds.

"Accretion Rate" means the yield which discounts the Maturity Value of any Series B Bond to its Denominational Amount, as those terms are defined in this Official Statement (or, stated another way, the yield at which a Series B Bond accretes in value from its Denominational Amount to its Maturity Value). Accretion Rate is calculated on the basis of a 360-day year of twelve 30-day months and on the basis of semiannual compounding on each February 1 and August 1, beginning on the date of delivery. Accretion Rates for the Bonds appear as part of the Accreted Value Tables in APPENDIX A. The Accretion Rate is not necessarily the same as the Reoffering Yield, as defined in this Official Statement.

"Capital Appreciation Bond" means each Series B Bond; all of the Series B Bonds have been designated as Capital Appreciation Bonds, the interest component of which is compounded semiannually on each Bond Payment Date to maturity, as shown in "APPENDIX A – TABLE OF ACCRETED VALUES".

"***Conversion Date***" means, (i) with respect to any Convertible Capital Appreciation Bond maturing on August 1, 2040, August 1, 2026, which is the date on which such Convertible Capital Appreciation Bond starts to pay bear interest on a current basis, payable each February 1, and August 1, commencing February 1, 2027 and (ii) with respect to any Convertible Capital Appreciation Bond maturing on August 1, 2041, August 1, 2021, which is the date on which such Convertible Capital Appreciation Bond starts to pay bear interest on a current basis, payable each February 1, and August 1, commencing February 1, 2022.

"***Conversion Value***" means, with respect to any Convertible Capital Appreciation Bond, the value of such Convertible Capital Appreciation Bond as of its Conversion Date.

"Denominational Amount" means, with respect to the Series B Bonds, the initial offering price thereof, which represents the principal amount thereof.

"Maturity Value" means the Accreted Value of any Series B Bond on its maturity date.

"Reoffering Price" means the price at which a Bond is initially reoffered to the public by the Underwriter.

"Reoffering Yield," for any Series B Bond, means the yield which discounts the Maturity Value to its Reoffering Price. Reoffering Yield is calculated on the basis of a 360-day year of twelve 30-day months discounted semiannually on February 1 and August 1. The Reoffering Yield is not necessarily the same as the Accretion Rate, as defined in this Official Statement. Reoffering Yields on the Series B Bonds appear on the inside cover page of this Official Statement.

Authority for Issuance

The Series B Bonds are issued pursuant to the provisions of Section 53506 et seq. of the California Government Code, the Bond Resolution, and the Paying Agent Agreement. The District received authorization at the Bond Election, by a requisite minimum 55% vote of the qualified electors to issue general obligation bonds in a principal amount not to exceed $14,000,000 (the **"Authorization"**). The Series B Bonds are the second and final series of bonds issued pursuant to the Authorization; the County in 2009 issued, under the Education Code and on behalf of the District, $7,000,000 of General Obligation Bonds, Election of 2008, Series A, which are payable from *ad valorem* taxes on parity with the Series B Bonds.

Purpose of Issue

The proceeds of bonds issued pursuant to the Authorization will be used for the acquisition and construction of school facilities projects approved by the District's voters at the Bond Election. The measure was as follows:

> *"To repair and replace aging roofs, repair structures to meet current fire and safety codes, replace outdated electrical, plumbing restrooms, and heating systems; upgrade classroom technology and computer labs, repair classroom facilities, and modernize science classrooms and labs, shall the McKinleyville Union School District be authorized to replace, renovate, acquire and construct school facilities, issue $14,000,000 in bonds at legal interest rates, with no funds for administrator salaries, and appoint an Independent Oversight Committee to monitor bond expenditures"*

Description of the Bonds

Capital Appreciation Bonds. The Series B Bonds will be issued as Capital Appreciation Bonds. The Series B Bonds will be dated as of their date of delivery and will be issued in their aggregate Denominational Amount. The Series B Bonds will not bear current interest, but will accrete interest, at their respective Accretion Rates, commencing on their date of delivery, from their respective Denominational Amounts to their respective Maturity Values on their respective maturity dates. Interest will be calculated on the basis of a 360-day year of twelve 30-day months, and will accrete in equal daily amounts during each semiannual period. The Series B Bonds will mature in each of the years and at the Maturity Values set forth on the inside cover page of this Official Statement. The Series B Bonds shall be issued in any denominations of their Principal Amounts but shall reflect denominations of $5,000 Maturity Amount or any integral multiple thereof.

Convertible Capital Appreciation Bonds. The Convertible Capital Appreciation Bonds will initially be issued as capital appreciation bonds and will convert to current interest bonds on the Conversion Date set forth on the inside cover page hereof. The Convertible Capital Appreciation Bonds will be dated the date of delivery, and will be issued as fully registered bonds, without coupons, in the denominations of Accreted Values of $5,000 or any integral multiple thereof. The Conversion Value of each Convertible Capital Appreciation Bond is equal to its Accreted Value upon the Conversion Date.

Prior to the Conversion Date, the Convertible Capital Appreciation Bonds will not bear current interest; each Convertible Capital Appreciation Bond will accrete in value on each February 1 and August 1, commencing on August 1, 2011 to its respective Conversion Date. From and after the applicable Conversion Date, each Convertible Capital Appreciation Bond will bear interest on a principal amount equal to the Accreted Value on the Conversion Date, payable on each Bond Payment Date, to maturity. The Convertible Capital Appreciation Bonds mature on August 1, in the years and amounts set forth on the inside cover page hereof.

After the applicable Conversion Date, interest on the Convertible Capital Appreciation Bonds, including the final interest payment upon maturity, is payable as described above with respect to the Current Interest Bonds.

See the maturity schedules on the inside cover page of this Official Statement, "APPENDIX A – ACCRETED VALUE TABLES" and "PLAN OF FINANCE – Debt Service Schedules" below.

Issuance in Book-Entry Form. The Series B Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"). Purchasers of the Series B Bonds (the "**Beneficial Owners**") will not receive physical certificates representing their interest in the Series B Bonds. Payments of Accreted Value on the Series B Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Series B Bonds.

As long as DTC's book-entry method is used for the Series B Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Series B Bonds called for prepayment or of any other action premised on such notice. The Paying Agent, the District, the County and the Underwriter of the Series B Bonds have no 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 Series B Bonds.

See "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

Security

The Series B Bonds are a general obligation of the District. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes for the payment of the Series B Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Series B Bonds are outstanding in an amount sufficient to pay the Accreted Value of the Series B Bonds when due. Such taxes, when collected, will be deposited into an interest and sinking fund for the Series B Bonds (the **"Debt Service Fund"**), which is maintained by the County and which is created by statute for the payment of Accreted Value of the Series B Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Series B Bonds, and will maintain the Debt Service Fund pledged to the repayment of the Series B Bonds, the Series B Bonds are not a debt of the County.

The Series B Bonds are the second series of bonds issued pursuant to the Authorization; the County in 2009 issued, on behalf of the District, $7,000,000 of General Obligation Bonds, Election of 2008, Series A, which are payable on parity with the Series B Bonds.

The moneys in the Debt Service Fund, to the extent necessary to pay the Accreted Value of the Series B Bonds as the same become due and payable, shall be transferred by the County to the Paying Agent which, in turn, shall pay such moneys to DTC to pay the Accreted Value of the Series B Bonds. DTC will thereupon make payments of Accreted Value of the Series B Bonds to the DTC Participants who will thereupon make payments of the Accreted Value to the beneficial owners of the Series B Bonds.

The rate of the annual *ad valorem* tax levied by the County to repay the Series B Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Series B Bonds. A reduction in the assessed valuation of taxable property in the District caused by economic factors beyond the District's control, such as economic recession, slower growth, or deflation of land values, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood or other natural disaster, could cause a reduction in the assessed value of the District and necessitate an unanticipated increase in the annual tax levy. For further information regarding the District's tax base, tax rates, overlapping debt and other matters concerning taxation, see "DISTRICT FINANCIAL INFORMATION" herein.

Paying Agent

U.S. Bank National Association will act as the registrar, transfer agent, and paying agent for the Series B Bonds (the "**Paying Agent**"). As long as DTC is the registered owner of the Series B Bonds and DTC's book-entry method is used for the Series B Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Series B Bonds called for redemption or of any other action covered by such notice.

Redemption

Optional Redemption. The Series B Bonds maturing on or before August 1, 2034 are not subject to redemption prior to their respective stated maturities.

The Series B Bonds maturing on August 1, 2035, August 1, 2036, August 1, 2039 August 1, 2046 and August 1, 2050 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part as designated by the District, on any date on or after August 1, 2021, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

The Convertible Capital Appreciation Bonds maturing on August 1, 2040 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part as designated by the District, on any date on or after August 1, 2031, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

The Convertible Capital Appreciation Bonds maturing on August 1, 2041 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part as designated by the District, on any date on or after August 1, 2026, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

For the purpose of selection for optional redemption, Series B Bonds will be deemed to consist of $5,000 Maturity Value portions, and any such portion may be separately redeemed.

Mandatory Sinking Fund Redemption- Capital Appreciation Bonds. The Series B Bonds maturing on August 1, 2039, August 1, 2046 and August 1, 2050 are subject to redemption prior to maturity, in part by lot, from mandatory sinking fund payments in the following amounts and on the following dates, at the Accreted Value amount thereof on the date fixed for redemption, without premium together with interest accrued thereon to the date fixed for redemption:

Series B Term Bonds Maturing on August 1, 2039

Redemption Date (August 1)	Accreted Value to be Redeemed
2037	$2,330,000
2038	2,355,000
2039 *(Maturity)*	1,585,000

Series B Term Bonds Maturing on August 1, 2046

Redemption Date (August 1)	Accreted Value to be Redeemed
2042	$4,915,000
2043	4,885,000
2044	4,850,000
2045	4,820,000
2046 (*Maturity*)	4,790,000

Series B Term Bonds Maturing on August 1, 2050

Redemption Date (August 1)	Accreted Value to be Redeemed
2047	$6,595,000
2048	6,545,000
2049	6,495,000
2050 *(Maturity)*	6,445,000

Mandatory Sinking Fund Redemption- Convertible Capital Appreciation Bonds. The Convertible Capital Appreciation Bonds maturing on August 1, 2040 and August 1, 2041 are subject to redemption prior to maturity, in part by lot, from mandatory sinking fund payments in the following amounts and on the following dates, at the Accreted Value amount thereof on the date fixed for redemption, without premium together with interest accrued thereon to the date fixed for redemption:

Series B Term Bonds Maturing on August 1, 2040

Redemption Date (August 1)	Conversion Value
2039	$ 795,000
2040 (*Maturity*)	1,950,000

Series B Term Bonds Maturing on August 1, 2041

Redemption Date (August 1)	Conversion Value
2040	$ 710,000
2041 (*Maturity*)	3,090,000

Notice of Redemption. The Paying Agent will cause notice of redemption to be mailed, first class postage prepaid to the respective owners of any Series B Bonds designated for redemption at their address appearing on the books required to be kept by the Paying Agent, not less than thirty (30) nor more than sixty (60) days prior to the redemption date. The notice shall specify: (a) the Series B Bonds or designated portions thereof (in the case of redemption of the Series B 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 Series B Bonds to be redeemed, (f) the Series B Bond numbers of the Series B Bonds to be redeemed in whole or in part and, in the case of any Series B Bond to be redeemed in part only, the Principal Amount of such Series B Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Series B Bond to be redeemed in whole or in part.

Neither the failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Series B Bonds or the cessation of accrual of interest represented thereby from and after the redemption date.

If less than all of the Series B Bonds of any one maturity shall be called for redemption, the particular Series B Bonds or portions of Series B Bonds of such maturity to be redeemed shall be selected by lot by the District in such manner as the District in its discretion may determine; provided, however, that the portion of any Series B Bond to be redeemed shall be in the principal amount of $5,000 or some multiple thereof and that, in selecting Series B Bonds for redemption, the Paying Agent shall treat each Series B Bond as representing that number of Series B Bonds which is obtained by dividing the principal amount of such Series B Bond by $5,000. If less than all of the Series B Bonds shall be called for redemption, the particular Series B Bonds or portions thereof to be redeemed shall be called by lot in any manner which the District in its discretion shall determine.

Effect of Redemption. From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the Accreted Value of (and premium, if any) the Series B Bonds so called for redemption have been duly provided, such Series B Bonds so called will cease to be entitled to any benefit under the Paying Agent Agreement, other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

Registration, Transfer and Exchange of Bonds

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

If the book entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Series B Bonds.

If the book entry system is discontinued, the person in whose name a Series B Bond is registered on the Bond Register shall be regarded as the absolute owner of that Series B Bond. Payment of the Accreted Value of any Series B Bond shall be made only to or upon the order of that person; neither the District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided in the Paying Agent Agreement.

Series B Bonds may be exchanged for Series B Bonds of like tenor, maturity and principal amount upon presentation and surrender at the principal corporate trust office of the Paying Agent in San Francisco, California, 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. Any Series B Bond may, in accordance with its terms, but only if (i) the District determines to no longer maintain the book entry only status of the Series B Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Bond certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of the Paying Agent Agreement, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series B Bond for cancellation at the office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

No exchanges of Series B Bonds shall be required to be made 15 days prior to the date established by the Paying Agent for selection of Series B Bonds for redemption or (b) with respect to a Series B Bond after such Series B Bond has been selected for redemption.

Defeasance

The District has the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Series B Bonds by (i) paying the Series B Bonds when due and payable, (ii) depositing with the Paying Agent money in an amount sufficient to pay debt service on the Series B Bonds when due, including all Accreted Value and redemption premiums and (iii) by depositing with the Paying Agent, in trust, cash and certain Federal Securities in an amount determined to be sufficient, together with interest earnings, to be sufficient to pay and discharge the indebtedness on such Series B Bonds (including all Accreted Value and redemption premiums) at or before their respective maturity dates.

"**Federal Securities**" is defined in the Paying Agent Agreement as United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

Continuing Disclosure

The District has covenanted, for the benefit of holders and beneficial owners of the Series B Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an "**Annual Report**") not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing March 31, 2012 with the report for the 2010-11 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth below 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 District has not previously failed to comply with a continuing disclosure reporting obligation undertaken pursuant to the Rule.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Series A Bonds and the Series B Bonds (assuming no optional redemptions).

Period Ending (August 1)	Series A Bonds Annual Debt Service	Initial Denominationa l Amount	Interest	Accreted Interest	Series B Bonds Annual Debt Service	Series A and Series B Bonds Annual Debt Service
2011	$ 375,037.50	--	--	--	--	$ 375,037.50
2012	385,037.50	--	--	--	--	385,037.50
2013	399,837.50	--	--	--	--	399,837.50
2014	424,087.50	--	--	--	--	424,087.50
2015	447,587.50	--	--	--	--	447,587.50
2016	470,150.00	--	--	--	--	470,150.00
2017	491,650.00	--	--	--	--	491,650.00
2018	511,962.50	--	--	--	--	511,962.50
2019	460,962.50	$ 69,393.50	--	$ 115,606.50	$ 185,000.00	645,962.50
2020	431,762.50	88,467.60	--	176,532.40	265,000.00	696,762.50
2021	513,562.50	69,823.20	--	165,176.80	235,000.00	748,562.50
2022	541,550.00	--	$ 267,900.00	--	267,900.00	809,450.00
2023	567,050.00	8,236.90	267,900.00	26,763.10	302,900.00	869,950.00
2024	600,300.00	14,661.50	267,900.00	55,338.50	337,900.00	938,200.00
2025	626,300.00	21,437.15	267,900.00	93,562.85	382,900.00	1,009,200.00
2026	660,300.00	26,545.60	267,900.00	133,454.40	427,900.00	1,088,200.00
2027	701,800.00	--	470,343.76	--	470,343.76	1,172,143.76
2028	736,000.00	7,227.55	470,343.76	47,772.45	525,343.76	1,261,343.76
2029	771,600.00	13,450.40	470,343.76	101,549.60	585,343.76	1,356,943.76
2030	858,300.00	14,052.15	470,343.76	120,947.85	605,343.76	1,463,643.76
2031	742,800.00	33,350.40	470,343.76	326,649.60	830,343.76	1,573,143.76
2032	1,006,800.00	18,139.00	470,343.76	201,861.00	690,343.76	1,697,143.76
2033	932,800.00	31,186.50	470,343.76	393,813.50	895,343.76	1,828,143.76
2034	--	230,065.55	470,343.76	1,264,934.45	1,965,343.76	1,965,343.76
2035	--	247,120.50	470,343.76	1,402,879.50	2,120,343.76	2,120,343.76
2036	--	248,965.50	470,343.76	1,561,034.50	2,280,343.76	2,280,343.76
2037	--	247,422.70	470,343.76	1,742,350.70	2,460,117.16	2,460,117.16
2038	--	250,077.45	470,343.76	1,926,201.60	2,646,622.81	2,646,622.81
2039	--	428,657.75	470,343.76	1,951,342.25	2,850,343.76	2,850,343.76
2040	--	983,646.00	411,712.50	1,676,354.00	3,071,712.50	3,071,712.50
2041	--	1,501,740.00	217,845.00	1,588,260.00	3,307,845.00	3,307,845.00
2042	--	285,414.05	--	3,278,403.30	3,563,817.35	3,563,817.35
2043	--	283,671.95	--	3,554,814.50	3,838,486.45	3,838,486.45
2044	--	281,639.50	--	3,848,232.50	4,129,872.00	4,129,872.00
2045	--	279,897.40	--	4,167,902.20	4,447,799.60	4,447,799.60
2046	--	278,155.30	--	4,511,844.70	4,790,000.00	4,790,000.00
2047	--	262,349.10	--	4,897,447.00	5,159,796.10	5,159,796.10
2049	--	260,360.10	--	5,296,803.05	5,557,163.15	5,557,163.15
2049	--	258,371.10	--	5,726,446.65	5,984,817.75	5,984,817.75
2050	--	256,382.10	--	6,188,617.90	6,445,000.00	6,445,000.00
Total	$13,657,237.50	$6,999,907.50	$8,083,526.38	$56,542,897.35	$71,626,331.23	$85,283,568.73

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series B Bonds are as follows:

Sources of Funds:	
Principal Amount of Series B Bonds	$6,999,907.50
Original Issue Premium	476,225.00
Total Sources	$7,476,132.50
Uses of Funds:	
Deposit to Building Fund	$6,999,907.50
Underwriter's Discount	49,209.35
Costs of Issuance (1)	427,015.65
Total Uses	$7,476,132.50

(1) Costs of Issuance include legal fees, Underwriter's discount, printing costs, bond insurance premium, consultant fees, rating agency fees and other miscellaneous expenses.

APPLICATION OF PROCEEDS OF SERIES B BONDS

Building Fund

The proceeds from the sale of the Series B Bonds, to the extent of the principal amount thereof, shall be paid to the County to the credit of the fund created and established in the Paying Agent Agreement and known as the "McKinleyville Union School District Building Fund" (the "**Building Fund**"), which will be accounted for as separate and distinct from all other District and County funds. The proceeds will be used solely for the purposes for which the Series B Bonds are being issued and may be used for payment of permissible costs of issuance. Any excess proceeds of the Series B Bonds not needed for the authorized purposes for which the Series B Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of the Accreted Value of the Series B Bonds. Interest earnings on the investment of monies held in the Building Fund shall be retained in the Building Fund and such monies shall be used for any lawful purpose of the District at the direction of the District. At the written request of the District, any amounts remaining on deposit in the Building Fund and not needed for the purposes thereof shall be withdrawn from the Building Fund and transferred to the Debt Service Fund, to be applied to pay the Accreted Value of the Series B Bonds.

Investment of Proceeds of Bonds

Under California law, the District is generally required to pay all monies received from any source into the County Treasury to be held on behalf of the District. The proceeds of Series B Bonds to be deposited in the Building Fund and the Debt Service Fund initially will be deposited in the Treasury of the County which is administered by the County Treasurer (the "Treasurer"). The Paying Agent Agreement provides that proceeds of the Series B Bonds held by the Treasurer shall be invested at the Treasurer's discretion pursuant to law and the investment policy of the County, unless the District otherwise requests the County to invest all or a portion of the funds on deposit in the Building Fund in certain permitted investments, including investment agreements which comply with the requirements of each rating agency then rating the Series B Bonds, as defined in the Paying Agent Agreement. See "HUMBOLDT COUNTY TREASURY POOL" herein for a description of the County's investment policy and investment portfolio. Money on deposit in the Building Fund and the Debt Service Fund will be accounted for separately from other moneys held by the Treasurer.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series B Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (**"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 (or, in the case of capital appreciation bonds, the accreted value of) the Series B 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.
(formerly known as Financial Security Assurance Inc.)

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.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

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 "Aa3" (negative outlook) by Moody's Investors Service, Inc. (**"Moody's"**). On February 24, 2010, Fitch, Inc. (**"Fitch"**), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. 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. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On January 24, 2011, S&P published a Request for Comment: Bond Insurance Criteria (the **"Bond Insurance RFC"**) in which it requested comments on its proposed changes to its bond insurance ratings criteria. In the Bond Insurance RFC, S&P notes that it could lower its financial strength ratings on existing investment-grade bond insurers (including AGM) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers (including AGM) raise additional capital or reduce risk. Reference is made to the Bond Insurance RFC, a copy of which is available at www.standardandpoors.com , for the complete text of S&P's comments.

On October 25, 2010, S&P published a Research Update in which it downgraded AGM's counterparty credit and financial strength rating from "AAA" (negative outlook) to "AA+" (stable outlook). 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.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. 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.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

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, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010, which was filed by AGL with the SEC on November 9, 2010.

Capitalization of AGM

At September 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately $2,512,828,657 and its total net unearned premium reserve was approximately $2,305,542,616, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with 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, 2009 (which was filed by AGL with the SEC on March 1, 2010);

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010);

(iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010); and

(iv) The Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 (which was filed by AGL with the SEC on November 9, 2010).

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. (formerly known as Financial Security Assurance Inc.): 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 "BOND INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" 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.

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 "BOND INSURANCE".

PROPERTY TAXATION

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 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 April 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 Treasurer.

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 the District is established by the Humboldt 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. The full value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area, or to reflect declines in property value caused by substantial damage, destruction or other factors, including assessment appeals filed by property owners. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

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

Property within the District had a net taxable assessed valuation for fiscal year 2010-11 of $1,284,833,977. Shown in the following table are the assessed valuations for the District for the past five fiscal years.

Table 1
MCKINLEYVILLE UNION SCHOOL DISTRICT
Assessed Valuation
Fiscal Year 2006-07 through Fiscal Year 2010-11

	Local Secured	Utility	Unsecured	Total	% Change
2006-07	$1,005,830,998	$0	$41,164,448	$1,046,995,446	-
2007-08	1,103,523,150	0	46,866,724	1,150,389,874	9.9%
2008-09	1,178,798,060	0	52,117,184	1,230,915,244	7.0
2009-10	1,223,003,494	0	56,649,075	1,279,652,569	4.0
2010-11	1,236,444,401	0	48,389,576	1,284,833,977	0.4

Source: California Municipal Statistics, Inc.

The assessed valuation of parcels in the District is comprised primarily of parcels used for residential uses, with almost 88% of assessed valuation attributable to residential uses, and 12% attributable to non-residential use. The following table shows secured assessed valuation of parcels in the District for the 2010-11 fiscal year.

Table 2
MCKINLEYVILLE UNION SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use
Fiscal Year 2010-11

	2010-11 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural/Timber	$ 10,143,749	0.82%	349	5.75%
Commercial	131,091,494	10.60	165	2.72
Vacant Commercial	6,016,648	0.49	25	0.41
Industrial	1,091,619	0.09	1	0.02
Government/Social/Institutional	313,096	0.03	14	0.23
Subtotal Non-Residential	$148,656,606	12.02%	554	9.13%
Residential:				
Single Family Residence	$ 825,645,517	66.78%	3,845	63.37%
Rural Residential	94,848,963	7.67	321	5.29
Mobile Home	42,073,889	3.40	580	9.56
Mobile Home Park	8,646,867	0.70	14	0.23
2-4 Residential Units	87,645,018	7.09	265	4.37
5+ Residential Units/Apartments	12,258,679	0.99	39	0.64
Vacant Residential	16,668,862	1.35	450	7.42
Subtotal Residential	$1,087,787,795	87.98%	5,514	90.87%
Total	$1,236,444,401	100.00%	6,068	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

The table below shows the distribution of assessed value for the singe-family residential parcels in the District for fiscal year 2010-11.

Table 3
MCKINLEYVILLE UNION SCHOOL DISTRICT
Per Parcel 2010-11 Assessed Valuation of Single Family Homes

	No. of Parcels	2010-11 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	3,845	$825,645,517	$214,732	$183,019

2010-11 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	27	0.702%	0.702%	$ 478,850	0.058%	0.058%
$25,000 - $49,999	147	3.823	4.525	6,029,894	0.730	0.788
$50,000 - $74,999	209	5.436	9.961	12,909,003	1.564	2.352
$75,000 - $99,999	274	7.126	17.087	24,091,456	2.918	5.270
$100,000 - $124,999	321	8.349	25.436	36,378,923	4.406	9.676
$125,000 - $149,999	433	11.261	36.697	59,750,592	7.237	16.913
$150,000 - $174,999	411	10.689	47.386	66,215,023	8.020	24.932
$175,000 - $199,999	290	7.542	54.928	54,135,331	6.557	31.489
$200,000 - $224,999	241	6.268	61.196	51,108,081	6.190	37.679
$225,000 - $249,999	192	4.993	66.190	45,714,063	5.537	43.216
$250,000 - $274,999	222	5.774	71.964	58,185,202	7.047	50.263
$275,000 - $299,999	232	6.034	77.997	66,403,458	8.043	58.306
$300,000 - $324,999	208	5.410	83.407	65,028,983	7.876	66.182
$325,000 - $349,999	138	3.589	86.996	46,352,427	5.614	71.796
$350,000 - $374,999	106	2.757	89.753	38,274,529	4.636	76.432
$375,000 - $399,999	80	2.081	91.834	30,961,128	3.750	80.182
$400,000 - $424,999	57	1.482	93.316	23,465,679	2.842	83.024
$425,000 - $449,999	49	1.274	94.590	21,459,982	2.599	85.623
$450,000 - $474,999	42	1.092	95.683	19,447,190	2.355	87.978
$475,000 - $499,999	37	0.962	96.645	17,988,158	2.179	90.157
$500,000 and greater	129	3.355	100.000	81,267,565	9.843	100.000
Total	3,845	100.000%		$825,645,517	100.000%	

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

Appeals of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the District.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFECTING DISTRICT REVENES AND APPROPRIATIONS" below.

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 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. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

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. These reductions are subject to yearly reappraisals and are 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 AFECTING DISTRICT REVENES AND APPROPRIATIONS" below.

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.

In addition, the State recently had a negative Consumer Price Index for the first time since 1978, when voters passed Proposition 13, which governs property taxes. Normally under Proposition 13, assessed property values increase up to 2% per year, except when the inflation index is lower than that. For the 2010-11 tax year, every property in the State got at least a 0.237% reduction in assessed value, in line with the Consumer Price Index decline. Furthermore, for the 2011-12 fiscal year, the California State Board of Equalization has determined that Consumer Price Index is 0.0753% and this will be the Proposition 13 inflation factor applied to the tax roll for 2011-12.

No assurance can be given that Proposition 8 reductions and/or other property tax appeals in the future will not significantly reduce the assessed valuation of property within the District.

Property Tax Collections

The District's total secured tax collections and delinquencies are apportioned on a County-wide basis, according to the District's designated tax rate amount. Therefore, the total secured tax levies, as well as collections and delinquencies reported, do not represent the actual secured tax levies, collections and delinquencies of tax payers within the tax areas of the District. In addition, the District's total secured tax levy does not include special assessments, supplemental taxes or other charges which have been assessed on property within the District or other tax rate areas of the County.

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**") as provided for in the State Revenue and Taxation Code, which requires the County to pay 100% of secured property taxes due to local agencies in the fiscal year such taxes are due. Under these provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies, assuming that certain conditions are met.

Because of this method of tax collection, the school districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their secured tax levies if the conditions established under the applicable county's Teeter Plan are met. However, such districts are not entitled to share in any penalties due to delinquent payments. This method of tax collection and distribution is subject to future discontinuance at the County's option or if demanded by the participating taxing agencies.

Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2010-11.

Table 4
MCKINLEYVILLE UNION SCHOOL DISTRICT
Largest Local Secured Taxpayers
Fiscal Year 2010-11

	Property Owner	Primary Land Use	2010-11 Assessed Valuation	% of Total (1)
1.	Timber Ridge at McKinleyville LLC	Assisted Living Facility	$10,520,799	0.85%
2.	Reneson Hotels Inc.	Hotel/Motel	8,392,357	0.68
3.	Azalea Gardens Apartments LP	Apartments	8,296,269	0.67
4.	L&A Enterprises LLC	Commercial Store	6,489,917	0.52
5.	Coast Central Credit Union	Financial Building	6,161,537	0.50
6.	Sears Roebuck and Co.	Commercial Store	5,658,500	0.46
7.	Stephen A. Moser Trust	Office Building	5,557,982	0.45
8.	BDC Crestline LP	Commercial Store	4,579,881	0.37
9.	Ronald J. Harris Trust	Mini-Warehouse	4,495,258	0.36
10.	John C. Schweiger Trust	Movie Theater	4,279,235	0.35
11.	D and R Miller Family LLC	Commercial Store	3,795,171	0.31
12.	Murray Storage LP	Mini-Warehouse	3,765,879	0.30
13.	Green Diamond Resource Company	Timber	3,546,442	0.29
14.	J.L. Furtado Inc.	Office Building	3,498,430	0.28
15.	Michael and Sheril Jones Trust	Commercial Store	3,002,838	0.24
16.	Gross Family LLC	Commercial Store	2,964,385	0.24
17.	Opie L. and Imogene Hendricks Trust	Commercial Store	2,933,440	0.24
18.	Lisa C. and William F. Landis, Jr. Trust	Rural Residential	2,885,520	0.23
19.	Swanlund Properties LP	Mobile Home park	2,847,506	0.23
20.	Denis E. and Rene D. Cosby	Mini-Warehouse	2,821,831	0.23
			$96,493,177	7.80%

(1) 2010-11 Local Secured Assessed Valuation: $1,236,444,401.
Source: California Municipal Statistics, Inc.

Overlapping Debt Obligations

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

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

Table 5
MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of January 1, 2011

2010-11 Assessed Valuation: $1,284,833,977

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	Debt 1/1/11	
Redwoods Joint Community College District	8.919%	$2,695,768	
McKinleyville Union School District	**100.**	**6,820,000**	(2)
Humboldt Bay Harbor Recreation and Conservation District	12.910	327,269	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$9,843,037	
OVERLAPPING GENERAL FUND DEBT:			
Humboldt County Certificates of Participation	12.910%	$1,715,094	
Humboldt County Office of Education Certificates of Participation	12.910	90,370	
Redwoods Joint Community College District Certificates of Participation	8.919	43,204	
Northern Humboldt Union High School District Certificates of Participation	38.303	494,109	
McKinleyville Community Services District Certificates of Participation	98.736	54,305	
TOTAL OVERLAPPING GENERAL FUND DEBT		$2,397,082	
COMBINED TOTAL DEBT		$12,240,119	(3)

(1) Based on 2009-10 ratios.
(2) Excludes general obligation bonds to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:
Direct Debt ($6,820,000)..0.53%
Total Direct and Overlapping Tax and Assessment Debt...0.77%
Combined Total Debt..0.95%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc.

THE DISTRICT

General Information

McKinleyville is situated on the coast of California, about 80 miles south of the Oregon border. McKinleyville is located between the Pacific Ocean to the west, and the coastal mountain ranges to the east only 4 miles from Arcata and Humboldt State University, 11 miles from Eureka (the county seat) and 275 miles from San Francisco. The District provides services to the community of McKinleyville. The District operates two elementary schools and one middle school.

Administration

The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board members or by a special election. Each December, the Board elects a President and Clerk to serve one-year terms. Current members of the Board of Trustees, together with their office and the date their term expires, are listed below:

Name	Office	Term Expires
Brian Mitchell	President	December 2012
Tim Hooven	Clerk	December 2014
Justin Zabel	Member	December 2012
Sara Alto	Member	December 2014
Don Rosebrook	Member	December 2014

Recent Enrollment Trends

The following table shows enrollment history for the District for the last seven fiscal years, with an estimated figure for fiscal year 2010-11.

Table 6
MCKINLEYVILLE UNION SCHOOL DISTRICT
Annual Enrollment Grades K through 8
Fiscal Years 2003-04 through 2010-11

School Year	Enrollment
2003-04	1,340
2004-05	1,331
2005-06	1,272
2006-07	1,210
2007-08	1,175
2008-09	1,165
2009-10	1,165
2010-11(1)	1,144

(1) Estimates provided by the District.
Source: California Department of Education.

Employee Relations

The certificated, office and technical support personnel, and instructional assistants of the District have selected the McKinleyville Teachers Association as their exclusive bargaining agent. They are currently under a contract which expires on June 30, 2011.

The California Service Employees Association, Chapter 144 has been selected as the exclusive bargaining agent for the maintenance and operations, and food service personnel in the District. These personnel are covered by a contract that expires on June 30, 2011.

District Retirement Systems

STRS. The District participates in the State of California Teacher's Retirement System ("**STRS**"). This plan covers basically all full-time certificated employees. Active plan members are required to contribute 8.0% of their salary and the District is to contribute an actuarially determined rate, which was 8.25% of payroll for the 2009-10 fiscal year. The District's contribution to STRS for fiscal years 2007-08, 2008-09 and 2009-10 was $391,652, $388,330, and $371,883 respectively; and for fiscal year 2010-11 $351,889 is projected.

PERS. The District also participates in the State of California Public Employees' Retirement System ("**PERS**"). This plan covers all classified personnel who are employed four or more hours per day. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate, which was 9.71% of annual payroll for 2009-10. The District's contribution to PERS for fiscal years 2007-08, 2008-09 and 2009-10 was $129,875, $124,845 and $123,407, respectively; and for fiscal year 2010-11 $120,844 is projected.

Both the PERS and STRS systems are operated on a statewide basis. District contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as liability. STRS has a substantial State unfunded liability. Since this liability has not been broken down by the state agency, information is not available showing the District's share.

Other Post-Employment Benefits. The District provides post-retirement health care benefits for employees who retire between the age of 55 and 65, with certain years of service. On June 30, 2010, 19 retirees met the requirements. The District pays medical, dental and vision premiums for all employees who meet the eligibility requirements of the collective bargaining agreements or employment contracts. If premiums exceed the limits, the retiree is liable for the difference. The benefits are paid up to the age of 65.

During fiscal year 2009-10, expenditures of $135,604 were recognized for post-retirement health benefits. The total post-retirement contingent liability as actuarially computed is $1,685,609 as of September 1, 2007.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the District and the 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 Series B Bonds is payable from the general fund of the District. The Series B 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 SERIES B BONDS - Security" herein.

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts. The financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities. The major fund classification is the general fund which accounts for all financial resources not required to be accounted for in another fund. The District's fiscal year begins on July 1 and ends on June 30.

All governmental funds and fiduciary funds are maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, both measurable and available to finance expenditures for the current period. For more information on the District's accounting method, see Note 1, Section B of "APPENDIX B - Audited Financial Statements of the District" attached hereto.

The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information.

Financial Statements

The District's Audited Financial Statements for the fiscal year ending fiscal year 2009-10 were prepared by May, Abrahamsen & Barsanti, Certified Public Accountants, McKinleyville, California. Audited financial statements for the District for the fiscal year ended June 30, 2010 and prior fiscal years are on file with the District and available for public inspection at the Superintendent's Office. See Appendix B hereto for excerpts from the 2009-10 Audited Financial Statements. The District has not requested, and the auditor has not provided, any additional review of such financial statements in connection with their inclusion in the Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District.

The following table shows the audited income and expense statements for the District for the 2007-08 through 2009-10 fiscal years.

Table 7
MCKINLEYVILLE UNION SCHOOL DISTRICT
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance
For Fiscal Years 2007-08 through 2009-10 (audited)

	Audited 2007-08	Audited 2008-09	Audited 2009-10
Revenues			
Revenue limit sources:			
State apportionments	$2,909,091	$2,373,500	$1,406,565
Local sources	3,469,217	3,686,405	3,834,518
Total Revenue limit	6,378,308	6,059,905	5,241,083
Federal revenues	678,932	960,770	808,925
Other state revenues	1,573,685	1,413,220	1,513,253
Other local revenues	622,006	584,462	687,396
Total Revenues	9,252,931	9,018,357	8,250,657
Expenditures			
Instruction	6,367,002	6,054,555	5,855,627
Instruction-related services:			
Supervision of instruction	98,316	108,666	65,368
Library, media and technology	153,979	129,132	119,956
School site administration	598,276	608,110	573,128
Pupil services:			
Home-to-school transportation	284,147	258,302	421,647
All other pupil services	293,920	254,984	251,872
General Administration:			
Data processing services	14,258	14,392	14,146
All other general administration	601,102	598,703	551,963
Plant services	650,232	591,232	567,700
Ancillary services	102,096	97,392	97,232
Community services	38,327	4,966	4,116
Other outgo	200,425	219,213	195,408
Total Expenditures	9,402,079	8,939,647	8,718,163
Excess of Revenues Over/(Under) Expenditures	(149,148)	78,710	(467,506)
Other Financing Sources (Uses)			
Operating transfers in	80,499	101,745	335,547
Operating transfers out	(54,100)	--	(156,725)
Total Other Fin. Source(Uses)	26,399	101,745	178,822
Net change in fund balance	(122,749)	180,455	(288,684)
Fund Balance, July 1	1,010,539	887,790	1,068,245
Fund Balance, June 30	$887,790	$1,068,245	$ 779,561

Source: McKinleyville Union School District Audit Reports.

The following table shows the District's adopted Budget for 2010-11, adopted by the Board of Trustees on June 18, 2010 and figures from the District's First Interim Report for fiscal year 2010-11, adopted by the Board of Trustees on December 8, 2010.

Table 8
MCKINLEYVILLE UNION SCHOOL DISTRICT
Budgeted Revenues, Expenditures and Changes in Fund Balance
For Fiscal Year Ended June 30, 2011

	Adopted Budget (1) 2010-11	1st Interim Report 2010-11
Revenues		
Revenue Limit Sources	$5,244,473	$5,529,478
Federal revenues	690,830	980,047
Other state revenues	1,196,402	1,197,709
Other local revenues	587,138	631,700
Total Revenues	7,718,843	8,338,934
Expenditures		
Certificated Salaries	4,101,101	4,258,111
Classified Salaries	1,307,952	1,324,081
Employee Benefits	1,781,322	1,833,780
Books and Supplies	319,919	422,949
Services and Other Operating Expenditures	578,870	762,888
Capital outlay		
Other Outgo	217,723	189,516
Transfers of Indirect Costs	(18,566)	(18,566)
Total Expenditures	8,288,321	8,772,759
Excess of Revenues Over/(Under) Expenditures	(569,478)	(433,825)
Other Financing Sources (Uses)		
Operating Transfers In	308,498	309,012
Operating Transfers Out	(164,397)	(164,397)
Total Other Financing Sources (Uses)	144,101	144,615
Net Change in Fund Balance	(425,377)	(289,210)
Fund Balance, July 1	599,280	779,561
Fund Balance, June 30	$ 173,903	$490,351

(1) Budget as originally approved by the Board of Trustees.
(2) Projected year totals.
Source: McKinleyville Union School District.

District Reserves. In general, the State requires that the California school districts maintain the equivalent of 3% of annual general fund expenditures in reserve to be available during financial crisis. In fiscal year 2009-10, the District exceeded the 3% minimum requirement, with an unrestricted fund balance of $624,206, or 7.2%.

Budget Process

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

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

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees 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. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

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

Long-Term Debt

Other than the Series A Bonds, the District has not previously issued bonds and as of June 30, 2010, the District had no long-term bonded debt outstanding. See "DEBT SERVICE SCHEDULES" for the remaining debt service on the Series A Bonds.

State Funding of Education and Revenue Limitations

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit per unit of average daily attendance ("**A.D.A.**"). Such apportionments will, generally speaking, amount to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts.

A schedule of the District's A.D.A. during the past six years, as well as a year projection, is shown below.

Table 9
MCKINLEYVILLE UNION SCHOOL DISTRICT
Average Daily Attendance
Fiscal Years 2004-05 through 2010-11 (projected)

Fiscal Year	P-2 ADA
2004-05	1,262
2005-06	1,196
2006-07	1,151
2007-08	1,120
2008-09	1,102
2009-10	1,106
2010-11 (1)	1,084

(1) ADA projected at 90% of enrollment and Revenue Limit projected at same as previous year. Actual figures will vary.
Source: McKinleyville Union School District.

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

Revenue Sources

The District categorizes its general fund revenues into four sources:

Table 10
MCKINLEYVILLE UNION SCHOOL DISTRICT
District Revenue Sources

Revenue Source	Percentage of Total District General Fund Revenues 2006-07	2007-08	2008-09	2009-10
Revenue limit sources (1)	65.5%	68.9%	67.2%	63.6%
Federal revenues	6.7	7.3	10.7	10.0
Other State revenues	19.9	17.0	15.7	18.6
Other local revenues	6.9	6.7	6.5	7.8

(1) Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues.

Source: McKinleyville Union School District.

Each of these revenue sources is described below.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the average daily attendance for such district by (2) a base revenue limit per unit of A.D.A. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

Funding of the District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues.

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under No Child Left Behind, the Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools.

Other State Revenues. As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues.

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Class Size Reduction Program, home-to-school transportation, Economic Impact Aid, School Improvement Program, Educational Technology Assistance Grants, mandated cost reimbursements, instructional materials and mentor teachers.

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues generally comprise approximately 2% of general fund revenues.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings and other local sources.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION - State Funding of Education and Revenue Limitations" below). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs. Revenues received by the District from all State sources generally accounted for about half of total general fund revenues.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

State Funding of Education and Recent State Budgets

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "– State Funding of Education and Revenue Limitations" above). State funds typically make up the majority of a district's revenue limit. As a result, decreases in State revenues may significantly affect appropriations made by the legislature to school districts. School districts also receive substantial funding from the State for various categorical programs.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. None of the District, the County, or the Underwriter is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.

The Budget Process. The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets

Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to Internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California official statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current official statement, which discusses the State budget and its impact on school districts.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office ("**LAO**") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

Tax Shifts and Triple Flip. Assembly Bill No. 1755 ("**AB 1755**"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required ERAF shift to $135 million. Legislation commonly referred to as the "Triple Flip," was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip", one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation redirects property taxes in the ERAF to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. The swap of sales taxes for property taxes will terminate once the deficit financing bonds are repaid, which is currently expected to occur by 2016.

2010-11 State Budget. Set forth below is a summary of information available with respect to the 2010-11 State Budget.

<u>November 18, 2009 - LAO Report on Fiscal Year 2010-11</u>. On November 18, 2009, the LAO released a report entitled "The 2010-11 Budget: California's Fiscal Outlook," in which it forecast that the State will need to address a general fund budget problem of $20.7 billion between now and the time the Legislature enacts a fiscal year 2010-11 State budget plan. The budget problem consists of a $6.3 billion projected deficit for fiscal year 2009-10 and a $14.4 billion gap between projected revenues and spending in fiscal year 2010-11.

<u>January 8, 2010 – 2010-11 Proposed Budget Submitted by Governor to Legislature</u>. The Governor submitted his 2010-11 Budget to the State Legislature. The 2010-11 Proposed Budget acknowledges a projected budget gap of $19.9 billion, comprised of a 2009-10 shortfall of $6.6 billion, a 2010-11 budget year shortfall of $12.3 billion and a modest reserve of $1 billion. The Governor proposed a combination of spending reductions, alternative funding, fund shifts and additional federal funds to close the $19.9 billion budget gap. Approximately 40% of the solutions relied on the federal government for funding or flexibility, another 40% relied on reductions in State spending, and the remaining 20% consisted of various fund shifts.

With respect to K-12 funding, the 2010-11 Budget proposed full funding of the Proposition 98 minimum guarantee, but a reduction of approximately 10% in funding for administration and other non-instruction related spending. The Proposed Budget included various flexible spending propositions, including those with respect to teacher seniority, substitute costs, staffing notification requirements, and reduced school year. Non-Proposition 98 programs funded with State general fund monies were to be reduced by $2 million, or 0.2%.

<u>LAO Reports</u>. On January 12, 2010, the LAO commented on the 2010-11 Proposed Budget, stating that the Governor's estimate of a $18.9 billion budget problem was reasonable but had a $3.1 billion smaller shortfall than the LAO estimates and was likely to be exacerbated

by various lawsuits. The LAO also noted that the Governor's plan relied heavily on federal relief, which the State is unlikely to receive in the amounts requested.

ABX8 5 and ABX8 14. On March 1, 2010, the Governor signed into law ABX8 5, effective immediately, which included several measures meant to allow the State to manage its cash resources in the fiscal years 2009-10 and 2010-11. For fiscal year 2009-10, ABX8 5 authorized the deferral of general fund payments to be made to trial court operations, the California State University system, the University of California system, and community college districts ("CCDs") in March 2010 to no sooner than April 15, 2010, but no later than May 1, 2010. Prior to such deferrals, the State Controller, Treasurer, and Director of Finance are required to review the actual cash situation to determine if the deferrals are in fact necessary. Further, if such deferrals are implemented, the Controller, Treasurer and Director of Finance, after April 1, are required to review daily the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. To address the cash management issues in fiscal year 2010/11, ABX8 5 authorized specific deferrals to K-12 apportionments, Supplemental Security Income/State Supplementary Payments, local government social services and transportation payments and trial court operations. These deferrals are allowed only in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 60 days. Prior to the implementation of such deferrals, the Controller, Treasurer and Director of Finance must review the actual cash receipts and disbursements to determine if they are in fact necessary. Further, if such deferrals are implemented, the Controller, Treasurer and Director of Finance, after July 1, 2010, are required to conduct a daily review of the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. In addition, such deferrals may be moved forward or backward one month from the dates specified if all three of the Controller, Treasurer and Director of Finance determine that a move is necessary. ABX8 5 limited the K-12 deferrals to $2.5 billion at any given time during the fiscal year 2010-11 and sets a maximum of three K-12 deferrals during the fiscal year. ABX8 5 provided a hardship exemption for county offices of education, school districts and charter schools. ABX8 5 further authorized the deferral of $200 million from July 2010 to October 2010 and $100 million from March 2011 to May 2011 for CCDs. ABX8 5 also provided for a hardship exemption for CCDs.

On March 22, 2010, the Governor signed into law, effective immediately, ABX8 14 which amended the cash management provisions for 2009-10 and 2010-11 enacted into law pursuant to ABX8 5. With regard to the 2009-10 cash management issues, ABX8 14 provides a hardship exemption process for the current year deferrals for CCDs and makes them the first entity to have deferrals paid as soon as funds are available. As to the 2010-11 cash issues, ABX8 14 clarifies the hardship exemption process for school districts, county offices of education and charter schools and provides certain other changes pertaining to those provisions. In addition, ABX8 14 requires the State Controller, State Treasurer, and the Director of Finance to jointly provide a written declaration of the intended payment deferrals for the 2010-11 fiscal year no later than March 31, 2010 as well as requiring approval by the Director of Finance for hardship exemptions; and states the intent of the legislature that July 2010 deferrals shall first be made from the advance principal apportionment payment. The legislation also delays the date by which hardship exemption requests must be submitted (including with respect to 2010-11 CCD deferrals) and provides a second hardship waiver opportunity for the March 2011 deferral for those districts that did not receive an initial hardship waiver in June 2010.

May 2010 Budget Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts. The Governor's May 2010 Budget Revision estimated a general fund budget gap of $19.1 billion, $7.7 billion for the 2009-10 fiscal year, $10.2 billion for the 2010-11 fiscal year, and a modest reserve of $1.2 billion. The May Revision proposed $12.4 billion in spending reductions and alternative funding proposals, representing two-thirds of the solution, borrowing and fund shifts representing approximately 10% of the solution and new revenue representing approximately 5% of the solution. Major spending reduction proposals included reductions of $4.3 billion of Proposition 98 spending, including the elimination of need-based, subsidized childcare, reductions of $2.1 billion by reducing State employees pay and staffing and shifting pension costs to employees, and the elimination of the CalWORKs program, which provides cash grants and welfare-to-work services, representing $1.2 billion in savings.

LAO Report. On May 18, 2010, the LAO published its comments on the May Revision stating that the Governor's estimate of the budget shortfall was reasonable. However, the LAO Report advised the Legislature to reject the Governor's most drastic spending cuts, particularly the elimination of CalWORKs and child care funding, instituting instead the LAO's alternative spending reduction proposals, and adopting selective revenue increases from fee increases and other non-tax revenues and targeted tax increases. Additionally, the LAO Report urged the Legislature to suspend Proposition 98 if the minimum guarantee is above the level that the State can afford. The LAO predicted that even if the Legislature approved all of the painful cuts and realized the savings assumed by the Governor's May Revision, a multibillion-dollar operating deficit between $4 billion and $7 billion is likely to persist in future years.

Governor Declares Financial State of Emergency; Legislative Session Ends Without Budget Passage. On July 28, 2010, the Governor declared a financial state of emergency and ordered 150,000 State workers to take three furlough days per month. The legislative session ended on August 31, 2010 and lawmakers voted on two competing budget proposals – the Governor's and a joint State budget plan of Democratic leaders in the Assembly and the Senate. Both budget plans failed on party-line votes.

The Democrat's budget proposal included tax proposals of approximately $4.5 billion from an oil severance tax, delaying corporate tax breaks and income tax increase paired with reduced sales tax. It cut spending by $8.3 billion, by suspending Prop. 98 and funding schools at approximately $3 billion less than required under Prop. 98. The plan also included a tax swap that would increase some of the personal income tax rates and the vehicle license fee rate and lower the State's sales tax rate, to raise $1.8 billion in revenues in 2010-11 and $2.2 billion in 2011-12. Had the Democrat's proposal passed the Legislature, the Governor was not expected to sign it.

The Governor issued an order on July 1, 2010 reducing over 200,000 employees' pay to the federal minimum wage until the impasse is over. On July 16, 2010 a Sacramento County Superior Court judge denied the administration's request for a temporary restraining order that would have forced the State Controller to begin paying the minimum wage. The State Controller said he would not follow the order unless told to do so by a court. On August 25, 2010, the Sacramento County Superior Court sided with the State Controller, ruling that the challenge to the governor's minimum wage order has enough merit to require a full hearing. The hearing, originally scheduled for November 2010, has been delayed and is not expected to take place until March 2011.

On August 23, 2010, in an effort to conserve cash and delay the need to issue IOUs, State officials decided to start delaying school payments of $2.5 billion a month in September through December. This came after a $2.5 billion deferral in July.

On August 18, 2010, the California Supreme Court issued a stay of the temporary restraining order of the Alameda County Superior Court issued on August 9, 2010, which would have prohibited the Governor from imposing three furlough days on State workers. As a result of the stay, furloughs of State workers were to continue until arguments in a larger case about their legality could be heard on September 8, 2010. On October 4, 2010, the California Supreme Court upheld the Governor's authority to furlough State workers when there is no budget in place.

2010-11 Budget Passes 100 Days Late. The Legislature passed the $87.5 billion 2010-11 Budget on the morning of October 8, 2010 and the Governor signed it that night, exercising his line-item veto authority to reduce spending by $963 million in order to raise the reserve level from $375 million to $1.3 billion. Total 2010-11 Budget expenditure reductions are $8.4 billion. The 2010-11 Budget assumes federal funds of $5.4 billion and other solutions of almost $5.5 billion.

Expenditure Reductions.

Budget and Pension Reform. The Legislature approved a measure to place a budget reform constitutional amendment before the voters at a future statewide election, intended to increase the State's budgetary reserves and stabilize the State's financial health over time. The measure would double the maximum size of the Budget Stabilization Account and provide more stringent deposit requirements.

The 2010-11 Budget Package includes legislation proposed by the Governor to decrease pension benefits for State employees hired in the future. Pension reform rolls back retirement formulas used to calculate pension payments, permanent increases in pension contributions, and is designed to prevent pension spiking and improve transparency of the State's pension liabilities and costs.

Proposition 98 – K-14 Education. The Legislature suspended the Proposition 98 minimum guaranty to provide $49.7 billion in spending on K-14 Education in 2010-11. Settle-up funds of $300 million are provided in the 2010-11 Budget to meet the State's outstanding 2009-10 Proposition 98 settle-up obligation. In addition, related budget bills provide K-12 education with $1.5 billion in special one-time federal funding. The 2010-11 Budget Package defers $1.9 billion in additional K-14 payments to July 2011.

Employee Compensation, Health and Social Services, Criminal Justice. The 2010-11 Budget provides $1.6 billion in personnel cost reductions from savings from recent agreements with unions and reductions, anticipated reductions from future union agreements, and the administration's "workforce cap" which consists of reductions in hiring and reduced operating costs from the workforce cap. The 2010-11 Budget provides $300 million in reductions to the In-Home Supportive Services Program and $187 million in savings to Medi-Cal. The 2010-11 Budget package assumes a total of $1.1 billion in general fund savings within the Department of Corrections.

Federal Funding. The 2010-11 Budget package assumes that the federal government will provide federal funding or approval for certain reductions in State costs or service levels resulting in the ability to reduce general fund costs by $5.4 billion. About $1.3 billion has been approved by the Congress and the President. Most of the federal funding assumed in the 2010-11 Budget has yet to be approved by Congress.

Revenue-Related Solutions. The 2010-11 Budget extends for two additional tax years the previously enacted temporary suspension of businesses' ability to use net operating losses to reduce tax liabilities, projected to increase State revenues by $1.2 billion in 2010-11 and by $400 million in 2011-12. The budget plan assumes $1.2 billion in one-time revenue from the sale of 11

State office properties. The Budget plan includes $2.7 billion of loans, loan repayment extensions, transfers and fund shifts from special funds.

Ballot Propositions. On November 2, 2010, voters approved Propositions 22, 25 and 26. Proposition 22 prohibits State legislators from raiding existing funds allocated to local government, public safety and transportation. Proposition 25 lowered the vote threshold for lawmakers to pass the State budget from two-thirds to a simple majority. Proposition 26 requires a two-thirds affirmative vote in the State Legislature and local governments to pass many fees, levies, charges and tax revenue allocations that under previous rules could be enacted by a simple majority vote.

LAO Report. The LAO forecasts that the State's general fund revenues and expenditures show a budget problem of $25.4 billion, consisting of a $6 billion projected deficit for fiscal year 2010-11 and a $19 billion gap between projected revenues and spending for fiscal year 2011-12. The LAO projects that the State will continue to face annual budget problems of approximately $20 billion each year through fiscal year 2015-16, and recommends that the Legislature initiate a multi-year approach to solving the State's recurring structural budget deficit, addressing permanent revenue and expenditure actions each year, together with temporary budget solutions, until the structural deficit is eliminated.

Legislature Called into Special Session on Budget Deficit. On December 6, 2010, lame-duck Governor Schwarzenegger declared a fiscal emergency and called the new Legislature into special session to address the anticipated 2010-11 general fund deficit (estimated by the LAO to be $6.1 billion). The Governor's proposals would decrease the gap between revenues and expenditures by $1.9 billion 2010-11 and by $8 billion in 2011-12. The Governor's proposals consisted of $7.4 billion of expenditure-related reductions and two major revenue proposals, all of which had been previously rejected by the prior Legislature.

2011-12 State Budget. On January 3, 2011, Jerry Brown was sworn in as Governor and warned that his budget plan would include severe cuts to State spending. On January 10, 2011, Governor Brown submitted his 2011-12 Proposed Budget (the "**Proposed Budget**") to the Legislature. The Proposed Budget acknowledged a $25.4 billion budget problem, consisting of an $8.2 billion deficit that would remain at the end of 2010-11 absent budgetary action, and an estimated $17.2 billion shortfall between current-law revenues and expenditures in 2011-12. The Governor's Proposed Budget includes a plan to submit to the voters at a special election in June an extension of the four temporary tax increases adopted by voters in 2009. Additionally, the Governor proposes to restructure the state-local relationship by shifting funding and responsibility to local government for certain services, resulting in a shift of $5.9 billion in State program costs to counties. The Governor also proposes eliminating redevelopment agencies. The Proposed Budget includes expenditure reductions which touch nearly every area of the State budget. Although the Governor's revenue proposals result in a $2 billion increase in the Proposition 98 minimum funding guarantee for schools above the current-law level, the Proposed Budget would result in a small funding decline for K-12 and more significant reductions for community colleges and child care programs. An LAO report dated January 12, 2011 stated that the Proposed Budget estimates were reasonable, and the proposed multiyear and ongoing solutions show great promise of making substantial improvements to the State's overall budget health. However, the LAO report recognizes that the Governor's realignment and redevelopment proposals are extremely ambitious, implicating many legal, financial and policy issues, and that $12 billion of the Governor's proposed solutions are dependent upon voter approval in June 2011.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets. However, the obligation to levy *ad valorem* taxes upon all taxable property within the District for the payment of principal of and interest on the Bonds would not be impaired.

The State has not entered into any contractual commitment with the District, the County, the Purchasers or the Owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, the District and the Purchaser assume no responsibility for the accuracy of the State Budget information set forth or referred to herein or incorporated by reference herein.

2010 Legal Challenge to State Funding of Education

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "DISTRICT FINANCIAL INFORMATION - State Funding of Education and Recent State Budgets."

On May 20, 2010, a plaintiff class of numerous current California public school students and several school districts, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Maya Robles-Wong, et al. v. State of California*, plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance. The District cannot predict the outcome of the *Robles-Wong* litigation, however, if successful, the lawsuit could result in a change in how school finance is implemented in the State of California.

HUMBOLDT COUNTY INVESTMENT POOL

Under the California Education Code, the District is required to pay all monies received from any source into the County treasury to be held on behalf of the District. Therefore, the District's funds, including moneys in the Building Fund and the Debt Service Fund, as well as property taxes collected to pay debt service on the Bonds, will be held and invested at one time or another by the County Treasurer.

The County Investment Pool. As required by state law, the District deposits all of its general fund revenues with the County of Humboldt's Pooled Surplus Investment Fund. Decisions on the investment of funds in the Treasury Pool are made by the County Treasurer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. Investment decisions are governed by California Government Code Sections 27000 et seq. and 53600, et. seq., and the Treasurer's Investment Policy Statement dated January 1, 2010.

The Treasurer prepares a quarterly Investment Report (the "Investment Report") summarizing the status of the Treasury Pool, including the current market value of all investments. This Report is submitted to the Board of Supervisors, for formal action to approve it. According to the Investment Report for the quarter ending December 31, 2010, the December 31, 2010 book value of the Treasury Pool was approximately $274.6 million and the corresponding market value was approximately $275.1 million. As of December 31, 2010, the average days to maturity of the portfolio was 746 days.

The following table identifies the types of securities held by the Pool as of December 31, 2010.

Type of Investment	Book Value	Market Value
Certificates of Deposit	$21,000,000	$21,000,000
Money Markets	126,225,366	126,225,366
Medium Term Notes	6,039,650	6,224,982
Federal Agency Coupon Securities	121,372,491	121,635,432
Pass Through Securities (GNMA/CMO)	6,426	6,537
	274,643,934	275,092,317

Total Earnings		
Current Year	224,891	
Average Daily Balance	255,387,831	
Effective Rate of Return	1.04%	

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The Accreted Value of the Series B Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. (See "THE SERIES B BONDS - Security" herein.) Articles XIIIA, XIIIB, XIIIC, and XIIID of the State Constitution, Propositions 62, 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 District to levy taxes and 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 District to levy taxes for payment of the Series B Bonds. The tax levied by the County for payment of the Series B Bonds was approved by the District's voters in compliance with Article XIIIA and all applicable laws.

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIIIA to the State Constitution ("**Article XIIIA**"). Article XIIIA limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

Legislation Implementing Article XIIIA

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

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

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

Article XIIIB of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979 thereby adding Article XIIIB to the State Constitution ("**Article XIIIB**"). Under Article XIIIB, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain monies which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit". Article XIIIB does not affect the appropriation of monies which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Unitary Property

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

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

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and 111 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding, see "DISTRICT FINANCIAL INFORMATION –State Funding of Education and Recent Budgets".

Articles XIIIC and XIIID of the California Constitution

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The District does not impose any such taxes, assessments, fees or charges; and, with the exception of the basic one percent *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution, a portion of which is allocated to the District, no such taxes, assessments, fees or charges are imposed on behalf of the District. Accordingly, while the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Series B Bonds.

Future Initiatives

Article XIIIA, Article XIIIB, XIIIC, XIIID and Propositions 62, 98, 111 and 187 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures could be adopted, further affecting the District or its revenues or the ability of the District to expend revenues.

LEGAL OPINION

The proceedings in connection with the issuance of the Series B Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel for the District. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Series B Bond. Certain legal matters will also be passed upon for the District by Jones Hall as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Series B Bonds.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series B Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Series B Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series B Bonds. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series B Bonds, or may cause the Bonds not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Series B Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series B Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Series B Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Series B Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Series B Bonds is exempt from California personal income taxes.

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

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Series B Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Series B Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue and retire the Series B Bonds.

RATING

Standard & Poor's Ratings Services ("**S&P**") has assigned its municipal bond rating of "AA+" to the Series B Bonds, with the understanding that upon delivery of the Series B Bonds, a municipal bond insurance policy guaranteeing the scheduled payment of principal of and interest (and accreted value) on the Series B Bonds when due will be issued by the Bond Insurer. In addition, S&P has assigned an underlying rating of "A+" to the Series B Bonds. Such rating reflects only the view of S&P and an explanation of the significance of such rating may be obtained only from S&P at the following address: Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Series B Bonds

UNDERWRITING

The Series B Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Series B Bonds at a price of $6,999,907.50, which is equal to the initial principal amount of the Series B Bonds of $6,999,907.50 plus net original issue premium of $476,225.00, less the costs of issuance for the Series B Bonds of $427,015.65, and less Underwriter's discount of $49,209.35.

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

Piper Jaffray & Co., ("**Piper**") has entered into an agreement (the "**Distribution Agreement**") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

ADDITIONAL INFORMATION

The discussions herein about the Paying Agent Agreement and the Continuing Disclosure Certificate and other documents mentioned are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Series B Bonds will be on file at the offices of the Paying Agent in San Francisco, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District. The District may impose a charge for copying, mailing and handling.

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

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

By: /s/ Dena McCullough
Superintendent

APPENDIX A

ACCRETED VALUE TABLES

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BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Non-Callable CABs 08/01/2012 12%	Non-Callable CABs 08/01/2013 12%	Non-Callable CABs 08/01/2014 12%	Non-Callable CABs 08/01/2015 12%	Non-Callable CABs 08/01/2016 12%	Non-Callable CABs 08/01/2017 12%	Non-Callable CABs 08/01/2018 12%	Non-Callable CABs 08/01/2019 12%	Non-Callable CABs 08/01/2020 12%
03/02/2011	4,240.40	3,773.95	3,358.80	2,989.30	2,660.50	2,367.80	2,107.35	1,875.50	1,669.20
08/01/2011	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20	1,751.70
02/01/2012	4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30	1,856.80
08/01/2012	5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20
02/01/2013		4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30
08/01/2013		5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50
02/01/2014			4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15
08/01/2014			5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80
02/01/2015				4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90
08/01/2015				5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95
02/01/2016					4,716.95	4,198.05	3,736.25	3,325.25	2,959.45
08/01/2016					5,000.00	4,449.95	3,960.45	3,524.80	3,137.05
02/01/2017						4,716.95	4,198.05	3,736.25	3,325.25
08/01/2017						5,000.00	4,449.95	3,960.45	3,524.80
02/01/2018							4,716.95	4,198.05	3,736.25
08/01/2018							5,000.00	4,449.95	3,960.45
02/01/2019								4,716.95	4,198.05
08/01/2019								5,000.00	4,449.95
02/01/2020									4,716.95
08/01/2020									5,000.00
02/01/2021									
08/01/2021									
02/01/2022									
08/01/2022									
02/01/2023									
08/01/2023									
02/01/2024									
08/01/2024									
02/01/2025									
08/01/2025									
02/01/2026									

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Non-Callable CABs 08/01/2021 12%	Non-Callable CABs 08/01/2022 12%	Non-Callable CABs 08/01/2023 12%	Non-Callable CABs 08/01/2024 12%	Non-Callable CABs 08/01/2025 12%	Non-Callable CABs 08/01/2026 12%	Non-Callable CABs 08/01/2027 12%	Non-Callable CABs 08/01/2028 12%	Non-Callable CABs 08/01/2029 12%
03/02/2011	1,485.60	1,322.15	1,176.70	1,047.25	932.05	829.55	738.30	657.05	584.80
08/01/2011	1,559.00	1,387.50	1,234.85	1,099.05	978.15	870.55	774.75	689.55	613.70
02/01/2012	1,652.55	1,470.75	1,308.95	1,164.95	1,036.80	922.75	821.25	730.90	650.50
08/01/2012	1,751.70	1,559.00	1,387.50	1,234.85	1,099.05	978.15	870.55	774.75	689.55
02/01/2013	1,856.80	1,652.55	1,470.75	1,308.95	1,164.95	1,036.80	922.75	821.25	730.90
08/01/2013	1,968.20	1,751.70	1,559.00	1,387.50	1,234.85	1,099.05	978.15	870.55	774.75
02/01/2014	2,086.30	1,856.80	1,652.55	1,470.75	1,308.95	1,164.95	1,036.80	922.75	821.25
08/01/2014	2,211.50	1,968.20	1,751.70	1,559.00	1,387.50	1,234.85	1,099.05	978.15	870.55
02/01/2015	2,344.15	2,086.30	1,856.80	1,652.55	1,470.75	1,308.95	1,164.95	1,036.80	922.75
08/01/2015	2,484.80	2,211.50	1,968.20	1,751.70	1,559.00	1,387.50	1,234.85	1,099.05	978.15
02/01/2016	2,633.90	2,344.15	2,086.30	1,856.80	1,652.55	1,470.75	1,308.95	1,164.95	1,036.80
08/01/2016	2,791.95	2,484.80	2,211.50	1,968.20	1,751.70	1,559.00	1,387.50	1,234.85	1,099.05
02/01/2017	2,959.45	2,633.90	2,344.15	2,086.30	1,856.80	1,652.55	1,470.75	1,308.95	1,164.95
08/01/2017	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20	1,751.70	1,559.00	1,387.50	1,234.85
02/01/2018	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30	1,856.80	1,652.55	1,470.75	1,308.95
08/01/2018	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20	1,751.70	1,559.00	1,387.50
02/01/2019	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30	1,856.80	1,652.55	1,470.75
08/01/2019	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20	1,751.70	1,559.00
02/01/2020	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30	1,856.80	1,652.55
08/01/2020	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20	1,751.70
02/01/2021	4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30	1,856.80
08/01/2021	5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50	1,968.20
02/01/2022		4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15	2,086.30
08/01/2022		5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80	2,211.50
02/01/2023			4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90	2,344.15
08/01/2023			5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95	2,484.80
02/01/2024				4,716.95	4,198.05	3,736.25	3,325.25	2,959.45	2,633.90
08/01/2024				5,000.00	4,449.95	3,960.45	3,524.80	3,137.05	2,791.95
02/01/2025					4,716.95	4,198.05	3,736.25	3,325.25	2,959.45
08/01/2025					5,000.00	4,449.95	3,960.45	3,524.80	3,137.05
02/01/2026						4,716.95	4,198.05	3,736.25	3,325.25

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Non-Callable CABs 08/01/2021 12%	Non-Callable CABs 08/01/2022 12%	Non-Callable CABs 08/01/2023 12%	Non-Callable CABs 08/01/2024 12%	Non-Callable CABs 08/01/2025 12%	Non-Callable CABs 08/01/2026 12%	Non-Callable CABs 08/01/2027 12%	Non-Callable CABs 08/01/2028 12%	Non-Callable CABs 08/01/2029 12%
08/01/2026						5,000.00	4,449.95	3,960.45	3,524.80
02/01/2027							4,716.95	4,198.05	3,736.25
08/01/2027							5,000.00	4,449.95	3,960.45
02/01/2028								4,716.95	4,198.05
08/01/2028								5,000.00	4,449.95
02/01/2029									4,716.95
08/01/2029									5,000.00
02/01/2030									
08/01/2030									
02/01/2031									
08/01/2031									
02/01/2032									
08/01/2032									
02/01/2033									
08/01/2033									
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08/01/2036									
02/01/2037									
08/01/2037									
02/01/2038									
08/01/2038									
02/01/2039									
08/01/2039									
02/01/2040									
08/01/2040									
02/01/2041									
08/01/2041									

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Non-Callable CABs 08/01/2030 12%	Non-Callable CABs 08/01/2031 12%	Non-Callable CABs 08/01/2032 12%	Non-Callable CABs 08/01/2033 12%	Non-Callable CABs 08/01/2034 8.155%	Non-Callable CABs 08/01/2035 7.68%	Non-Callable CABs 08/01/2036 7.71%	Callable CABs 08/01/2014 3.04%	Callable CABs 08/01/2015 3.63%
03/02/2011	520.45	463.20	412.25	366.90	769.45	794.15	731.10	4,510.60	4,265.85
08/01/2011	546.15	486.10	432.60	385.00	795.30	819.30	754.35	4,567.30	4,329.85
02/01/2012	578.95	515.25	458.55	408.10	827.75	850.80	783.45	4,636.70	4,408.45
08/01/2012	613.70	546.15	486.10	432.60	861.50	883.45	813.65	4,707.20	4,488.45
02/01/2013	650.50	578.95	515.25	458.55	896.65	917.40	845.00	4,778.75	4,569.90
08/01/2013	689.55	613.70	546.15	486.10	933.20	952.60	877.60	4,851.35	4,652.85
02/01/2014	730.90	650.50	578.95	515.25	971.25	989.20	911.45	4,925.10	4,737.30
08/01/2014	774.75	689.55	613.70	546.15	1,010.85	1,027.15	946.55	5,000.00	4,823.30
02/01/2015	821.25	730.90	650.50	578.95	1,052.05	1,066.60	983.05		4,910.85
08/01/2015	870.55	774.75	689.55	613.70	1,094.95	1,107.55	1,020.95		5,000.00
02/01/2016	922.75	821.25	730.90	650.50	1,139.60	1,150.10	1,060.30		
08/01/2016	978.15	870.55	774.75	689.55	1,186.10	1,194.25	1,101.20		
02/01/2017	1,036.80	922.75	821.25	730.90	1,234.45	1,240.15	1,143.65		
08/01/2017	1,099.05	978.15	870.55	774.75	1,284.80	1,287.75	1,187.75		
02/01/2018	1,164.95	1,036.80	922.75	821.25	1,337.15	1,337.20	1,233.50		
08/01/2018	1,234.85	1,099.05	978.15	870.55	1,391.70	1,388.55	1,281.10		
02/01/2019	1,308.95	1,164.95	1,036.80	922.75	1,448.45	1,441.90	1,330.45		
08/01/2019	1,387.50	1,234.85	1,099.05	978.15	1,507.50	1,497.25	1,381.75		
02/01/2020	1,470.75	1,308.95	1,164.95	1,036.80	1,568.95	1,554.75	1,435.00		
08/01/2020	1,559.00	1,387.50	1,234.85	1,099.05	1,632.95	1,614.45	1,490.35		
02/01/2021	1,652.55	1,470.75	1,308.95	1,164.95	1,699.55	1,676.45	1,547.80		
08/01/2021	1,751.70	1,559.00	1,387.50	1,234.85	1,768.85	1,740.80	1,607.45		
02/01/2022	1,856.80	1,652.55	1,470.75	1,308.95	1,840.95	1,807.65	1,669.45		
08/01/2022	1,968.20	1,751.70	1,559.00	1,387.50	1,916.00	1,877.10	1,733.80		
02/01/2023	2,086.30	1,856.80	1,652.55	1,470.75	1,994.15	1,949.15	1,800.65		
08/01/2023	2,211.50	1,968.20	1,751.70	1,559.00	2,075.45	2,024.00	1,870.05		
02/01/2024	2,344.15	2,086.30	1,856.80	1,652.55	2,160.10	2,101.75	1,942.15		
08/01/2024	2,484.80	2,211.50	1,968.20	1,751.70	2,248.15	2,182.45	2,017.00		
02/01/2025	2,633.90	2,344.15	2,086.30	1,856.80	2,339.85	2,266.25	2,094.75		
08/01/2025	2,791.95	2,484.80	2,211.50	1,968.20	2,435.25	2,353.25	2,175.50		
02/01/2026	2,959.45	2,633.90	2,344.15	2,086.30	2,534.55	2,443.65	2,259.40		

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Non-Callable CABs 08/01/2030 12%	Non-Callable CABs 08/01/2031 12%	Non-Callable CABs 08/01/2032 12%	Non-Callable CABs 08/01/2033 12%	Non-Callable CABs 08/01/2034 8.155%	Non-Callable CABs 08/01/2035 7.68%	Non-Callable CABs 08/01/2036 7.71%	Callable CABs 08/01/2014 3.04%	Callable CABs 08/01/2015 3.63%
08/01/2026	3,137.05	2,791.95	2,484.80	2,211.50	2,637.90	2,537.45	2,346.50		
02/01/2027	3,325.25	2,959.45	2,633.90	2,344.15	2,745.45	2,634.90	2,436.95		
08/01/2027	3,524.80	3,137.05	2,791.95	2,484.80	2,857.40	2,736.10	2,530.90		
02/01/2028	3,736.25	3,325.25	2,959.45	2,633.90	2,973.90	2,841.15	2,628.45		
08/01/2028	3,960.45	3,524.80	3,137.05	2,791.95	3,095.15	2,950.25	2,729.80		
02/01/2029	4,198.05	3,736.25	3,325.25	2,959.45	3,221.35	3,063.55	2,835.00		
08/01/2029	4,449.95	3,960.45	3,524.80	3,137.05	3,352.75	3,181.20	2,944.30		
02/01/2030	4,716.95	4,198.05	3,736.25	3,325.25	3,489.45	3,303.35	3,057.80		
08/01/2030	5,000.00	4,449.95	3,960.45	3,524.80	3,631.70	3,430.20	3,175.70		
02/01/2031		4,716.95	4,198.05	3,736.25	3,779.80	3,561.95	3,298.10		
08/01/2031		5,000.00	4,449.95	3,960.45	3,933.95	3,698.70	3,425.25		
02/01/2032			4,716.95	4,198.05	4,094.35	3,840.75	3,557.30		
08/01/2032			5,000.00	4,449.95	4,261.30	3,988.20	3,694.45		
02/01/2033				4,716.95	4,435.05	4,141.35	3,836.85		
08/01/2033				5,000.00	4,615.85	4,300.40	3,984.75		
02/01/2034					4,804.10	4,465.55	4,138.40		
08/01/2034					5,000.00	4,637.00	4,297.90		
02/01/2035						4,815.10	4,463.60		
08/01/2035						5,000.00	4,635.65		
02/01/2036							4,814.40		
08/01/2036							5,000.00		
02/01/2037									
08/01/2037									
02/01/2038									
08/01/2038									
02/01/2039									
08/01/2039									
02/01/2040									
08/01/2040									
02/01/2041									
08/01/2041									

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Callable CABs 08/01/2016 4.02%	Callable CABs 08/01/2017 4.39%	Callable CABs 08/01/2018 4.82%	Callable CABs 08/01/2019 5.22%	Callable CABs 08/01/2020 5.58%	Callable CABs 08/01/2021 5.88%	Callable CABs 08/01/2022 6.44%	Callable CABs 08/01/2023 6.71%	Callable CABs 08/01/2024 6.96%
03/02/2011	4,030.75	3,784.50	3,512.45	3,240.95	2,978.25	2,734.40	2,425.30	2,203.65	1,997.10
08/01/2011	4,097.70	3,853.10	3,582.40	3,310.80	3,046.85	2,800.80	2,489.80	2,264.70	2,054.45
02/01/2012	4,180.05	3,937.70	3,668.75	3,397.20	3,131.85	2,883.15	2,569.95	2,340.65	2,125.95
08/01/2012	4,264.10	4,024.10	3,757.15	3,485.85	3,219.25	2,967.90	2,652.70	2,419.20	2,199.95
02/01/2013	4,349.80	4,112.45	3,847.70	3,576.85	3,309.05	3,055.15	2,738.10	2,500.35	2,276.50
08/01/2013	4,437.20	4,202.70	3,940.45	3,670.20	3,401.40	3,145.00	2,826.30	2,584.25	2,355.70
02/01/2014	4,526.40	4,294.95	4,035.40	3,766.00	3,496.30	3,237.45	2,917.30	2,670.95	2,437.70
08/01/2014	4,617.40	4,389.25	4,132.65	3,864.30	3,593.80	3,332.65	3,011.25	2,760.55	2,522.55
02/01/2015	4,710.20	4,485.60	4,232.25	3,965.15	3,694.10	3,430.60	3,108.20	2,853.20	2,610.30
08/01/2015	4,804.90	4,584.05	4,334.25	4,068.65	3,797.15	3,531.50	3,208.30	2,948.90	2,701.15
02/01/2016	4,901.45	4,684.65	4,438.70	4,174.85	3,903.10	3,635.30	3,311.60	3,047.85	2,795.15
08/01/2016	5,000.00	4,787.50	4,545.65	4,283.80	4,012.00	3,742.20	3,418.20	3,150.10	2,892.45
02/01/2017		4,892.60	4,655.20	4,395.60	4,123.95	3,852.20	3,528.30	3,255.80	2,993.10
08/01/2017		5,000.00	4,767.40	4,510.35	4,239.00	3,965.45	3,641.90	3,365.05	3,097.25
02/01/2018			4,882.30	4,628.05	4,357.25	4,082.05	3,759.15	3,477.95	3,205.05
08/01/2018			5,000.00	4,748.85	4,478.85	4,202.05	3,880.20	3,594.60	3,316.55
02/01/2019				4,872.80	4,603.80	4,325.60	4,005.15	3,715.20	3,432.00
08/01/2019				5,000.00	4,732.25	4,452.80	4,134.15	3,839.85	3,551.45
02/01/2020					4,864.25	4,583.70	4,267.25	3,968.70	3,675.00
08/01/2020					5,000.00	4,718.45	4,404.65	4,101.85	3,802.90
02/01/2021						4,857.15	4,546.50	4,239.45	3,935.25
08/01/2021						5,000.00	4,692.90	4,381.70	4,072.20
02/01/2022							4,844.00	4,528.70	4,213.90
08/01/2022							5,000.00	4,680.65	4,360.55
02/01/2023								4,837.65	4,512.30
08/01/2023								5,000.00	4,669.35
02/01/2024									4,831.85
08/01/2024									5,000.00
02/01/2025									
08/01/2025									
02/01/2026									

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Callable CABs 08/01/2025 7.15%	Callable CABs 08/01/2026 7.29%	Callable CABs 08/01/2027 7.39%	Callable CABs 08/01/2028 7.49%	Callable CABs 08/01/2029 7.57%	Callable CABs 08/01/2030 7.75%	Callable CABs 08/01/2031 7.82%	Callable CABs 08/01/2032 7.74%	Callable CABs 08/01/2033 7.82%
03/02/2011	1,816.35	1,658.20	1,519.40	1,389.50	1,272.80	1,142.55	1,044.40	983.40	895.85
08/01/2011	1,869.95	1,708.10	1,565.70	1,432.45	1,312.55	1,179.05	1,078.10	1,014.80	924.75
02/01/2012	1,936.80	1,770.35	1,623.55	1,486.10	1,362.25	1,224.75	1,120.25	1,054.05	960.95
08/01/2012	2,006.00	1,834.90	1,683.55	1,541.75	1,413.80	1,272.25	1,164.10	1,094.85	998.50
02/01/2013	2,077.75	1,901.75	1,745.75	1,599.50	1,467.30	1,321.55	1,209.60	1,137.20	1,037.55
08/01/2013	2,152.00	1,971.10	1,810.30	1,659.40	1,522.85	1,372.75	1,256.90	1,181.25	1,078.10
02/01/2014	2,228.95	2,042.95	1,877.15	1,721.55	1,580.50	1,425.95	1,306.05	1,226.95	1,120.25
08/01/2014	2,308.65	2,117.40	1,946.55	1,786.00	1,640.30	1,481.20	1,357.10	1,274.45	1,164.10
02/01/2015	2,391.20	2,194.60	2,018.45	1,852.90	1,702.40	1,538.60	1,410.15	1,323.75	1,209.60
08/01/2015	2,476.65	2,274.60	2,093.05	1,922.30	1,766.85	1,598.20	1,465.30	1,375.00	1,256.90
02/01/2016	2,565.20	2,357.50	2,170.40	1,994.30	1,833.70	1,660.15	1,522.60	1,428.20	1,306.05
08/01/2016	2,656.90	2,443.40	2,250.55	2,068.95	1,903.10	1,724.45	1,582.15	1,483.45	1,357.10
02/01/2017	2,751.90	2,532.50	2,333.75	2,146.45	1,975.15	1,791.30	1,644.00	1,540.90	1,410.15
08/01/2017	2,850.30	2,624.80	2,419.95	2,226.85	2,049.90	1,860.70	1,708.30	1,600.50	1,465.30
02/01/2018	2,952.20	2,720.45	2,509.40	2,310.25	2,127.50	1,932.80	1,775.05	1,662.45	1,522.60
08/01/2018	3,057.70	2,819.65	2,602.10	2,396.75	2,208.05	2,007.70	1,844.50	1,726.80	1,582.15
02/01/2019	3,167.05	2,922.40	2,698.25	2,486.50	2,291.60	2,085.50	1,916.60	1,793.60	1,644.00
08/01/2019	3,280.25	3,028.95	2,797.95	2,579.65	2,378.35	2,166.30	1,991.55	1,863.05	1,708.30
02/01/2020	3,397.50	3,139.35	2,901.35	2,676.25	2,468.35	2,250.25	2,069.40	1,935.15	1,775.05
08/01/2020	3,519.00	3,253.75	3,008.55	2,776.45	2,561.80	2,337.45	2,150.30	2,010.00	1,844.50
02/01/2021	3,644.80	3,372.35	3,119.70	2,880.45	2,658.75	2,428.05	2,234.40	2,087.80	1,916.60
08/01/2021	3,775.10	3,495.30	3,235.00	2,988.30	2,759.40	2,522.15	2,321.75	2,168.60	1,991.55
02/01/2022	3,910.05	3,622.70	3,354.50	3,100.25	2,863.85	2,619.85	2,412.55	2,252.55	2,069.40
08/01/2022	4,049.85	3,754.75	3,478.45	3,216.35	2,972.25	2,721.40	2,506.90	2,339.70	2,150.30
02/01/2023	4,194.60	3,891.60	3,607.00	3,336.80	3,084.75	2,826.85	2,604.90	2,430.25	2,234.40
08/01/2023	4,344.60	4,033.45	3,740.30	3,461.75	3,201.50	2,936.40	2,706.75	2,524.30	2,321.75
02/01/2024	4,499.90	4,180.45	3,878.50	3,591.40	3,322.65	3,050.15	2,812.60	2,622.00	2,412.55
08/01/2024	4,660.75	4,332.85	4,021.80	3,725.90	3,448.45	3,168.35	2,922.55	2,723.50	2,506.90
02/01/2025	4,827.40	4,490.80	4,170.40	3,865.40	3,578.95	3,291.15	3,036.85	2,828.90	2,604.90
08/01/2025	5,000.00	4,654.50	4,324.50	4,010.20	3,714.40	3,418.65	3,155.55	2,938.35	2,706.75
02/01/2026		4,824.15	4,484.30	4,160.35	3,855.00	3,551.15	3,278.95	3,052.05	2,812.60

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Callable CABs 08/01/2025 7.15%	Callable CABs 08/01/2026 7.29%	Callable CABs 08/01/2027 7.39%	Callable CABs 08/01/2028 7.49%	Callable CABs 08/01/2029 7.57%	Callable CABs 08/01/2030 7.75%	Callable CABs 08/01/2031 7.82%	Callable CABs 08/01/2032 7.74%	Callable CABs 08/01/2033 7.82%
08/01/2026		5,000.00	4,650.00	4,316.15	4,000.90	3,688.75	3,407.15	3,170.20	2,922.55
02/01/2027			4,821.80	4,477.80	4,152.35	3,831.70	3,540.40	3,292.90	3,036.85
08/01/2027			5,000.00	4,645.50	4,309.50	3,980.15	3,678.80	3,420.30	3,155.55
02/01/2028				4,819.50	4,472.65	4,134.40	3,822.65	3,552.70	3,278.95
08/01/2028				5,000.00	4,641.95	4,294.60	3,972.15	3,690.15	3,407.15
02/01/2029					4,817.65	4,461.00	4,127.45	3,833.00	3,540.40
08/01/2029					5,000.00	4,633.90	4,288.80	3,981.30	3,678.80
02/01/2030						4,813.45	4,456.50	4,135.40	3,822.65
08/01/2030						5,000.00	4,630.75	4,295.45	3,972.15
02/01/2031							4,811.85	4,461.65	4,127.45
08/01/2031							5,000.00	4,634.35	4,288.80
02/01/2032								4,813.70	4,456.50
08/01/2032								5,000.00	4,630.75
02/01/2033									4,811.85
08/01/2033									5,000.00
02/01/2034									
08/01/2034									
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08/01/2040									
02/01/2041									
08/01/2041									

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Callable CABs 08/01/2034 7.88%	Callable CABs 08/01/2035 7.93%	Callable CABs 08/01/2036 7.96%	Callable Term CABs Maturing 2039 8.05%	Conv. CABs (Conv. 8/1/2026 & Callable 8/1/2031) 7.375%	Conv. CABs (Conv. 8/1/2021 & Callable 8/1/2026) 7.05%	Callable Term CABs Maturing 2046 8.2%	Callable Term CABs Maturing 2050 8.35%
03/02/2011	818.60	748.85	687.75	530.95	1,637.40	2,430.00	290.35	198.90
08/01/2011	845.20	773.35	710.35	548.60	1,687.20	2,500.70	300.20	205.75
02/01/2012	878.50	804.00	738.60	570.65	1,749.45	2,588.85	312.50	214.35
08/01/2012	913.10	835.90	768.00	593.65	1,813.95	2,680.10	325.30	223.30
02/01/2013	949.10	869.05	798.55	617.50	1,880.85	2,774.60	338.65	232.65
08/01/2013	986.45	903.50	830.35	642.40	1,950.20	2,872.40	352.55	242.35
02/01/2014	1,025.35	939.30	863.40	668.25	2,022.10	2,973.65	367.00	252.45
08/01/2014	1,065.75	976.55	897.75	695.15	2,096.70	3,078.45	382.05	263.00
02/01/2015	1,107.75	1,015.30	933.50	723.10	2,174.00	3,186.95	397.70	274.00
08/01/2015	1,151.40	1,055.55	970.65	752.20	2,254.15	3,299.30	414.00	285.40
02/01/2016	1,196.75	1,097.40	1,009.30	782.50	2,337.30	3,415.60	430.95	297.35
08/01/2016	1,243.90	1,140.90	1,049.45	814.00	2,423.45	3,536.00	448.65	309.75
02/01/2017	1,292.90	1,186.15	1,091.25	846.75	2,512.85	3,660.65	467.05	322.70
08/01/2017	1,343.85	1,233.15	1,134.65	880.85	2,605.50	3,789.70	486.20	336.15
02/01/2018	1,396.80	1,282.05	1,179.85	916.30	2,701.60	3,923.30	506.10	350.20
08/01/2018	1,451.85	1,332.90	1,226.80	953.20	2,801.20	4,061.60	526.90	364.80
02/01/2019	1,509.05	1,385.75	1,275.60	991.55	2,904.50	4,204.75	548.50	380.05
08/01/2019	1,568.50	1,440.70	1,326.40	1,031.45	3,011.60	4,353.00	570.95	395.90
02/01/2020	1,630.30	1,497.80	1,379.15	1,072.95	3,122.65	4,506.40	594.40	412.45
08/01/2020	1,694.50	1,557.20	1,434.05	1,116.15	3,237.80	4,665.25	618.75	429.65
02/01/2021	1,761.30	1,618.95	1,491.15	1,161.10	3,357.20	4,829.75	644.10	447.60
08/01/2021	1,830.70	1,683.15	1,550.50	1,207.80	3,481.00	5,000.00	670.55	466.30
02/01/2022	1,902.80	1,749.90	1,612.20	1,256.45	3,609.35		698.00	485.75
08/01/2022	1,977.80	1,819.25	1,676.35	1,307.00	3,742.45		726.65	506.05
02/01/2023	2,055.70	1,891.40	1,743.10	1,359.60	3,880.45		756.45	527.20
08/01/2023	2,136.70	1,966.40	1,812.45	1,414.35	4,023.55		787.45	549.20
02/01/2024	2,220.90	2,044.35	1,884.60	1,471.25	4,171.90		819.75	572.10
08/01/2024	2,308.40	2,125.45	1,959.60	1,530.50	4,325.75		853.35	596.00
02/01/2025	2,399.35	2,209.70	2,037.60	1,592.10	4,485.25		888.35	620.90
08/01/2025	2,493.90	2,297.30	2,118.70	1,656.20	4,650.65		924.75	646.80
02/01/2026	2,592.15	2,388.40	2,203.00	1,722.85	4,822.15		962.65	673.80

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Callable CABs 08/01/2034 7.88%	Callable CABs 08/01/2035 7.93%	Callable CABs 08/01/2036 7.96%	Callable Term CABs Maturing 2039 8.05%	Conv. CABs (Conv. 8/1/2026 & Callable 8/1/2031) 7.375%	Conv. CABs (Conv. 8/1/2021 & Callable 8/1/2026) 7.05%	Callable Term CABs Maturing 2046 8.2%	Callable Term CABs Maturing 2050 8.35%
08/01/2026	2,694.30	2,483.10	2,290.70	1,792.20	5,000.00		1,002.15	701.95
02/01/2027	2,800.45	2,581.55	2,381.90	1,864.30			1,043.25	731.25
08/01/2027	2,910.75	2,683.95	2,476.65	1,939.35			1,086.00	761.80
02/01/2028	3,025.45	2,790.35	2,575.25	2,017.40			1,130.55	793.60
08/01/2028	3,144.65	2,901.00	2,677.75	2,098.65			1,176.90	826.75
02/01/2029	3,268.55	3,016.00	2,784.30	2,183.10			1,225.15	861.25
08/01/2029	3,397.35	3,135.60	2,895.15	2,270.95			1,275.35	897.20
02/01/2030	3,531.20	3,259.95	3,010.35	2,362.35			1,327.65	934.65
08/01/2030	3,670.35	3,389.20	3,130.20	2,457.45			1,382.10	973.70
02/01/2031	3,814.95	3,523.55	3,254.75	2,556.35			1,438.75	1,014.35
08/01/2031	3,965.25	3,663.30	3,384.30	2,659.25			1,497.75	1,056.70
02/01/2032	4,121.50	3,808.55	3,519.00	2,766.30			1,559.15	1,100.80
08/01/2032	4,283.85	3,959.55	3,659.05	2,877.65			1,623.10	1,146.75
02/01/2033	4,452.65	4,116.55	3,804.70	2,993.50			1,689.65	1,194.65
08/01/2033	4,628.10	4,279.75	3,956.10	3,113.95			1,758.90	1,244.50
02/01/2034	4,810.45	4,449.45	4,113.55	3,239.30			1,831.05	1,296.50
08/01/2034	5,000.00	4,625.85	4,277.30	3,369.70			1,906.10	1,350.60
02/01/2035		4,809.30	4,447.50	3,505.30			1,984.25	1,407.00
08/01/2035		5,000.00	4,624.55	3,646.40			2,065.60	1,465.75
02/01/2036			4,808.60	3,793.20			2,150.30	1,526.95
08/01/2036			5,000.00	3,945.85			2,238.45	1,590.70
02/01/2037				4,104.65			2,330.25	1,657.10
08/01/2037				4,269.90			2,425.80	1,726.30
02/01/2038				4,441.75			2,525.25	1,798.35
08/01/2038				4,620.55			2,628.80	1,873.45
02/01/2039				4,806.50			2,736.55	1,951.65
08/01/2039				5,000.00			2,848.75	2,033.15
02/01/2040							2,965.55	2,118.05
08/01/2040							3,087.15	2,206.45
02/01/2041							3,213.70	2,298.55
08/01/2041							3,345.50	2,394.55

BOND ACCRETED VALUE TABLE

McKinleyville Union School District
General Obligation Bonds, Election of 2008 Series B

FINAL PRICING

Date	Callable CABs 08/01/2034 7.88%	Callable CABs 08/01/2035 7.93%	Callable CABs 08/01/2036 7.96%	Callable Term CABs Maturing 2039 8.05%	Conv. CABs (Conv. 8/1/2026 & Callable 8/1/2031) 7.375%	Conv. CABs (Conv. 8/1/2021 & Callable 8/1/2026) 7.05%	Callable Term CABs Maturing 2046 8.2%	Callable Term CABs Maturing 2050 8.35%
02/01/2042							3,482.65	2,494.50
08/01/2042							3,625.45	2,598.65
02/01/2043							3,774.10	2,707.15
08/01/2043							3,928.85	2,820.20
02/01/2044							4,089.90	2,937.90
08/01/2044							4,257.60	3,060.60
02/01/2045							4,432.15	3,188.35
08/01/2045							4,613.90	3,321.50
02/01/2046							4,803.05	3,460.15
08/01/2046							5,000.00	3,604.60
02/01/2047								3,755.10
08/01/2047								3,911.90
02/01/2048								4,075.20
08/01/2048								4,245.35
02/01/2049								4,422.60
08/01/2049								4,607.25
02/01/2050								4,799.60
08/01/2050								5,000.00

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2010

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McKINLEYVILLE UNION SCHOOL DISTRICT

County of Humboldt
State of California
Audit Report
June 30, 2010

May, Abrahamsen & Barsanti
CERTIFIED PUBLIC ACCOUNTANTS

MCKINLEYVILLE UNION SCHOOL DISTRICT

COUNTY OF HUMBOLDT

Financial Statements

and

Supplementary Information

with the

Independent Certified Public Accountant's

Report Upon Examination

For The Fiscal Year Ended June 30, 2010

MCKINLEYVILLE UNION SCHOOL DISTRICT
TABLE OF CONTENTS

FINANCIAL SECTION

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
Fax: (707) 839-9445

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10, issued by the Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 39 through 40 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 our 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2010, on our consideration of the McKinleyville Union School District's internal control over financial reporting and our tests of the district's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McKinleyville Union District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 as a whole.

May, Abrahamsen & Barsanti

December 15, 2010
McKinleyville, California

McKinleyville Union School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2010

Introduction

The Management's Discussion and Analysis section is included in the audit for the McKinleyville Union School District (District) as management's view of the district's financial condition, and provides an opportunity to discuss important fiscal issues with the Governing Board and the public. Accounting rules require this discussion and analysis. These rules make reporting of district's finances similar to that of private business.

The mission of the McKinleyville Union School District, a family-centered, educational community on the Redwood Coast, is to develop ethical, lifelong learners living successfully in a constantly changing global society. We guarantee all students challenging, progressive, academic programs, innovative learning experiences, technological competence and community involvement. The District serves the residents of this community in Humboldt County

Using This Annual Report

This section of the District's annual financial report presents our discussion and analysis of our financial performance during the fiscal year that ended on June 30, 2010. It should be read in conjunction with the Independent Auditor's Report immediately proceeding and the financial statements that follow this section. This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

Financial Highlights

- The District's total cash decreased by $3,437,440 over the prior year. This is due primarily to the use of general obligations bonds.
- Accumulated depreciation increased by $269,071.
- California Basic Education Data System (CBEDS) enrollment in October 2009 was reported at 1,165 which is a loss of 1 over the prior year.
- The average daily attendance (ADA) as reported at the second period was 1105.59 which included 11.42 ADA for our Special Education Master Plan students that are served by Humboldt County Office of Education programs.
- The District exceeds the State required minimum reserves for economic uncertainty of three percent (3%). The reserve serves as a source of funds for uninsured losses, possible mid year cuts, as well as cash flow issues associated with deferred revenue. This calculation is based upon the combined General Fund expenditures, transfers out and other uses (total outgo). For fiscal year 2009-10, expenditures and other uses totaled $8,718,163 for the General Fund. Available reserves were $964,149, which is 11.06%.
- The District has $6,820,000 in long-term debt due to the general obligation bonds and is outlined in the statements as due after one year.
- The District does maintain a separate fund to provide a reserve for future retiree health benefit costs. The fund balance at June 30, 2010 was $331,928.

The Financial Report

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

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

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

Reporting the District as a Whole

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

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

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

Information included in the Statement of Net Assets and the Statement of Activities, consists solely of the governmental activities of the District.

Governmental Activities are the basic services provided by the District, such as regular and special education, administration, and transportation are included here, and are primarily financed by state apportionments, property taxes, impact aid, and other state and federal aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of state and federal contracts, grants, and local revenues.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law, while other funds have been established to control and manage money for specific purposes.

Governmental Funds:

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

Fiduciary Funds:

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

Financial Analysis of the School District As a Whole

Comparative Statement of Net Assets

	Governmental Activities		
	2010	2009	Difference
Assets:			
Cash	$ 6,191,514	$ 9,628,954	$ (3,437,440)
Receivables	$ 699,845	$ 1,246,315	$ (546,470)
Stores Inventory	$ 9,153	$ 9,817	$ (664)
Capital Assets, net	$ 6,625,483	$ 3,169,292	$ 3,456,191
Total Assets	$ 13,525,995	$ 14,054,378	$ (528,383)
Liabilities:			
Accounts Payable	$ 796,686	$ 556,973	$ 239,713
Deferred Revenues	$ 12,654	$ 200,265	$ (187,611)
General Obligation Bonds (due w/in 1 yr)	$ 5,866	$ 180,000	$ (174,134)
Compensated Absences Payable	$ 51,348	$ 56,152	$ (4,804)
General Obligation Bonds (due after 1 yr)	$ 6,820,000	$ 6,820,000	$ -
Total Liabilities	$ 7,686,554	$ 7,813,390	$ (126,836)
Net Assets:			
Invested in Capital Assets -Net of Related Debt	$ (194,517)	$ 2,817,059	$ (3,011,576)
Restricted	$ 4,500,317	$ 1,934,450	$ 2,565,867
Unrestricted	$ 1,533,641	$ 1,489,479	$ 44,162
Total Net Assets	$ 5,839,441	$ 6,240,988	$ (401,547)

Table includes financial data of combined governmental funds

Bond cash is included in cash assets ($3,470,940), receivables ($15,115), and payables ($558,303).

Comparative Statement of Changes in Net Assets

	Governmental Activities 2010	Governmental Activities 2009	Difference
Program Revenues:			
Charges for Services	$ 115,502	$ 208,747	$ (93,245)
Operating Grants and Contributions	$ 1,994,448	$ 2,418,964	$ (424,516)
Capital Grants and Contributions	$ -	$ -	$ -
General Revenues			
Taxes Levied/General Purpose	$ 3,834,519	$ 3,686,405	$ 148,114
Taxes Levied/Debt Service	$ 396,071	$ 342,087	$ 53,984
Federal and State Aid	$ 2,489,326	$ 3,118,755	$ (629,429)
Interest and Investment Earnings	$ 127,483	$ 162,996	$ (35,513)
Interagency Revenues	$ 137,874	$ -	$ 137,874
Miscellaneous	$ 161,043	$ 134,700	$ 26,343
Total Revenues	$ 9,256,266	$ 10,072,654	$ (816,388)
Program Expenses:			
Instruction	$ 6,084,068	$ 6,240,669	$ (156,601)
Instruction-Related Services	$ 763,695	$ 854,935	$ (91,240)
Pupil Services	$ 928,238	$ 987,855	$ (59,617)
General Administration	$ 580,065	$ 635,225	$ (55,160)
Plant Services	$ 614,227	$ 660,750	$ (46,523)
Ancillary Services	$ 97,232	$ 97,392	$ (160)
Community Services	$ 4,116	$ 4,966	$ (850)
Other Outgo	$ 195,408	$ 219,213	$ (23,805)
Interest on Long-Term Debt	$ 390,764	$ 93,958	$ 296,806
Total Expenses	$ 9,657,813	$ 9,794,963	$ (137,150)
Change in Net Assets	$ (401,547)	$ 277,691	$ (679,238)

Table includes financial data of combined governmental funds

Total District Expenses exceeded total District Revenue by $401,547 during fiscal year 2009-10.

Comparative Statement of Changes in Net Assets

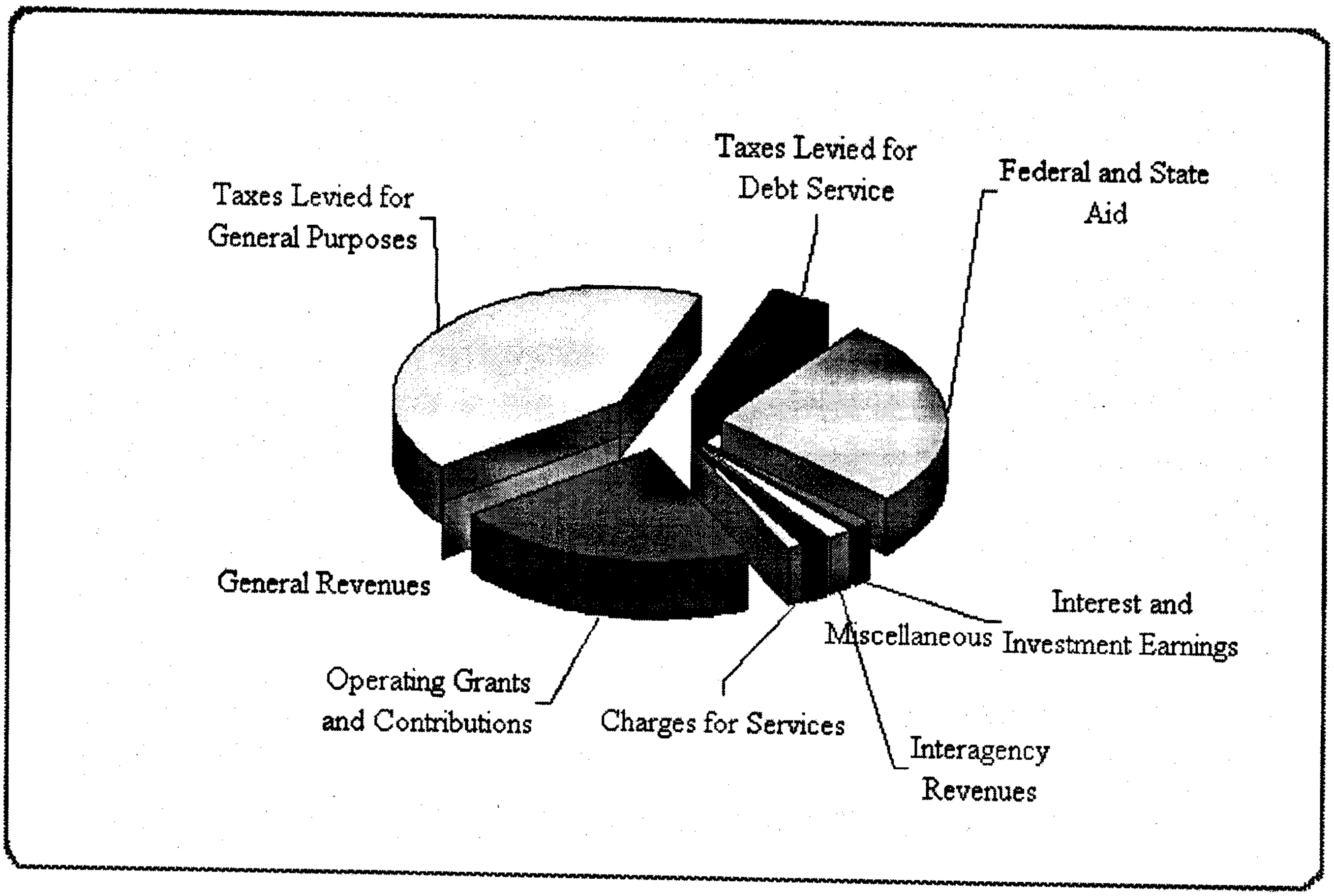
	Total Cost of Services 2010	Total Cost of Services 2009	Percentage Change	Net Cost of Services 2010	Net Cost of Services 2009	Percentage Change
Program Expenses:						
Instruction	$ 6,084,068	$ 6,240,669	-2.51%	$ 5,039,115	$ 4,737,702	6.36%
Instruction-Related Services	$ 763,695	$ 854,935	-10.67%	$ 666,702	$ 652,158	2.23%
Pupil Services	$ 928,238	$ 987,855	-6.03%	$ 93,691	$ 236,959	-60.46%
General Administration	$ 580,065	$ 635,225	-8.68%	$ 548,796	$ 598,375	-8.29%
Plant Services	$ 614,227	$ 660,750	-7.04%	$ 592,483	$ 626,800	-5.47%
Ancillary Services	$ 97,232	$ 97,392	-0.16%	$ 95,335	$ 61,224	55.72%
Community Services	$ 4,116	$ 4,966	-17.12%	$ 4,097	$ 4,793	-14.52%
Other Outgo	$ 195,408	$ 219,213	-10.86%	$ 116,880	$ 155,283	-24.73%
Interest on Long Term Debt	$ 390,764	$ 93,958	315.89%	$ 390,764	$ 93,958	315.89%
Total Expenses	$ 9,657,813	$ 9,794,963	-1.40%	$ 7,547,863	$ 7,167,252	5.31%

Table includes financial data of combined governmental funds

The table presented above shows the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and state and federal aid provided for the specific programs). The net cost shows the financial burden that was placed on the District's general fund revenues. The financial burden placed on the District's General Fund for providing the services was $7,547,863.

Summary of Revenues For Governmental Functions

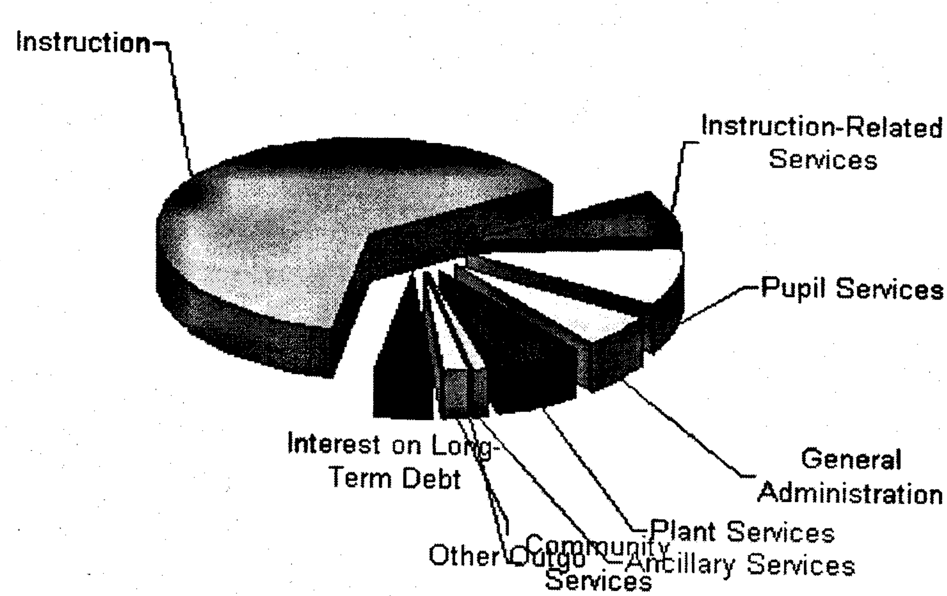
	FYE 2010 Amount	Percent of Total	FYE 2009 Amount	Percent of Total
Program Revenues:				
Charges for Services	$ 115,502	1.25%	$ 208,747	2.07%
Operating Grants and Contributions	$ 1,994,448	21.55%	$ 2,418,964	24.02%
General Revenues				
Taxes Levied for General Purposes	$ 3,834,519	41.43%	$ 3,686,405	36.60%
Taxes Levied for Debt Service	$ 396,071	4.28%	$ 342,087	3.40%
Federal and State Aid	$ 2,489,326	26.89%	$ 3,118,755	30.96%
Interest and Investment Earnings	$ 127,483	1.38%	$ 162,996	1.62%
Interagency Revenues	$ 137,874	1.49%	$ -	0.00%
Miscellaneous	$ 161,043	1.74%	$ 134,700	1.34%
Total Revenues	$ 9,256,266	100.00%	$ 10,072,654	100.00%



Schedule of Expenses for Governmental Functions

	FYE 2010 Amount	Percent of Total	FYE 2009 Amount	Percent Inc/(Dec)
Program Expenses:				
Instruction	$ 6,084,068	63.00%	$ 6,240,669	63.71%
Instruction-Related Services	$ 763,695	7.91%	$ 854,935	8.73%
Pupil Services	$ 928,238	9.61%	$ 987,855	10.09%
General Administration	$ 580,065	6.01%	$ 635,225	6.49%
Plant Services	$ 614,227	6.36%	$ 660,750	6.75%
Ancillary Services	$ 97,232	1.01%	$ 97,392	0.99%
Community Services	$ 4,116	0.04%	$ 4,966	0.05%
Other Outgo	$ 195,408	2.02%	$ 219,213	2.24%
Interest on Long-Term Debt	$ 390,764	4.05%	$ 93,958	0.96%
Total Expenses	$ 9,657,813	100.00%	$ 9,794,963	100.00%

Expenses by Program decreased by $137,150. Due to state budget reductions, there was less money available.



Comparative Schedule of Capital Assets

	Governmental Activities 2010	Governmental Activities 2009	Difference
Land	$ 56,024	$ 48,000	$ 8,024
Buildings and Improvements	$ 9,545,911	$ 6,796,676	$ 2,749,235
Furniture and Equipment	$ 1,368,626	$ 1,201,844	$ 166,782
Works-In-Progress	$ 1,473,642	$ 672,421	$ 801,221
			$ -
Subtotals	$ 12,444,203	$ 8,718,941	$ 3,725,262
			$ -
Less: Accumulated Depreciation	$ (5,818,720)	$ (5,549,649)	$ (269,071)
Capital Assets, net	$ 6,625,483	$ 3,169,292	$ 3,456,191

Comparative Schedule of Fund Balances

	Fund Balances June 30, 2010	Fund Balances June 30, 2009	Increase (Decrease)
General Fund	$ 779,561	$ 1,068,245	$ (288,684)
Cafeteria Fund	$ 99,638	$ 112,142	$ (12,504)
Deferred Maintenance Fund	$ 514	$ 145,466	$ (144,952)
Special Reserve Fund	$ 964,149	$ 948,673	$ 15,476
Retiree Benefit Fund	$ 331,928	$ 333,706	$ (1,778)
Building Fund	$ 2,927,752	$ 6,378,487	$ (3,450,735)
Capital Facilities Fund	$ 592,572	$ 531,773	$ 60,799
Capital Outlay Reserve Fund	$ 307,587	$ 350,791	$ (43,204)
Bond Interest & Redemption Fund	$ 243,737	$ 352,523	$ (108,786)
Totals	$ 6,247,438	$ 10,221,806	$ (3,974,368)

The total of all fund balances decreased by $3,974,368 between June 2009 and June 2010. The General Fund decrease was due to less dollars being carried over from unrestricted funds. The Cafeteria Fund decrease was due to vehicle replacement and an operations profit. The Deferred Maintenance Fund decreased due to the State realignment of those moneys to unrestricted so they ended up in General Fund. The Special Reserve increase was due to interest income and no transfers out during the year. The Retire Benefit Fund decreased because interest income and the additional contribution were less than expense. The Building Fund decrease was due to modernization expenses - completion of phase I and phase II in progress. The Capital Facilities Fund increased due to receipt of Developer Fees. The Capital Outlay Reserve Fund decreased due to bus replacement matching funds expense. Bond Interest and Redemption Fund decreased due to reduction in Building Fund balance.

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revised its annual operating budget at various times to reflect the most recent financial information available. The most significant budget adjustments made during the year fall into the following categories: revisions to the adopted budget required after approval of the State budget and revisions to adjust program revenues and expenditures to final awards for state and federal categorical programs.

Economic Factors Bearing on the District's Future

The forecast for the State budget indicates that there are still structural deficits between current expenditures and current revenues. Proposition 98 funding for education continues to be a political issue and a target for expenditure reductions at the state level. The enacted State Budget includes a restoration of the cut to the Revenue Limit, or as calculated, a 3.85% reduction to the proposed deficit included in the initial 2010-11 Revenue Limit calculations. In addition, the deficit factor has been adjusted to offset the impact of the .39% negative COLA. The negative COLA reduced the deficit factor, but not revenue limits, giving us a 17.963% deficit factor.

Negotiations with the Certificated and Classified bargaining group are settled for 2010-11. The continued demands on the unrestricted general fund revenues to meet the mandates surrounding special education services must be monitored very carefully. The dollars associated with providing these required services are increasing at an alarming rate. There is the potential for a significant impact on the fiscal health of the District.

Continued declining enrollment will require the District to be extremely careful in budget development to insure the successful educational programs can continue.

On June 3, 2008, Measure C was approved by the voters in the District. This measure provides for a $14,000,000 bond issuance for capital projects. The second phase is completed and provided improvements at Morris and Dow's Prairie Schools. The McKinleyville Middle School phase will begin in 2010-11.

Contacting the District's Financial Management

The financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Superintendent, McKinleyville Union School District, 2275 Central Avenue, McKinleyville, CA 95519.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

		Governmental Activities
ASSETS		
Cash in county treasury	$	6,188,939
Cash in revolving fund/banks		2,575
Accounts receivable		699,845
Stores inventories		9,153
Land		56,024
Buildings and improvements		9,545,911
Equipment		1,368,626
Work in progress		1,473,642
Less accumulated depreciation		(5,818,720)
Total assets		13,525,995
LIABILITIES		
Accounts payable		796,686
Deferred revenue		12,654
Long-term liabilities:		
Due within one year:		
Compensated absences payable		51,348
Total due within one year		51,348
Due after one year:		
General obligation bonds		6,820,000
Net OPEB obligation		5,866
Total due after one year		6,825,866
Total liabilities		7,686,554
NET ASSETS		
Invested in capital assets, net of related debt		(194,517)
Restricted for:		
Capital projects		3,827,911
Debt service		87,471
Educational programs		152,855
Other purposes (expendable)		432,080
Unrestricted		1,533,641
Total net assets	$	5,839,441

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	$ 6,084,068	$ 407	$ 1,044,546	$ 0	$ (5,039,115)
Instruction-related services:					
Supervision of instruction	65,368		45,309	0	(20,059)
Instructional library, media and technology	121,833		50,317	0	(71,516)
School site administration	576,494		1,367	0	(575,127)
Pupil services:					
Home-to-school transportation	291,437	2,220	287,830	0	(1,387)
Food services	384,929	102,891	278,923	0	(3,115)
All other pupil services	251,872	58	162,625	0	(89,189)
General administration:					
Centralized data processing	14,146			0	(14,146)
All other general administration	565,919	4,684	26,585	0	(534,650)
Plant services	614,227	5,104	16,640	0	(592,483)
Ancillary services	97,232	25	1,872	0	(95,335)
Community services	4,116		19	0	(4,097)
Other outgo	195,408	113	78,415	0	(116,880)
Interest on long-term debt	390,764				(390,764)
Total governmental activities	$ 9,657,813	$ 115,502	$ 1,994,448	$ 0	(7,547,863)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					3,834,519
Taxes levied for debt service					396,071
Federal and state aid not restricted to specific purposes					2,489,326
Interest and investment earnings					127,483
Interagency revenues					137,874
Miscellaneous					161,043
Total general revenues, special and extraordinary items, and transfers					7,146,316
Change in net assets					(401,547)
Net assets beginning - July 1, 2009					6,240,988
Net assets ending - June 30, 2010					$ 5,839,441

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2010

ASSETS	General	Building Fund	Capital Outlay Reserve	Capital Facilities Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
Cash in county treasury	$ 240,157	$ 3,470,940	$ 306,586	$ 592,075	$ 960,422	$ 618,759	$ 6,188,939
Cash in revolving fund	2,500	0	0	0	0	75	2,575
Accounts receivable	625,910	15,115	1,001	2,234	3,727	51,858	699,845
Stores inventories	0	0	0	0	0	9,153	9,153
Total assets	$ 868,567	$ 3,486,055	$ 307,587	$ 594,309	$ 964,149	$ 679,845	$ 6,900,512
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 79,235	$ 558,303	$ 0	$ 1,737	$	$ 1,145	$ 640,420
Deferred revenue	9,771	0	0	0	0	2,883	12,654
Total liabilities	89,006	558,303	0	1,737	0	4,028	653,074
Fund balances:							
Reserved for:							
Revolving fund and prepaid expenses	2,500	0	0	0	0	0	2,500
Stores inventories	0	0	0	0	0	10,478	10,478
Legally restricted balances	152,855	0	0	0	0	0	152,855
Unreserved:							
Designated for:							
Economic uncertainties		0	0	0	0	0	0
Other program carryovers	624,206	0	0	0	0	0	624,206
Undesignated, reported in:							
General fund		0	0	0	0	0	0
Capital projects funds	0	2,927,752	307,587	592,572	0	0	3,827,911
Special revenue funds					964,149	421,602	1,385,751
Debt service fund	0		0	0		243,737	243,737
Total fund balances	779,561	2,927,752	307,587	592,572	964,149	675,817	6,247,438
Total liabilities and fund balances	$ 868,567	$ 3,486,055	$ 307,587	$ 594,309	$ 964,149	$ 679,845	$ 6,900,512

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds		**$ 6,247,438**
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$12,444,203 and the accumulated depreciation is \$(5,818,720).		**6,625,483**
To recognize accrued interest at year end.		**(156,266)**
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:		
General obligation bonds payable	**$ 6,820,000**	
Net OPEB obligation	**5,866**	
Compensated absences (vacation)	**51,348**	**(6,877,214)**
Total net assets - governmental activities		**$ 5,839,441**

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
June 30, 2010

	General	Building Fund	Capital Outlay Reserve	Capital Facilities Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues:							
Revenue limit sources:							
State apportionments	$ 1,406,565	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,406,565
Local sources	3,834,518	0	0	0	0	0	3,834,518
Federal revenues	808,925	0	0	0	0	279,874	1,088,799
Other state revenues	1,513,253	0	0	0	0	23,565	1,536,818
Other local revenues	687,396	81,428	5,266	79,413	15,476	520,588	1,389,567
Total revenues	8,250,657	81,428	5,266	79,413	15,476	824,027	9,256,267
Expenditures:							
Instruction	5,855,627	0	0	0	0	0	5,855,627
Instruction-related services:							
Supervision of instruction	65,368	0	0	0	0	0	65,368
Instructional library, media and technology	119,956						119,956
School site administration	573,128	0	0	0	0	0	573,128
Pupil services:							
Home-to-school transportation	421,647	0	0	0	0	0	421,647
Food services		0	0	0	0	392,100	392,100
All other pupil services	251,872	0	0		0	0	251,872
General administration:							
Data processing services	14,146	0	0	0	0	0	14,146
All other general administration	551,963	0	0	1,402	0	17,848	571,213
Plant services	567,700				0	34,187	601,887
Facilities construction	0	3532163	9,104	17,212	0		3,558,479
Ancillary services	97,232	0	0	0	0	0	97,232
Community services	4,116	0	0	0	0	0	4,116
Other outgo - transfers between agencies	195,408	0	0	0	0	0	195,408
Debt service:							
Principal						180,000	180,000
Interest						328,456	328,456
Total expenditures	8,718,163	3,532,163	9,104	18,614	0	952,591	13,230,635
Excess (deficiency) of revenues over (under) expenditures	(467,506)	(3,450,735)	(3,838)	60,799	15,476	(128,564)	(3,974,368)
Other financing sources (uses):							
Operating transfers in	335,547	0	0	0	0	156,725	492,272
Operating transfers out	(156,725)	0	(39,366)	0	0	(296,181)	(492,272)
Total other financing sources (uses)	178,822	0	(39,366)	0	0	(139,456)	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(288,684)	(3,450,735)	(43,204)	60,799	15,476	(268,020)	(3,974,368)
Fund balances, July 1, 2009	1,068,245	6,378,487	350,791	531,773	948,673	943,837	10,221,806
Fund balances, June 30, 2010	$ 779,561	$ 2,927,752	$ 307,587	$ 592,572	$ 964,149	$ 675,817	$ 6,247,438

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2010

Total net change in fund balance - governmental funds	**$**	**(3,974,368)**
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of $3,7425,262 exceeds depreciation expense $(269,071) in the period.		**3,456,191**
Debt service repayments in governmental funds are reported as expenditures. In government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Repayments long-term debt were:		**180,000**
In the statement of activities, OPEB cost are recognized on the accrual basis. In government funds, OPEB costs are recognized when actually paid		**(5,866)**
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation used exceeded the amounts earned by $4,804		**4,804**
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		**(62,308)**
Total change in net assets of governmental activities	**$**	**(401,547)**

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2010

	Agency Funds Student Body Funds
ASSETS:	
Cash in bank	$ 62,789
Total assets	$ 62,789
LIABILITIES:	
Due to student groups	$ 62,789
Total liabilities	$ 62,789

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The McKinleyville Union School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the district conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The district is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees.

C. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the district and its components units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Basis of Presentation (Cont.)

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

Fund Financial Statements:

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Basis of Accounting (Cont.)

Revenues - Exchange and Non-Exchange Transactions:

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

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

Deferred Revenue:

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

Expenses/Expenditures:

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Basis of Accounting (Cont.)

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

E. Fund Accounting

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

Major Governmental Funds:

* The General Fund is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

* Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from bond proceeds.

* The Special Reserve Fund was established to account for resources reserved for economic uncertainties.

* Capital Facilities Fund is used to account for revenues received from the assessment of developer fees.

* The Capital Outlay Reserve is used to account for acquisition and/or construction of all major governmental fixed assets.

Non-Major Governmental Funds:

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

* Post-employment Benefits Fund is used to account for the district's outstanding obligation to provide post retirement health care insurance.

* The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's cafeterias.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Fund Accounting (Cont)

* The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property as outlined on the State of California approved five year plan.

Capital Projects Funds:

Capital Projects Funds are used to account for the acquisition and construction of all major governmental general fixed assets, The district maintains three capital project funds - the Building Fund, the Capital Outlay Reserve Fund and the Capital Facility Fund.

Debt Service Fund:

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

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

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains an agency fund for the student body accounts. The district maintains three student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the district.

F. Budgets and Budgetary Accounting

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Budgets and Budgetary Accounting (Cont)

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Deposits and Investments:

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation.

In accordance with Education Code Section 41001, the district maintains substantially all of its cash in the county treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

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.

2. Stores Inventories and Prepaid Expenditures:

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The district's central warehouse and cafeteria inventories are valued at average cost using the First-In-First-Out (FIFO) method.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont)

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure when incurred. On the government-wide statements, the district reports un-amortized debt issuance cost as prepaid expense, if material.

3. Deferred Revenue:

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

4. Compensated Absences:

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

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

5. Capital Assets:

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

5. Capital Assets (Cont.):

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont).

6. Long-Term Obligations:

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

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

7. Fund Balance Reserves and Designations:

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventories reflects the portions of fund balance represented by revolving fund cash and stores inventories, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Revenue Limit/Property Tax:

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont).

8. Revenue Limit/Property Tax (Cont.):

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.

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

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

The district's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the district is entitled to by law. This amount is multiplied by the second period ADA to derive the district's total entitlement.

NOTE 2 - CASH AND INVESTMENTS

Cash on Hand, in Banks and in Revolving Funds:

Cash balances on hand, in banks, and in revolving funds are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). These accounts are held within various financial institutions. As of June 30, 2010, the carrying amount of the district's accounts was $2,500.

Cash in County Treasury:

In accordance with Education Code Section 41001, the district maintains substantially all of its cash with the county treasury as part of the common investment pool, which totaled $6,188,939 as of June 30, 2010. The fair market value of this pool as of that date, as provided by the pool sponsor, was $6,206,069. The district is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds, except for the payroll clearing fund, which is credited to the General Fund. The county is restricted by Government Code Section

NOTE 2 - CASH AND INVESTMENTS (Cont.)

Cash in County Treasury (Cont.):

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. As of June 30, 2010, the County's investment pool was not rated.

Governmental Accounting Standards Board (GASB) statement number 31 requires that investments in external investment pools be stated at fair value. The district's policy of reporting these funds at cost does not result in a material misstatement of the financial statements. Fair value was based on quoted market prices. There were no investments that were reported at amortized cost. There is no formal regulatory oversight of the pool.

The district does not have a formal investment policy that limits its exposure to losses arising from increasing interest rates.

A summary of deposits as of June 30, 2010, is as follows:

	Bank	Carrying
Deposits:		
Cash in county treasury	$ 6,206,069	$ 6,188,939
Cash on hand	75	75
Cash in revolving fund	2,500	2,500
	$ 6,208,644	$ 6,191,514

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The district has no fund deficits.

As of June 30, 2010, expenditures exceeded appropriations in individual funds as follows:

Appropriations Category	Excess Expenditures
Major Funds	
Capital Facility Fund:	
Service and other operating expenditures	$ 1,669
Capital Outlay	700
Nonmajor Funds	
Cafeteria Fund:	
Capital Outlay	293

NOTE 4 - ACCOUNTS RECEIVABLE

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

	General Fund	Other Major Funds	All Other Governmental Funds	Totals
Federal government:				
Categorical aid programs	$ 147,160	$ 0	$ 43,193	$ 190,353
State government:				
Categorical aid programs	216,075	0	2,534	218,609
Revenue limit	205,836	0	0	205,836
Lottery	35,290	0	0	35,290
Total state government	457,201	0	2,534	459,735
Local government:				
Interest	3,527	22,077	1,915	27,519
Microsoft award	15,052	0	0	15,052
Other	2,970	0	4,216	7,186
Total local government	21,549	22,077	6,131	49,757
Total accounts receivable	$ 625,910	$ 22,077	$ 51,858	$ 699,845

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To):

As of June 30, 2010, there were no interfund receivables and payables.

Interfund Transfers:

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers from fiscal year 2009 - 2010 were as follows:

NOTE 5 - INTERFUND TRANSACTIONS (Cont.)

Funds	Transfers In	Transfers Out
Major funds:		
General Fund	$ 335,547	156,725
Building Fund		39,366
Non-major funds:		
Post-employment Benefits Fund	156,725	163,814
Deferred Maintenance Fund		$ 132,367
Total	$ 492,272	$ 492,272

Transfer from the Post-employment Benefits Fund and Building Fund to the General Fund to cover operating costs. Transfer to the General Fund from Deferred Maintenance Fund to close fund.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 48,000	$ 8,024	$ 0	$ 56,024
Work in progress	672,421	1,473,642	672,421	1,473,642
Total capital assets, not being depreciated	720,421	1,481,666	672,421	1,529,666
Capital assets, being depreciated:				
Buildings	5,715,821	2,749,235	0	8,465,056
Improvements of sites	1,080,855	0	0	1,080,855
Equipment	1,201,844	166,782	0	1,368,626
Total capital assets, being depreciated	7,998,520	2,916,017	0	10,914,537
Less accumulated depreciation for:				
Buildings	3,615,797	196,750	0	3,812,547
Improvements of sites	808,133	37,461	0	845,594
Equipment	1,125,719	34,860	0	1,160,579
Total accumulated depreciation	5,549,649	269,071	0	5,818,720
Total capital assets, being depreciated, net	2,448,871	2,646,946	0	5,095,817
Governmental activities capital assets, net	$ 3,169,292	$ 4,128,612	$ 672,421	$ 6,625,483

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (Cont).

Depreciation Expense was charged to governmental activities as follows:

Governmental activities:		
Instruction	$	222,574
Instructional library, media and technology		2,358
School site administration		3,366
Home-to-school transportation		20,062
Food services		7,173
All other general administrative		1,565
Plant services		11,973
Total Depreciation Expense	$	269,071

NOTE 7 - LONG-TERM DEBT - SCHEDULE OF CHANGES

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due within One Year
General obligation bonds	$ 7,000,000	$	$ 180,000	$ 6,820,000	$ 0
Net OPEB obligation	0	5,866	0	5,866	0
Compensated absence	56,152		4,804	51,348	51,348
Total	$ 7,056,152	$ 5,866	$ 184,804	$ 6,877,214	$ 51,348

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. The accrued vacation will be paid by the fund for which the employee worked.

NOTE 8 - JOINT VENTURES - (Joint Powers Agreements)

The district is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The district manages those risks of loss through participation in public entity risk pools. There have been no significant reductions in insurance coverage from the prior year. For each of the past three years settlements did not exceed insurance coverage.

The McKinleyville Union School District participants in two joint ventures under a joint powers agreement (JPA) with the North Coast School Insurance Group. The relationship between the McKinleyville Union School District and the JPA is such that the JPA is not a component unit of the McKinleyville Union School District for financial reporting purposes.

NOTE 8 - JOINT VENTURES - (Joint Powers Agreements) (Cont)

Each member district pays a premium commensurate with the level of coverage requested. The district is covered under workers' compensation, liability, medical, vision, and dental insurance.

Condensed financial information for the year end is as follows:

	JPA	
	June 30, 2009	June 30, 2009
	Property Liability Workers Comp.	Medical Dental & Vision Programs
Total assets	$ 5,493,833	$ 8,029,863
Total liabilities	2,011,977	3,109,700
Net Assets	$ 3,481,856	$ 4,920,163
Total revenues	$ 6,359,994	$ 29,533,506
Total expenditures	5,421,883	30,053,081
Net increase (decrease) in net assets	$ 938,111	$ (519,575)

Complete financial statements for the joint ventures can be obtained at the district office.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants:

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

Self-Insurance:

The district is liable for any losses that exceed the assets of the Joint Powers Authorities.

Future Construction Contracts

Commitments on outstanding major constructions contracts for modernization of school sites totaled $1,753,019 at June 30, 2010.

NOTE 10 - GENERAL OBLIGATION BONDS PAYABLE

In June 2008 voters residing within the district passed Measure C authorizing the district to issue $14,000,000 in general obligation bonds. The bonds are general obligations of the district, and the county is required to annually levy ad valorem taxes for payment of principal and interest of the bonds. Bond proceeds will be used for modernizing the district's schools.

On March 17, 2009, the district issued $7,000,000 of Election of 2008, Series A bonds. The interest rate ranges from 2% to 6% with final maturity at August 1, 2033. As a result of the issuance, the district recorded net proceeds of the $7,008,649; $7,000,000 in the Building Fund and $8,649 in the Debt Service Fund.

Interest on the 2008 bonds is payable semiannually on each February 1 and August 1, commencing from the date of bond issuance. The 2008 bonds maturing on and after August 1, 2019 are subject to optional redemption prior to maturity at the option of the district beginning on August 1, 2018. The annual requirements to amortize the 2008 General Obligation Bonds outstanding as of June 30, 2010, are as follows:

Year Ended June 30	Principal	Interest	Total
2011	$ 0	$ 375,038	$ 375,038
2012	0	375,038	375,038
2013	10,000	374,938	384,938
2014	25,000	374,463	399,463
2015	50,000	373,338	423,338
2016 - 2020	555,000	1,816,900	2,371,900
2021 - 2025	960,000	1,671,494	2,631,494
2026 - 2030	2,165,000	1,269,500	3,434,500
2031 - 2034	3,055,000	394,050	3,449,050
Totals	$ 6,820,000	$ 7,024,756	$ 13,844,756

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

PERS

Plan Description:

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

Funding Policy:

Active plan members are required to contribute 7% of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.71%. The contribution requirements of the plan members are established by state statute. For the fiscal years ending June 30, 2008, 2009, and 2010, the district contributed $129,875, $124,845 and $123,407 respectively and equal 100% of the required contributions for each year.

STRS

Plan Description:

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

Funding Policy:

Active plan members are required to contribute 8.00% 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 STRS Teachers' Retirement Board. The required

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

Funding Policy: (Cont.)

employer contribution rate for fiscal year 2009-2010 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to STRS for the fiscal years ending June 30, 2008, 2009 and 2010, were $391,652, $388,330 and $371,883 respectively, and equal 100% of the required contributions for each year.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

The School District implemented GASB Statement #45, Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pension for the fiscal year ended June 30, 2009. This implementation allows the District to report its liability for other post-employment benefits consistent with newly established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

The district provides post-retirement health care benefits for employees who retire between the age of 55 and 65, with certain years of service. On June 30, 2010, 19 retirees met the requirements. The district pays medical premiums and also dental and vision premiums for all employees that meet the eligibility requirements of the collective bargaining agreements or employment contracts. If the premiums exceed certain limits, the retirees are liable for the difference. The benefits are paid for a period up to age 65.

The District's annual other post-employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 135,604
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	135,604
Contributions made	129,738
Increase in net OPEB obligation	5,866
Net OPEB obligation - beginning of year	0
Net OPEB obligation - end of year	$ 5,866

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (Cont.)

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB cost Contributed	Net OPEB Obligation
June 30, 2010	$ 135,604	96%	$ 5,866

As of September 1, 2007, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $1,685,609, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $1,685,609. The covered payroll (annı(annual payroll of active employees covered by the Plan) was $5.7 million, and the ratio of the UAAL to the covered payroll was 30 percent.

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

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

In the September 1, 2007 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate (net of administrative expenses), which is based on assumed long-term investment returns on plan assets or the employer's assets, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2010, was 19 years.

As additional employees retire, the obligation will increase by an undetermined amount in future years. The district will fund this obligation with future revenues. An actuarial determination of this future obligation has not been obtained.

REQUIRED SUPPLEMENTARY INFORMATION

MCKINLEYVILLE UNION SCHOOL DISTRICT

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP)

General Fund

Year Ended June 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (GAAP Basis)	Variance with Final Budget Positive-(Negative)
Revenues:				
Revenue limit sources	$ 5,903,107	$ 5,241,741	$ 5,241,083	$ (658)
Federal revenues	665,288	827,123	808,925	(18,198)
Other state revenues	1,421,530	1,536,597	1,513,253	(23,344)
Other local revenues	474,176	651,381	687,396	36,015
Total revenues	8,464,101	8,256,842	8,250,657	(6,185)
Expenditures:				
Certificated salaries	4,284,721	4,509,589	4,473,070	36,519
Classified salaries	1,236,143	1,361,051	1,301,679	59,372
Employee benefits	1,855,267	1,867,060	1,817,782	49,278
Books and supplies	349,599	338,795	249,529	89,266
Services and other operating expenditures	590,314	640,117	548,387	91,730
Capital outlay	0	150,156	150,156	0
Other outgo	292,585	205,062	195,408	9,654
Total expenditures	8,608,629	9,071,830	8,736,011	335,819
Excess (deficiency) of revenues over (under) expenditures	(144,528)	(814,988)	(485,354)	329,634
Other financing sources (uses):				
All other financing sources	19,675	19,675	17,848	(1,827)
Operating transfers out	(50,000)	(50,000)	(156,725)	(106,725)
Operating transfers in	163,814	326,512	335,547	9,035
	0	0		0
Total other financing sources (uses):	133,489	296,187	196,670	(99,517)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(11,039)	(518,801)	(288,684)	230,117
Fund balances, July 1, 2009	1,068,245	1,068,245	1,068,245	0
Fund balances, June 30, 2010	$ 1,057,206	$ 549,444	$ 779,561	$ 230,117

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP)
Special Reserve Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive-(Negative)
	Original	Final		
Revenues:				
Revenue limit sources	$ 0	$ 0	$ 0	$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	25,000	25,000	15,476	(9,524)
Total revenues	25,000	25,000	15,476	(9,524)
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	0	0	0	0
Capital outlay	0	0	0	0
Other outgo	0	0	0	0
Total expenditures	0	0	0	0
Excess (deficiency) of revenues over (under) expenditures	25,000	25,000	15,476	(9,524)
Other financing sources (uses):				
All other financing sources	0	0	0	0
Operating transfers out	0	0	0	0
Operating transfers in	0	0	0	0
Uses	0	0	0	0
Total other financing sources (uses):	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	25,000	25,000	15,476	(9,524)
Fund balances, July 1, 2009	948,673	948,673	948,673	0
Fund balances, June 30, 2010	$ 973,673	$ 973,673	$ 964,149	$ (9,524)

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

SUPPLEMENTARY INFORMATION SECTION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP)
Building Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	(GAAP Basis)	Positive-(Negative)
Revenues:				
Revenue limit sources	$ 0	$ 0	$ 0	$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	50,000	53,750	81,428	27,678
Total revenues	50,000	53,750	81,428	27,678
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	60,320	62,570	62,570	0
Employee benefits	24,967	24,744	24,738	6
Books and supplies	3,500	2,523	1,642	881
Services and other operating expenditures	1,500	17,974	17,974	0
Capital outlay	1,965,000	6,281,845	3,425,239	2,856,606
Other outgo	0	0	0	0
Total expenditures	2,055,287	6,389,656	3,532,163	2,857,493
Excess (deficiency) of revenues over (under) expenditures	(2,005,287)	(6,335,906)	(3,450,735)	2,885,171
Other financing sources (uses):				
Proceeds from bond sales	0	0	0	0
Operating transfers out				0
Operating transfers in				0
Uses	0	0	0	0
Total other financing sources (uses):	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(2,005,287)	(6,335,906)	(3,450,735)	2,885,171
Fund balances, July 1, 2009	6,378,487	6,378,487	6,378,487	0
Fund balances, June 30, 2010	$ 4,373,200	$ 42,581	$ 2,927,752	$ 2,885,171

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP)
Capital Outlay Reserve
Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive-(Negative)
	Original	Final		
Revenues:				
Revenue limit sources	$ 0	$ 0	$ 0	$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	7,500	7,500	5,266	(2,234)
Total revenues	7,500	7,500	5,266	(2,234)
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	0	9,104	9,104	0
Capital outlay	0	0	0	0
Other outgo	0	0	0	0
Total expenditures	0	9,104	9,104	0
Excess (deficiency) of revenues over (under) expenditures	7,500	(1,604)	(3,838)	(2,234)
Other financing sources (uses):				
All other financing sources	0	0	0	0
Operating transfers out	0	(39,366)	(39,366)	0
Operating transfers in	0	0	0	0
Uses	0	0	0	0
Total other financing sources (uses):	0	(39,366)	(39,366)	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	7,500	(40,970)	(43,204)	(2,234)
Fund balances, July 1, 2009	350,791	350,791	350,791	0
Fund balances, June 30, 2010	$ 358,291	$ 309,821	$ 307,587	$ (2,234)

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP)
Capital Facilities Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	(GAAP Basis)	Positive-(Negative)
Revenues:				
Revenue limit sources	$ 0	$ 0	$ 0	$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	62,000	62,000	79,412	17,412
Total revenues	62,000	62,000	79,412	17,412
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	0	16,244	17,913	(1,669)
Capital outlay	0	0	700	(700)
Other outgo	0	0	0	0
Total expenditures	0	16,244	18,613	(2,369)
Excess (deficiency) of revenues over (under) expenditures	62,000	45,756	60,799	15,043
Other financing sources (uses):				
All other financing sources	0	0	0	0
Operating transfers out	0	0	0	0
Operating transfers in	0	0	0	0
Uses	0	0	0	0
Total other financing sources (uses):	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	62,000	45,756	60,799	15,043
Fund balances, July 1, 2009	531,773	531,773	531,773	0
Fund balances, June 30, 2010	$ 593,773	$ 577,529	$ 592,572	$ 15,043

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

ASSETS	Post Employment Benefits Fund	Cafeteria Fund	Deferred Maintenance Fund	Totals
Cash in county treasury	$ 330,618	$ 44,404	$ 0	$ 375,022
Cash in revolving fund		75	0	75
Cash with fiscal agent	0	0	0	0
Accounts receivable	1,310	50,034	514	51,858
Due from other funds	0	0	0	0
Stores inventories		9,153	0	9,153
Total assets	331,928	103,666	514	436,108
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	0	1,145	0	1,145
Due to other funds	0	0	0	0
Deferred revenue	0	2,883	0	2,883
Total liabilities	0	4,028	0	4,028
Fund balances:				
Reserved for cash in revolving fund	0	0	0	0
Reserved for stores inventories	0	10,478	0	10,478
Undesignated fund balance	331,928	89,160	514	421,602
Total fund balances	331,928	99,638	514	432,080
Total liabilities and fund balances	$ 331,928	$ 103,666	$ 514	$ 436,108

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (By Object)
June 30, 2010

	Post Employment Benefits Fund	Cafeteria Fund	Deferred Maintenance Fund	Totals
Revenues:				
Revenue limit sources:				
State apportionments	$ 0	$ 0	$ 0	$ 0
Local sources	0	0	0	0
Federal revenues	0	279,874	0	279,874
Other state revenues	0	23,565	0	23,565
Other local revenues	5,311	113,393	2,214	120,918
Total revenues	5,311	416,832	2,214	424,357
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries		170,298	1,894	172,192
Employee benefits		75,811	132	75,943
Books & supplies		133,281	406	133,687
Services and other operating expenditures		15,472	12,367	27,839
Capital outlay		16,626	0	16,626
Other outgo		17,848	0	17,848
Debt Service:				0
Principal		0	0	0
Interest		0	0	0
Total expenditures	0	429,336	14,799	444,135
Excess (deficiency) of revenues over (under) expenditures	5,311	(12,504)	(12,585)	(19,778)
Other financing sources (uses):				
Operating transfers in	156,725		0	156,725
Operating transfers (out)	(163,814)	0	(132,367)	(296,181)
Total other financing sources (uses)	(7,089)	0	(132,367)	(139,456)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(1,778)	(12,504)	(144,952)	(159,234)
Fund balances, July 1, 2009	333,706	112,142	145,466	591,314
Fund balances, June 30, 2010	$ 331,928	$ 99,638	$ 514	$ 432,080

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Nonmajor Special Revenue Funds (By Object) Year Ended June 30, 2010

	Post Employment Benefits Fund			Cafeteria Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Local sources	0	0	0	0	0	0
Federal revenues	0		0	264,750	279,874	15,124
Other state revenues	0		0	22,500	23,565	1,065
Other local revenues	12,000	5,311	(6,689)	129,731	113,393	(16,338)
Total revenues	12,000	5,311	(6,689)	416,981	416,832	(149)
Expenditures:						
Certificated salaries						
Classified salaries	0		0	172,776	170,298	2,478
Employee benefits	0		0	76,485	75,811	674
Books & supplies	0		0	140,820	133,281	7,539
Services and other operating expenditures	0		0	16,735	15,472	1,263
Capital outlay	0		0	16,333	16,626	(293)
Other outgo	0		0	19,675	17,848	1,827
Debt Service:						
Principal	0		0	0	0	0
Interest	0		0	0	0	0
Total expenditures	0	0	0	442,824	429,336	13,488
Excess (deficiency) of revenues over (under) expenditures	12,000	5,311	(6,689)	(25,843)	(12,504)	13,339
Other financing sources (uses):						
Operating transfers in	50,000	156,725	106,725	0	0	0
Operating transfers out	(163,814)	(163,814)	0	0	0	0
Total other financing sources (uses)	(113,814)	(7,089)	106,725	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(101,814)	(1,778)	100,036	(25,843)	(12,504)	13,339
Fund balances, July 1, 2009	333,706	333,706	0	112,142	112,142	0
Fund balances, June 30, 2010	$ 231,892	$ 331,928	$ 100,036	$ 86,299	$ 99,638	$ 13,339

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds (By Object)
Year Ended June 30, 2010

	Deferred Maintenance Fund			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Local sources	0	0	0	0	0	0
Federal revenues	0	0	0	264,750	279,874	15,124
Other state revenues	0	0	0	22,500	23,565	1,065
Other local revenues	1,200	2,214	1,014	142,931	120,918	(22,013)
Total revenues	1,200	2,214	1,014	430,181	424,357	(5,824)
Expenditures:						
Certificated salaries	0	0	0	0	0	0
Classified salaries	7,900	1,894	6,006	180,676	172,192	8,484
Employee benefits	1,067	132	935	77,552	75,943	1,609
Books & supplies	1,500	406	1,094	142,320	133,687	8,633
Services and other operating expenditures	12,867	12,367	500	29,602	27,839	1,763
Capital outlay	0	0	0	16,333	16,626	(293)
Other outgo	0	0	0	19,675	17,848	1,827
Debt Service:				0	0	
Principal	0	0	0	0	0	0
Interest	0	0	0	0	0	0
Total expenditures	23,334	14,799	8,535	466,158	444,135	22,023
Excess (deficiency) of revenues over (under) expenditures	(22,134)	(12,585)	9,549	(35,977)	(19,778)	16,199
Other financing sources (uses):						
Operating transfers in	0	0	0	50,000	156,725	106,725
Operating transfers out	(123,332)	(132,367)	(9,035)	(287,146)	(296,181)	(9,035)
Total other financing sources (uses)	(123,332)	(132,367)	(9,035)	(237,146)	(139,456)	97,690
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(145,466)	(144,952)	514	(273,123)	(159,234)	113,889
Fund balances, July 1, 2009	145,466	145,466	0	591,314	591,314	0
Fund balances, June 30, 2010	$ 0	$ 514	$ 514	$ 318,191	$ 432,080	$ 113,889

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Balance Sheet
Nonmajor Debt Service Fund
June 30, 2010

	Bond Interest and Redemption Fund
ASSETS	
Cash in county treasury	$ 243,737
Total assets	$ 243,737
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 0
Total liabilities	0
Fund balances:	
Reserved for debt service	243,737
Total fund balance	243,737
Total liabilities and fund balances	$ 243,737

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Fund
June 30, 2010

	Bond Interest and Redemption Fund
REVENUES:	
Other local revenues	$ 399,670
Total revenues	399,670
EXPENDITURES:	
Debt Service:	
Principal	180,000
Interest	328,456
Total expenditures	508,456
Excess (deficiency) of revenues over (under) expenditures	(108,786)
Total other financing sources (uses)	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(108,786)
Fund balances, July 1, 2009	352,523
Fund balances, June 30, 2010	$ 243,737

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Organization
County of Humboldt, McKinleyville, California
June 30, 2010

GOVERNING BOARD

Member	Office	Term Expires
Brian Mitchell	President	2011
Tim Hooven	Clerk	2013
Terrie Smith Resigned 2-11-2010	Member	2011
Justin Zabel	Member	2013
Sara Alto Appointed 2-11-2010	Representative	2013
Barbara Kelly Resigned 12-4-2009	Member	2009
Don Rosebrook Appointed 12-4-2009	Member	2013

ADMINISTRATION

DISTRICT SUPERINTENDENT
Dena McCullough

BUSINESS DIRECTOR
Maureen Hester
Resigned 8-12-2009

Lisa Jones
Appointed 8-18-2009

The McKinleyville Union School District was established in 1950 and is located in Humboldt County, California. The district operates two elementary schools and one middle school. There were no changes in the boundaries of the district during the current year.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2010

	Second Period Report	Annual Report
Elementary:		
Kindergarten	137.49	138.46
Grades 1 through 3	338.21	338.86
Grades 4 through 6	355.46	353.90
Grades 7 through 8	224.88	223.67
Special education master plan	48.42	48.30
Home and hospital	1.13	1.07
Totals	1,105.59	1,104.26

Summer School - Hours of Attendance	Hours of Attendance
Elementary	0

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Instructional Time
Year Ended June 30, 2010

Grade Level	1986-87 Minutes Requirement	1986-87 Reduced Minutes Requirement	1982-83 Actual Minutes	1982-83 Reduced Minutes	2009-10 Actual Minutes	Number of Days Traditional Calendar	Status
DOWS PRAIRIE SCHOOL							
Kindergarten	36,000	34,478	35,500	33,978	54,780	180	Complied
Grade 1	50,400	48,978	40,575	39,153	51,180	180	Complied
Grade 2	50,400	48,978	40,575	39,153	51,180	180	Complied
Grade 3	50,400	48,978	40,575	39,153	51,180	180	Complied
Grade 4	54,000	52,498	52,305	50,803	54,060	180	Complied
Grade 5	54,000	52,498	52,305	50,803	54,060	180	Complied
MORRIS SCHOOL							
Kindergarten	36,000	34,478	35,500	33,978	54,780	180	Complied
Grade 1	50,400	48,978	40,575	39,153	51,180	180	Complied
Grade 2	50,400	48,978	40,575	39,153	51,180	180	Complied
Grade 3	50,400	48,898	40,575	39,073	54,060	180	Complied
Grade 4	54,000	52,498	52,305	50,803	54,060	180	Complied
Grade 5	54,000	52,498	52,305	50,803	54,060	180	Complied
MCKINLEYVILLE MIDDLE SCHOOL							
Grade 6	54,000	52,405	53,240	51,645	57,420	180	Complied
Grade 7	54,000	52,405	53,240	51,645	57,420	180	Complied
Grade 8	54,000	52,405	53,240	51,645	57,420	180	Complied

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2010

General Fund		(Budget) 2011		2010		2009		2008
Revenues and other financial sources	$	8,027,341	$	8,586,204	$	9,120,102	$	9,333,430
Expenditures		8,288,321		8,718,163		8,939,647		9,402,079
Other uses and transfers out		164,397		156,725				54,100
Total outgo		8,452,718		8,874,888		8,939,647		9,456,179
Change in fund balance		(425,377)		(288,684)		180,455		(122,749)
Ending fund balance	$	354,184	$	779,561	$	1,068,245	$	887,790
Available reserves	$	982,149	$	0	$	1,229,038	$	946,160
Designated for economic uncertainty	$	0	$	0	$	280,365	$	27,501
Undesignated fund balance	$	982,149	$	0	$	948,673	$	918,659
Available reserves as a percentage of total outgo		11.62		0.00		13.75		10.01
Total long-term debt	$	6,877,214	$	6,877,214	$	7,056,152	$	55,579
Average daily attendance at P-2		1,095		1,106		1,102		1,132

For a district this size, the state recommends available minimum reserves of at least 3% of General Fund (Special Reserve) total outgo.

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Schedule of Federal Financial Assistance
Year Ended June 30,2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
Passed Through California State Department of Education:			
NCLB:Title 1 - Basis Grants Low Income and Neglected	84.010	14329	$ 246,921
NCLB: ARRA Title I - Basis Grants Low Income and Neglected	84.389	15005	80,653
ARRA - State Fiscal Stabilization Fund	84.394	24997	366,287
NCLB: Title II, Part D - Enhance Education Thru Technology	84.318	14334	1,648
Title III -Immigrant Education Programs	84.365A	15146	386
Special Education - IDEA Basic Local Assistance	84.027	03379	206,984
Special Education - ARRA - IDEA Basic Local Assistance, Part B	84.391	03379	103,952
NCLB: Title IV - Drug Free Schools	84.186	03452	5,501
NCLB: Title II, Part A - Improving Teacher Quality	84.367	04341	89,700
NCLB: Title III - Limited English Proficiency	84.365A	14346	944
NCLB: Title V - Innovative Programs	84.298	14354	168
			1,103,144
U.S. Department of Agriculture - Food and Nutrition			
USDA Food Commodities	10.550		53,467
Passed Through California State Department of Education:			
National School Lunch Act	10.555		225,388
Needy School Breakfast	10.553		54,486
			279,874
U.S. Department of Health and Human Services			
Passed Through California State Department of Education:			
Medi-Cal	93.778	10013	18,488
			18,488
TOTAL FEDERAL PROGRAMS			$ 1,454,973

See the accompanying notes to supplementary information and notes to schedule of expenditures of federal awards.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McKinleyville Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the (general-purpose or basic) financial statements.

NOTE 2 - SUBRECIPIENTS AND PAYMENTS

There were no amounts provided to subrecipients.

There were no federal awards expended in the form of any loans or loan guarantees outstanding at year-end and no federal funds were expended for insurance. There was non-cash assistance in the amount of $53,467.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report (J-200) with Audited Financial Statements
Year Ended June 30, 2010

There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to Supplementary Information
Year Ended June 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Federal and State Financial Assistance

OMB Circular A-133, requires a disclosure of the federal expenditures of certain federally funded programs. To comply with A-133 and state requirements this schedule was prepared for the district using the modified accrual basis of accounting.

There were no federal awards expended in the form of any loans or loan guarantees outstanding at year-end and no federal funds were expended for insurance. There was non-cash assistance in the amount of $53,467.

There were no amounts provided to subrecipients.

C. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 (budgetary basis) to the audited financial statements (GAAP basis).

D. Schedule of Financial Trends and Analysis

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

E. Schedule of Instructional Time

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater as required by Education Code Sections 46201 through 46206.

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

OTHER INDEPENDENT AUDITOR'S REPORTS

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McKinleyville Union School District, as of and for the year ended June 30, 2010, which collectively comprise McKinleyville Union School District's basic financial statements and have issued our report there on dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May, Abrahamson & Barsanti

December 15, 2010
McKinleyville, California

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California

Compliance

We have audited McKinleyville Union School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of McKinleyville Union School District's major federal programs for the year ended June 30, 2010. McKinleyville Union School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of McKinleyville Union School District's management. Our responsibility is to express an opinion on McKinleyville Union School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May, Abrahamsen & Barsanti

December 15, 2010
McKinleyville, California

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti
CERTIFIED PUBLIC ACCOUNTANTS

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AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California

We have audited the basic financial statements of the McKinleyville Union School District, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No See Below
Continuation Education	10	N/A
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	N/A

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	N/A
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction (including in charter schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	N/A
District or Charter Schools With Only One School Serving K-3	4	N/A
After School Education and Safety Program:		
General Requirements	4	N/A
After School	4	N/A
Before School	5	N/A
Contemporaneous Records of Attendance	1	N/A
Mode of Instruction, for Charter Schools	1	N/A
Nonclassroom-Based Instruction/ Independent Study, For Charter Schools	15	N/A
Determination of Funding for Nonclassroom-Based Instruction, For Charter Schools	3	N/A
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	N/A

We did not perform testing for independent study because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the McKinleyville Union School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the McKinleyville Union School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the audit committee, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

May, Abrahamsen & Barsanti

December 15, 2010
McKinleyville, California

FINDINGS AND RECOMMENDATIONS SECTION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Auditor's Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(s) identified not considered to be material weaknesses?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(s) identified not considered to be material weaknesses?	____	Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)	____	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	NCLB:Title 1
84.389	NCLB: ARRA Title I
84.394	ARRA - State Fiscal Stabilization Fund
84.027	Special Education - IDEA Basic Local Assistance
84.391	Special Education - ARRA - IDEA , Part B

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?	X	Yes	____	No

State Awards

Internal control over state programs:				
Material weakness(es) identified?	____	Yes	X	No
Reporting condition(s) identified not considered to be material weaknesses?	____	Yes	X	None Reported
Type of auditor's report issued on compliance for state programs:	Unqualified			

MCKINLEYVILLE UNION SCHOOL DISTRICT
Findings and Recommendations
Year Ended June 30, 2010

Current Year Findings and Recommendations

There are no current year findings and recommendations

MCKINLEYVILLE UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2010

Finding/Recommendation	Current Status	Explanation if Not Fully Implemented

There are no prior year findings and recommendations

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APPENDIX C

GENERAL INFORMATION ABOUT HUMBOLDT COUNTY

The following information concerning Humboldt County is included only for the purpose of supplying general information regarding the area of the District. The Series B Bonds are not a debt of the County, the State or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefor.

General

The District is located in the community of McKinleyville in Humboldt County. Humboldt County is the largest and most populous of the north coast counties. The County is bordered by Del Norte County to the north, Siskiyou County to the north and east, Trinity County to the east, Mendocino County to the south, and the Pacific Ocean to the west.

Humboldt County was created from the western portion of Trinity County in 1853. The County's name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. Humboldt County's 3,600 square miles are known for their rural beauty, roughly 80% of which is designated recreation areas and timber land. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

Population

The following table lists population figures for Humboldt County for the last five calendar years.

COUNTY OF HUMBOLDT
Population Estimates
Calendar Years 2006 through 2010

	2006	2007	2008	2009	2010
Arcata	17,312	17,425	17,495	17,608	17,712
Blue Lake	1,171	1,165	1,161	1,168	1,170
Eureka	26,227	26,083	26,031	25,994	26,066
Ferndale	1,447	1,447	1,440	1,442	1,444
Fortuna	11,326	11,333	11,327	11,345	11,364
Rio Dell	3,257	3,276	3,272	3,279	3,295
Trinidad	315	313	311	310	310
Balance Of County	70,777	71,006	71,272	71,567	72,039
County Total	131,832	132,048	132,309	132,713	133,400

Source: State Department of Finance estimates.

Employment and Industry

The table below provides information about employment rates and employment by industry type for the County for calendar years 2005 through 2009.

COUNTY OF HUMBOLDT
Civilian Labor Force, Employment and Unemployment
Calendar Years 2005 through 2009
Annual Averages

	2005	2006	2007	2008	2009
Civilian Labor Force (1)	59,600	59,800	59,600	60,300	61,100
Employment	56,000	56,500	56,100	55,900	54,400
Unemployment	3,700	3,300	3,500	4,400	6,700
Unemployment Rate	6.1%	5.5%	5.9%	7.2%	11.0%
Wage and Salary Employment(2)					
Agriculture	1,200	1,200	1,300	1,200	1,000
Mining and Logging	400	400	500	500	300
Construction	2,400	2,600	2,400	2,300	1,900
Manufacturing	3,700	3,400	3,100	2,800	2,200
Wholesale Trade	1,100	1,100	1,000	1,000	1,000
Retail Trade	7,300	7,300	7,400	7,300	6,900
Transportation, Warehousing and Utilities	1,400	1,400	1,400	1,300	1,100
Information	700	700	700	700	600
Financial Activities	3,300	3,200	3,100	3,200	2,800
Professional and Business Services	5,800	5,900	5,800	5,900	6,400
Educational and Health Services	5,200	5,300	5,200	5,200	5,100
Leisure and Hospitality	1,900	1,800	1,900	1,900	1,900
Other Services	800	800	700	800	800
Federal Government	3,100	3,100	3,200	3,200	3,200
State Government	9,400	9,900	10,000	10,000	9,900
Local Government	1,200	1,200	1,300	1,200	1,000
Total, All Industries (3)	49,500	50,100	49,700	49,000	46,800

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

The table below lists the major employers in the County as of January 1, 2010.

COUNTY OF HUMBOLDT
Major Employers (Listed Alphabetically)
As of January 2011

Employer Name	Location	Industry
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino	Blue Lake	Casinos
Caltrans	Eureka	Government Offices-State
College of the Redwoods	Eureka	College
Eureka City Clerks Office	Eureka	City Government- Executive Offices
Green Diamond Resource Co	Korbel	Timber & Timberland Companies (Whol)
Humbold County Social Svc Dept	Eureka	County Gov-Social/Human Resources
Humboldt County Office-Education	Eureka	Schools
Humboldt County Education Office	Eureka	County Government-Education Programs
Humboldt County Health Dept	Eureka	County Gov-Public Health Programs
Humboldt County Sheriff Dept	Eureka	Sheriff
Humboldt County Social Svc	Eureka	County Gov-Social/Human Resources
Humboldt State University	Arcata	State University
Mad River Community Hospital	Arcata	Hospitals
Mental Health Svc Humboldt	Eureka	Clinics
Public Health Adm	Eureka	County Gov-Public Health Programs
Redwood Memorial Hospital	Fortuna	Hospitals
Sempervirens Psychiatric	Eureka	Mental Health Services
Sierra Pacific Industries	Arcata	Lumber
St Joseph Health System	Eureka	Hospitals
St Joseph Hospital	Eureka	Hospitals
Sun Valley Group	Arcata	Greehouses
Target	Eureka	Department Store
Trinidad Ranchera	Trinidad	Business Services
Umpqua Bank	Eureka	Banks

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the County, the State and the United States for the period 2005 through 2009.

COUNTY OF HUMBOLDT
Effective Buying Income
As of January 1, 2005 through 2009

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2005	Humboldt County	$2,103,287	$31,434
	California	720,798,106	44,681
	United States	5,894,663,363	40,529
2006	Humboldt County	$2,181,348	$31,896
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	Humboldt County	$2,397,920	$34,454
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	Humboldt County	$2,279,358	$32,980
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	Humboldt County	$2,334,673	$33,459
	California	844,823,319	49,736
	United States	6,571,536,768	43,252

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Figures are not yet available for 2010.

COUNTY OF HUMBOLDT
Taxable Transactions
(Figures in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2005	2,122	$1,176,032	4,802	$1,611,351
2006	2,074	1,253,920	4,735	1,704,688
2007	1,996	1,251,293	4,712	1,727,732
2008	2,021	1,206,247	4,731	1,692,797
2009 (1)	3,229	1,129,977	4,532	1,544,584

(1) Data not comparable to prior years.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

Building activity for the past five years in the County is shown in the following table.

COUNTY OF HUMBOLDT
Total Building Permit Valuations
(Valuations in Thousands)

	2005	2006	2007	2008	2009
Permit Valuation					
New Single-family	$53,373.5	$31,587.2	$30,956.6	$22,480.4	$16,452.4
New Multi-family	3,828.7	11,824.0	3,875.3	6,122.3	1,193.1
Res. Alterations/Additions	14,845.1	13,848.2	14,787.2	12,759.5	11,060.8
Total Residential	72,047.3	57,259.5	49,619.0	41,362.2	28,706.3
New Commercial	11,056.7	14,089.6	6,541.1	5,585.8	5,847.3
New Industrial	450.0	0.0	0.0	0.0	0.0
New Other	7,621.2	6,629.1	9,904.0	6,719.4	2,907.3
Com. Alterations/Additions	10,523.0	12,238.9	16,226.9	20,549.6	8,026.0
Total Nonresidential	29,650.9	32,957.6	32,672.0	32,854.7	16,780.6
New Dwelling Units					
Single Family	461	316	306	212	160
Multiple Family	42	153	71	120	22
TOTAL	503	469	377	332	182

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

February __, 2011

Board of Trustees
McKinleyville Union School District
2275 Central Avenue
McKinleyville, California 95519

OPINION: $6,999,907.50 McKinleyville Union School District (Humboldt County, California) General Obligation Bonds, Election of 2008, Series B

Members of the Board of Trustees:

We have acted as bond counsel to the Mckinleyville Union School District (the "District") in connection with the issuance by the District of $6,999,907.50 principal amount of Mckinleyville Union School District General Obligation Bonds, Election of 2008, Series B, dated the date hereof (the "Bonds"), pursuant to Title 1 Division 1, Part 10, Chapter 2, (commencing with Section 15100) of the California Education Code (the "Act"), a resolution (the "Resolution") of the Board of Trustees of the District (the "Board") adopted February 9, 2011, and Paying Agent Agreement dated as of February 1, 2011, between the District and U.S. Bank National Association (the "Paying Agent Agreement"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is a duly created and validly existing elementary school district with the power to issue the Bonds and to perform its obligations under the Resolution, the Paying Agent Agreement and the Bonds.

2. The Resolution has been duly adopted by the Board, and the Paying Agent Agreement constitutes a valid and binding obligation of the District, enforceable upon the District in accordance with its terms.

3. The Bonds have been duly authorized, executed and delivered by the District, and are valid and binding general obligations of the District, and the Board of Supervisors of Humboldt County is required under the Act to levy an *ad valorem* tax upon the taxable property in the District, without regard to rate or amount, for the payment of principal of and interest on the Bonds.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Resolution and in other instruments relating to the Bonds to comply with each of such requirements; and the District has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Paying Agent Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$6,999,907.50
MCKINLEYVILLE UNION SCHOOL DISTRICT
(County of Humboldt, California)
General Obligation Bonds, Election of 2008
Series B

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the McKinleyville Union School District (the "District") in connection with the issuance of $6,999,907.50 aggregate principal amount of McKinleyville Union School District School District (County of Humboldt, California) General Obligation Bonds, Election of 2008, Series B (the "Series B Bonds"). The Series B Bonds are being issued pursuant to a Resolution adopted by the Board of Trustees of the District on February 9, 2011 and a Paying Agent Agreement, dated as of February 1, 2011 (the "Paying Agent Agreement"), between the District and U.S. Bank National Association, as paying agent. The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Series B 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 Paying Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

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

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Participating Underwriter*" shall mean any of the original underwriters of the Series B Bonds required to comply with the Rule in connection with offering of the Series B Bonds.

"*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.

Section 3. <u>Provision of Annual Reports</u>.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District's fiscal year, commencing no later than March 31, 2012 with the report for the 2010-11 Fiscal Year, provide to the MSRB and otherwise in accordance with then-applicable procedures prescribed under the Rule, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Paying Agent and the Participating Underwriter. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District is does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Paying Agent and the Participating Underwriter.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District, with a copy to the Paying Agent and the Participating Underwriter, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. <u>Content of Annual Reports</u>. The Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official

Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) the District's adopted Budget;

(ii) assessed value of taxable property in the jurisdiction of the District as shown on the recent equalized assessment roll;

(iii) changes, if any, in the operation of Humboldt County's Teeter Plan affecting the District;

(iv) changes, if any, in the operation of Humboldt County Investment Pool which would affect the District's access to property taxes used to pay debt service on the Bonds;

(v) property tax collection delinquencies for the District, for the most recently completed Fiscal Year, if the District is no longer a participant in Humboldt County's Teeter Plan; and

(vi) top ten property owners in the jurisdiction of the 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.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) The items of subsection 4(b) shall be supplemented, if applicable, by event notices which have been filed pursuant to Section 5.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

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

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person.

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

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event's occurrence is material for purposes of U.S. federal securities law.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series B Bonds. If such termination occurs prior to the final maturity of the Series B Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) the proposed amendment or waiver either (i) is approved by holders of the Series B Bonds in the manner provided in the Paying Agent Agreement for amendments to the Paying Agent Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Series B Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB and otherwise in accordance with then-applicable procedures prescribed under the Rule in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Series B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Paying Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series B Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Series B Bonds, and shall create no rights in any other person or entity.

Date: March 2, 2011

MCKINLEYVILLE UNION SCHOOL DISTRICT

By: ______________________________
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	McKinleyville Union School District
Name of Bond Issue:	$6,999,907.50 aggregate principal amount of McKinleyville Union School District (County of Humboldt, California) General Obligation Bonds, Election of 2008, Series B
Date of Issuance:	March 2, 2011

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.06 of the Paying Agent Agreement authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by ____________.

Dated:____________________

MCKINLEYVILLE UNION SCHOOL DISTRICT

By____________________________________
Superintendent

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Series B Bonds, payment of principal, interest and other payments on the Series B Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series B Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given 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 Series B Bonds, (b) Series B Bonds representing ownership interest in or other confirmation or ownership interest in the Series B Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series B 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 Appendix. 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 Series B Bonds. The Series B 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 certificate will be issued for the Series B Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of the Series B Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation

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

Purchases of Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Series B 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 Series B Bonds representing their ownership interests in Series B Bonds, except in the event that use of the book-entry system for the Series B Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Series B 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 such other DTC nominee) will consent or vote with respect to the Series B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series B 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 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 District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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 securities depository with respect to the Series B Bonds at any time by giving reasonable notice to District or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series B Bonds are required to be printed and delivered.

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

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

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ASSURED GUARANTY MUNICIPAL

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("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

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. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By ____________________________
Authorized Officer

(212) 826-0100