

The following table shows the general fund balance sheets of the District for the fiscal years 2005-06 through 2008-09.

**ALVORD UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Summary of General Fund Balance Sheet  
Fiscal Years 2005-06 Through 2008-09**

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09
<b>ASSETS</b>				
Cash	\$ 14,899,814	\$ 13,109,558	\$ 13,518,587	\$ 7,328,078
Investments	-	-	-	-
Accounts receivable	10,352,700	13,816,233	13,012,188	22,853,067
Due from other funds	-	423,909	372,895	1,209,025
Stores inventory	271,510	319,466	274,869	205,049
<b>Total Assets</b>	<b>\$25,524,024</b>	<b>\$27,669,166</b>	<b>\$27,178,539</b>	<b>\$ 31,595,219</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 2,573,313	\$ 3,287,065	\$ 3,494,875	\$ 5,093,176
Due to other funds	1,058,768	1,128,232	1,245,149	1,515,463
Deferred revenues	1,961,932	593,084	1,639,959	2,842,920
<b>Total Liabilities</b>	<b>\$ 5,594,013</b>	<b>\$ 5,008,381</b>	<b>\$ 6,379,983</b>	<b>\$ 9,451,559</b>
<b>FUND BALANCES</b>				
Reserved for:				
Stores inventories	271,510	319,466	274,869	205,049
Revolving cash	15,000	15,000	15,000	15,000
Legally restricted balances	6,174,118	11,863,151	10,841,276	10,991,017
Debt service	-	-	-	-
Unreserved, reported in:				
General Fund	13,469,083	10,463,168	9,667,411	10,932,594
Special Revenue Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
<b>Total Fund Balances</b>	<b>19,930,011</b>	<b>22,660,785</b>	<b>20,798,556</b>	<b>22,143,660</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 25,524,024</b>	<b>\$ 27,669,166</b>	<b>\$ 27,178,539</b>	<b>\$ 31,595,219</b>

Source: District Audited Financial Reports for fiscal years 2005-06 through 2008-09.

**District Budget Process and County Review**

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the Riverside County Superintendent of Schools.

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available

various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's governing board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District received a qualified certification for its second interim report for fiscal year 2007-08, but has maintained a positive certification since such report. The District has never received a negative certification.

On March 18, 2010, the Board of Education approved the District's second interim financial report for the period ended January 31, 2010, with a positive certification. However, the County Superintendent changed the certification from positive to qualified.

The following table summarizes the District's adopted General Fund Budgets for fiscal years 2008-09 through 2010-11 and unaudited actuals for fiscal years 2008-09.

**ALVORD UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**General Fund Budgets for Fiscal Years 2008-09 through 2010-11**  
**and Unaudited Actuals for Fiscal Years 2008-09 and 2009-10**

	2008-09 Original Adopted Budget	2008-09 Unaudited Actuals	2009-10 Original Adopted Budget	2009-10 Unaudited Actuals	2010-11 Original Adopted Budget
<b>REVENUES</b>					
Revenue Limit Sources	\$ 110,665,637.00	\$ 106,695,788.70	\$ 105,544,235.00		\$ 93,887,394.00
Federal Revenue	5,941,750.00	17,163,707.37	14,570,687.00		9,096,164.00
Other State Revenue	19,502,663.00	28,760,008.60	23,886,855.00		22,884,931.00
Other Local Revenue	7,788,640.00	7,699,960.47	6,674,760.00		5,319,945.00
<b>TOTAL REVENUES</b>	<b>143,898,690.00</b>	<b>160,319,465.14</b>	<b>150,676,537.00</b>		<b>131,188,435.00</b>
<b>EXPENDITURES</b>					
Certificated Salaries	79,274,013.00	106,695,788.70	78,923,567.00		68,800,920.00
Classified Salaries	17,993,725.00	17,163,707.37	20,348,002.00		17,025,828.00
Employee Benefits	25,596,835.00	28,760,008.60	28,866,870.00		27,600,282.00
Books and Supplies	6,311,464.00	7,699,960.47	11,030,317.00		6,029,726.00
Services, Other Operating Expenditures	14,363,950.00	160,319,465.14	16,705,507.00		16,549,783.00
Capital Outlay	549,444.00	413,174.79	253,805.00		354,903.00
Other Outgo (excluding Transfers of Indirect/Direct Supporting Costs)	167,000.00	165,861.66	204,000.00		204,000.00
Transfers of Indirect/Direct Support Costs	-	(177,431.56)	-		(289,151.00)
<b>TOTAL EXPENDITURES</b>	<b>144,529,431.00</b>	<b>160,788,064.88</b>	<b>156,332,069.00</b>		<b>136,276,291.00</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES</b>					
	(630,741.00)	(468,599.74)	(5,655,532.00)		(5,087,856.00)
<b>OTHER FINANCING SOURCES/USES</b>					
Interfund Transfers					
Transfer In	-	1,813,704.00	600,000.00		1,100,000.00
Transfer Out	33,000.00	-	-		796,495.00
Other Sources/Uses					
Sources	-	-	-		-
Uses	-	-	-		-
Contributions	-	-	-		-
<b>TOTAL, OTHER SOURCES (USES)</b>	<b>(33,000.00)</b>	<b>1,813,704.00</b>	<b>600,000.00</b>		<b>303,505.00</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<b>(663,741.00)</b>	<b>1,345,104.26</b>	<b>(5,055,532.00)</b>		<b>(4,784,351.00)</b>
<b>BEGINNING FUND BALANCE, July 1</b>	<b>17,675,443.00</b>	<b>20,798,556.16</b>	<b>17,720,814.00</b>		<b>8,434,566.00</b>
<b>ENDING BALANCE, June 30</b>	<b>\$ 17,011,702.00</b>	<b>\$ 22,143,660.42</b>	<b>\$ 12,665,282.00</b>		<b>\$ 3,650,217.00</b>

Source: District Adopted General Fund Budgets for fiscal years 2008-09 through 2010-11; and unaudited actuals for fiscal years 2008-09 and 2009-10.

## District Debt Structure

**Long-Term Debt Summary.** A schedule of changes in the District's long-term obligations for the year ended June 30, 2010, consisted of the following : [District to update info as of June 30, 2010]

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amount Due Within One Year
General Obligation Bonds:					
Series 2002 Bonds	\$ 46,160,000	\$	\$ 1,305,000	\$ 43,855,000	\$ 1,360,000
Series 2008 Bonds	60,000,000	-	-	60,000,000	1,600,000
2009 Bond Anticipation Notes	-	60,000,000	-	60,000,000	-
Unamortized Premium, net	2,572,414	-	103,761	2,468,653	103,761
Total General Obligation Bonds	107,732,414	60,000,000	1,408,761	166,323,653	3,063,761
CFD Bonds					
Series 2002 CFD Bonds	1,760,000	-	30,000	1,730,000	35,000
Series 2004 CFD Bonds	1,655,000	-	30,000	1,625,000	30,000
06-1 CFD Series A Bonds	4,560,000	-	35,000	4,525,000	80,000
06-1 CFD Series B Bonds	4,360,000	-	35,000	4,325,000	80,000
Total CFD Bonds	12,335,000	-	130,000	12,205,000	225,000
Lease Revenue Bonds - Qualified Zone Academy Bonds	1,315,861	-	52,086	1,263,775	143,378
Supplemental Retirement Plan	511,352	3,616,005	851,039	3,276,318	851,039
Compensated Absences	183,238	-	56,052	127,186	-
STRS Golden Handshake	283,130	-	76,097	207,033	72,655
Other Post Employment Benefits	786,944	1,744,878	-	2,531,822	-
Total	<u>\$123,147,939</u>	<u>\$ 65,360,883</u>	<u>\$ 2,574,035</u>	<u>\$ 185,934,787</u>	<u>\$ 4,355,833</u>

**General Obligation Bonds.** On November 1, 2002, the District, through the County, issued a series of general obligation bonds (the "Series 2002 Bonds") in the amount of \$52,810,000. The Series 2002 Bonds were issued in order to refinance bonds issued pursuant to a 1997 election. The Series 2002 Bonds consist of (a) Serial Bonds of \$31,215,000 with interest rates ranging from 2.3% to 5.9% and fully maturing on July 1, 2021, (b) Term Bonds of \$8,045,000 with a stated interest rate of 5.9% due on February 1, 2024, and (c) Term Bonds of \$13,550,000 with a stated interest rate of 5.9% and maturing on August 1, 2030. At June 30, 2009, the principal balance outstanding on the Series 2002 Bonds was \$43,855,000.

At an election duly called and regularly held in the District on November 6, 2007, the qualified electors of the District authorized the issuance of not to exceed \$196,000,000 aggregate principal amount of general obligation bonds of the District (herein called, the "General Obligation Bonds"). On May 1, 2008, the District, through the County, issued \$60,000,000 aggregate principal amount of the General Obligation Bonds (the "Series A Bonds"), leaving \$136,000,000 aggregate principal amount of the General Obligation Bonds authorized but unissued. The Series A Bonds consist of (a) Serial Bonds of \$39,305,000 with interest rates ranging from 3.5% to 5.0% and fully maturing on August 1, 2028, and (b) Term Bonds of \$20,695,000 with a stated interest rate of 5.0% and fully maturing on August 1, 2032. At June 30, 2009, the outstanding balance on the Series 2008 Bonds was \$60,000,000.00

The annual debt service requirements to amortize the Series 2002 Bonds, the Series 2008 Bonds and the aggregate outstanding General Obligation Bonds are as follows: [Underwriter to provide updated table]

Date	Series 2002 Bonds	Series 2008 Bonds	Aggregate Total
8/1/2010	\$ 1,361,332.50	\$ 2,662,682.50	\$ 4,024,015.00
8/1/2011	3,836,785.00	3,282,865.00	7,119,650.00
8/1/2012	3,833,922.50	3,384,665.00	7,218,587.50
8/1/2013	3,829,246.25	3,482,265.00	7,311,511.25
8/1/2014	3,831,378.75	3,586,865.00	7,418,243.75
8/1/2015	3,833,561.25	3,696,590.00	7,530,151.25
8/1/2016	3,829,907.50	3,804,790.00	7,634,697.50
8/1/2017	3,828,102.50	3,921,015.00	7,749,117.50
8/1/2018	3,829,512.50	4,039,590.00	7,869,102.50
8/1/2019	3,823,842.50	4,157,340.00	7,981,182.50
8/1/2020	3,830,502.50	4,283,390.00	8,113,892.50
8/1/2021	3,824,050.00	4,411,090.00	8,235,140.00
8/1/2022	3,814,485.00	4,543,340.00	8,357,825.00
8/1/2023	3,812,102.50	4,682,750.00	8,494,852.50
8/1/2024	3,818,215.00	4,821,000.00	8,639,215.00
8/1/2025	3,810,625.00	4,965,750.00	8,776,375.00
8/1/2026	3,807,267.50	5,116,000.00	8,923,267.50
8/1/2027	3,802,700.00	5,270,750.00	9,073,450.00
8/1/2028	1,523,430.00	5,429,000.00	6,952,430.00
8/1/2029	1,530,830.00	5,589,750.00	7,120,580.00
8/1/2030	594,912.50	5,757,000.00	6,351,912.50
8/1/2031	-	5,929,500.00	5,929,500.00
8/1/2032	-	6,111,000.00	6,111,000.00
	<u>\$ 70,006,711.25</u>	<u>\$ 102,928,987.50</u>	<u>\$ 172,935,698.75</u>

In prior years, the District defeased various bond issues by creating separate irrevocable trust funds. New debt was issued and the proceeds have been used to purchase U.S. governmental securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore has been removed as a liability from the District's government-wide financial statements. As of June 30, 2009, the amount held in escrow was \$53,616,536.

**Special Tax Bonds.** A summary of all the bonds issued by community facilities districts ("CFDs") formed by the District is shown below. [Dolinka Group to confirm/update table as of June 30, 2010]

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2008	Additions	Deductions	Balance, June 30, 2009
CFD No. 01-1	11/20/2002	9/1/2033	2.5%-6.25%	\$1,880,000	\$1,760,000	\$ -	\$ 30,000	\$ 1,730,000
CFD No. 02-1	6/3/2004	9/1/2034	2.5%-6.1%	1,745,000	1,655,000	-	30,000	1,625,000
CFD No. 06-1A	3/15/2007	9/1/2036	3.8%-5.0%	4,560,000	4,560,000	-	35,000	4,525,000
CFD No. 06-1B	3/15/2007	9/1/2036	3.8%-5.0%	4,360,000	4,360,000	-	35,000	4,325,000
					<u>\$12,335,000</u>	<u>\$ -</u>	<u>\$130,000</u>	<u>\$12,205,000</u>

**Community Facilities District No. 01-1.** On November 20, 2002, Community Facilities District No. 01-1 ("CFD No. 01-1") of the District issued \$1,880,000 of its Special Tax Bonds, Series 2002 (the "Series 2002 CFD Bonds"). The Series 2002 CFD Bonds were issued to provide funds to pay the costs and expense of improvement, acquisition and construction of certain public school facilities, to establish a reserve fund for the Series 2002 CFD Bonds, fund certain sewer improvements to be owned and operated by the Western Municipal Water District ("WMWD"), fund capitalized interest on the Series 2002 CFD

Bonds through March 1, 2004, and to pay the costs of issuing the Series 2002 CFD Bonds. The Series 2002 CFD Bonds are payable from the proceeds of a special tax to be levied within CFD No. 01-1 according to the rate and method of apportionment of the special taxes approved by the qualified electors of CFD No. 01-1 pursuant to the Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act").

The annual debt service requirements to amortize the Series 2002 CFD Bonds outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-2010	\$ 35,000	\$ 103,185	\$ 138,185
2010-2011	35,000	101,567	136,567
2011-2012	35,000	99,859	134,859
2012-2013	40,000	97,945	137,945
2013-2014	40,000	95,845	135,845
2014-2019	235,000	442,909	677,909
2019-2024	315,000	361,192	676,192
2024-2029	425,000	247,579	672,579
2029-2034	570,000	93,749	663,749
Totals	\$ 1,730,000	\$ 1,643,830	\$ 3,373,830

Community Facilities District No. 02-1. On June 3, 2004, Community Facilities District No. 02-1 ("CFD No. 02-1") of the District issued \$1,745,000 of its Special Tax Bonds, Series 2004 (the "Series 2004 CFD Bonds"). The Series 2004 CFD Bonds were issued to provide funds to pay the costs and expense of acquisition and construction of certain public school facilities, to establish a reserve fund for the Series 2004 CFD Bonds to fund capitalized interest on the Series 2004 CFD Bonds through March 1, 2005, to fund certain sewer improvements to be owned and operated by WMWD, and to pay the costs of issuing the Series 2004 CFD Bonds. The Series 2004 CFD Bonds are payable from the proceeds of a special tax to be levied within CFD No. 02-1 according to the rate and method of apportionment of the special taxes approved by the qualified electors of CFD No. 02-1 pursuant to the Mello-Roos Act.

The annual debt service requirements to amortize the Series 2004 CFD Bonds outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-2010	\$ 30,000	\$ 90,441	\$ 120,441
2010-2011	30,000	89,204	119,204
2011-2012	35,000	87,778	122,778
2012-2013	35,000	86,178	121,178
2013-2014	35,000	84,524	119,524
2014-2019	215,000	391,625	606,625
2019-2024	275,000	325,496	600,496
2024-2029	370,000	232,919	602,919
2029-2034	485,000	108,835	593,835
2034-2035	115,000	3,378	118,378
Totals	\$1,625,000	\$1,500,378	\$3,125,378

Community Facilities District No. 06-1. On March 15, 2007, Community Facilities District No. 06-1 ("CFD No. 06-1") of the District issued \$4,560,000 of its Special Tax A Bonds, Series 2006 (the "06-1 CFD Series A Bonds"). The 06-1 CFD Series A Bonds were issued to provide funds to pay the costs of financing the construction and acquisition of public facilities to be owned and operated by the District, to fund a reserve fund for the 06-1 CFD Series A Bonds, to fund capitalized interest on the 06-1 CFD Series A Bonds through March 1, 2008, to fund capitalized interest on the 06-1 CFD Series A

Escrow Term Bond through September 1, 2008, to pay initial administrative expenses of CFD No. 06-1 and to pay the costs of issuing the 06-1 CFD Series A Bonds. The 06-1 CFD Series A Bonds are payable from the proceeds of a special tax approved by the qualified electors of CFD No. 06-1 pursuant to the Mello-Roos Act.

The annual debt service requirements to amortize the 06-1 CFD Series A Bonds outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-2010	\$ 80,000	\$ 216,780	\$ 296,780
2010-2011	90,000	214,523	304,523
2011-2012	90,000	211,081	301,081
2012-2013	95,000	207,365	302,365
2013-2014	100,000	203,510	303,510
2014-2019	560,000	951,406	1,511,406
2019-2024	695,000	813,778	1,508,778
2024-2029	880,000	635,610	1,515,610
2029-2034	1,120,000	402,773	1,522,773
2034-2038	815,000	108,914	923,914
Totals	\$4,525,000	\$3,965,740	\$8,490,740

On March 15, 2007, CFD No. 06-1 of the District issued \$4,360,000 of its Special Tax A Bonds, Series 2006 (the "06-1 CFD Series B Bonds"). The 06-1 CFD Series B Bonds were issued to provide funds to pay the costs of financing the construction and acquisition of public facilities to be owned and operated by the City of Corona, City of Riverside and WMWD, to fund a reserve fund for the 06-1 CFD Series B Bonds, to fund capitalized interest on the 06-1 CFD Series B Bonds through September 1, 2008, to pay initial administrative expenses of CFD No. 06-1 and to pay the costs of issuing the 06-1 CFD Series B Bonds. The 06-1 CFD Series B Bonds are payable from the proceeds of a special tax approved by the qualified electors of CFD No. 06-1 pursuant to the Mello-Roos Act.

The annual debt service requirements to amortize the 06-1 CFD Series B Bonds outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-2010	\$ 80,000	\$ 207,163	\$ 287,163
2010-2011	80,000	204,905	284,905
2011-2012	90,000	201,685	291,685
2012-2013	90,000	198,190	288,190
2013-2014	95,000	194,436	289,436
2014-2019	535,000	908,590	1,443,590
2019-2024	675,000	776,450	1,451,450
2024-2029	840,000	604,395	1,444,395
2029-2034	1,065,000	432,178	1,447,978
2034-2038	775,000	159,648	878,689
Totals	\$4,325,000	\$3,782,481	\$8,107,481

**Qualified Zone Academy Bond.** On December 3, 2002, the District entered into a site lease agreement with the Corporation for the purpose of the financing the cost of purchasing technology equipment. The lease financing was entered into under the qualified zone academy bond ("QZAB") provisions of the Internal Revenue Code.

Lease payments for the QZABs will be required as follows:

Fiscal Year	Principal	Imputed Interest	Total
2009-2010	\$ 114,450	\$ 28,929	\$ 143,379
2010-2011	114,449	34,002	148,451
2011-2012	114,450	39,231	153,681
2012-2013	114,450	44,649	159,099
2013-2014	114,450	50,273	164,723
2013-2017	343,349	151,093	494,442
Totals	\$915,598	\$348,177	\$1,263,775

**Golden Handshake.** The District entered into an agreement with the Alvord Educators Association to offer the golden handshake agreement for eligible certificated employees of the District. The agreement calls for the District to make the following remaining installment payments:

Fiscal Year	
2009-2010	\$ 72,655
2010-2011	68,977
2011-2012	65,401
Total	\$ 207,033

**Other Post-Employment Benefits.** For a description of the District's other post-employment benefits, see "– Other Post-Employment Benefits" below.

**Supplemental Early Retirement Program (SERP).** In 2008, the District agreed to provide a Supplemental Early Retirement Program (SERP) to eligible employees who elected early retirement by July 1, 2008. Fifteen employees who met the eligibility requirements, elected early retirement. Five payments of \$127,838 are being paid over a five year period starting July 2008. The accumulated future liability for the District at June 30, 2009, amounts to \$383,514.

During fiscal year 2008-09, the District entered into an agreement for an Early Retirement Incentive for eligible employees. The agreement requires the District to make five equal annual installment payments for the 45 employees who participate in the plan. The future obligation under this plan is \$2,892,804.

## Employment

As of June 30, 2010, the District employed \_\_\_\_\_ certificated professionals and approximately \_\_\_\_\_ classified employees. For the year ended June 30, 2010, the total certificated and classified payrolls were \$ \_\_\_\_\_ million and \$ \_\_\_\_\_ million, respectively.

The certificated professionals, except management and some part-time employees, are represented by the employee bargaining units as follows:

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
Alvord Educators Association		June 20, 2009 <sup>(1)</sup>
California School Employees Association		June 20, 2009 <sup>(1)</sup>

<sup>(1)</sup> The District is currently negotiating new contracts and expects to, but cannot guarantee that it will, reach satisfactory agreements.

Source: The District



## Retirement Benefits

The District participates in retirement plans with the State Teachers' Retirement System ("CalSTRS"), which covers all full-time certificated District employees, and the State Public Employees' Retirement System ("CalPERS"), which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

**CalSTRS.** Contributions to CalSTRS are fixed in statute. Teachers contribute 8% of salary to CalSTRS, while school districts contribute 8.25%. In addition to the teacher and school contributions, the State contributes 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Unlike typical defined benefit programs, however, neither the CalSTRS employer nor the State contribution rate varies annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to systemwide unfunded liability resulting from recent benefit enhancements.

Because of the downturn in the stock market, an actuarial valuation as of June 30, 2003 showed a \$118 million shortfall in the baseline benefits—one-tenth of 1% of accrued liability. Consequently, the surcharge kicked in for the first time in the fiscal year 2004-05 at 0.524% for three quarterly payments, which amounted to an additional \$92 million from the State's general fund in fiscal year 2004-05. However, in addition to the small shortfall in pre-enhancement benefits (triggering the surcharge), the June 30, 2003, valuation also showed a substantial \$23 billion unfunded liability for the entire system, including enhanced benefits. As indicated above, there is no required contribution from teachers, school districts or the State to fund this unfunded liability.

As of June 30, 2009, an actuarial valuation for the entire system, including enhanced benefits, showed an estimated unfunded actuarial liability of \$40.5 billion, an increase of \$18 billion from the June 30, 2008 valuation. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions.

CalSTRS has developed options to address the shortfall but most would require legislative action. In addition, in the Governor's 2005-06 Proposed State Budget and the 2005-06 May Revise of the 2005-06 Proposed Budget, the Governor proposed increasing the fixed contribution rate from 8.25% to 10.25% for school districts. Subsequently, the final 2005-06 State Budget was adopted with a contribution rate of 8.25%. In addition to the proposal by the Governor to increase the fixed contribution rate for school districts, other proposals have been suggested that would modify the District's obligation to make contributions to CalSTRS to closely parallel the full cost of the retirement benefits provided by CalSTRS, which proposals would include components for unfunded liability. If these proposals were adopted, the District's annual obligations to CalSTRS would likely increase substantially.

The District's employer contributions to CalSTRS for fiscal years 2005-06, 2006-07, 2007-08 and 2008-09 were \$5,806,748, \$6,811,141, \$6,717,243 and \$6,991,699, respectively, and were equal to 100% of the required contributions for each year. The District estimates that its employer contributions to CalSTRS for fiscal year 2009-10 was approximately \$\_\_\_\_\_ (unaudited) and projects that its employer contributions to CalSTRS for fiscal year 2010-11 will be approximately \$\_\_\_\_\_.

**CalPERS.** All qualifying classified employees of K through 12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS,

the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability.

According to the CalPERS State and Schools Actuarial Valuation as of June 30, 2010, the CalPERS Plan for Schools had a funded ratio of 65% on a market value of assets basis. The funded ratio as of June 30, 2009 and June 30, 2008 was 93.8% and 107.8%, respectively. In June 2009, the CalPERS Board of Administration adopted a new employer rate smoothing methodology for local governments and school employer rates. It was designed to ease the impact of the investment losses which were then expected in fiscal year 2008-09 on affiliated public employers while strengthening the long-term financial health of the pension fund. Under the new methodology, investment losses will be amortized and paid off over a fixed and declining 30-year period instead of a rolling 30-year amortization period.

The District's employer contributions to CalPERS for fiscal years 2005-06, 2006-07, 2007-08 and 2008-09 were \$1,471,985, \$1,723,527, \$3,013,782 and \$3,117,968, respectively, and were equal to 100% of the required contributions for each year. The District estimates that its employer contributions to CalPERS for fiscal year 2009-10 was approximately \$ \_\_\_\_\_ (unaudited) and projects that its employer contributions to CalPERS for fiscal year 2010-11 will be approximately \$ \_\_\_\_\_.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009, Note 11."

#### **Other Post Employment Benefits (OPEBs)**

In addition to the retirement plan benefits with CalSTRS and CalPERS, the District provides certain post retirement healthcare benefits, in accordance with District employment contracts, to eligible employees who retire from the District on or after attaining age 55 with at least 10 years of service. The benefits consist of health insurance benefits (medical, dental and vision) and are provided to eligible retirees up to age 65. As of July 1, 2008, 109 retirees met these eligibility requirements and were receiving benefits.

The Governmental Accounting Standards Board ("GASB") released its Statement Number 45 ("Statement Number 45"), which requires municipalities to account for other post-employment benefits (meaning other than pension benefits) liabilities much like municipalities are required to account for pension benefits. As required by Statement Number 45, the District implemented the Statement Number 45 requirements in fiscal year 2007-08. See Note 12 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2009."

The Epler Company, San Diego, California (the "Actuary"), has prepared the District's most recent actuarial valuation of the District's retiree health insurance benefits and reports that, as of July 1, 2008, the District had an unfunded actuarial accrued liability of \$16,904,954, assuming the District proceeds with its policy to pre-fund through a GASB eligible trust. (The Actuary indicates in the report that the District's unfunded actuarial accrued liability, as of July 1, 2008, would be \$19,718,611 if the District were not to proceed with its policy to pre-fund through a GASB eligible trust.) As of the valuation date, the District had not identified any funds as plan assets under Statement Number 45. The District currently intends to pre-fund its obligations and, under the new report, its annual required contribution for fiscal year 2008-09 is \$2,281,742.

The District's previous contributions, on a pay-as-you-go basis, for these benefits for fiscal years 2006-07, and 2007-08 were \$294,512 and \$712,604, respectively. The District's contribution for fiscal year 2008-09, on a pay-as-you-go basis if the District were not to proceed with its policy to pre-fund through a GASB eligible trust, was estimated by the Actuary to be \$724,789.

### **Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures**

The District is a member of the Southern California Regional Liability Excess Fund (ReLiEF) and the Benefits Liability Excess Fund (BeLiEF) joint powers authorities ("JPAs"). The District pays an annual premium to each entity for its health, vision and life insurance coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes as explained below.

These entities have budget and financial reporting requirements independent of member units and their financial statements are not presented in the financial statements of the District; however, fund transactions between the JPAs and the District are included in the financial statements of the District. Audited financial statements are available from the respective JPAs.

The District has not appointed board members to the Governing Board of the JPAs.

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

### **Limitations on Revenues**

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("Article XIII A"). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) 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, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A 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 2% per year to account for inflation.

Article XIII A 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.

*County of Orange v. Orange County Assessment Appeals Board No. 3.* Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in

similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situation." Any such allocation made to a local agency continues as part of its allocation in future years.

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

#### **Article XIII B 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 XIII B to the State Constitution ("Article XIII B"). Under Article XIII B 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 XIII B 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 XIII B, 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.

The District's budgeted appropriations from "proceeds of taxes" (sometimes referred to as the "Gann limit") for the 2008-09 fiscal year are equal to the allowable limit of \$98,069,718, and estimates an appropriations limit for 2009-10 of \$[97,681,105]. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

#### **Article XIII C and Article XIII D of the California Constitution**

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIII C and XIII D ("Article XIII C" and "Article XIII D," respectively), which contain a number of

provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

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

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

### **Statutory Limitations**

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in Santa Clara County Transportation Authority v. Guardino. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

### **Proposition 98 and Proposition 111**

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K through 12 school districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the

percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9% percentage, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 school districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 school districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 school districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 school districts were guaranteed the greater of (a) 40.9% of general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the

second test would become a “credit” to be paid in future years when general fund revenue growth exceeds personal income growth.

### **Applications of Constitutional and Statutory Provisions**

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 HISTORY, OPERATION AND FINANCIAL INFORMATION — State Funding of Education; State Budget Process.”

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 98 and 111, were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District’s ability to expend revenues.

**APPENDIX B**

**FINANCIAL STATEMENTS OF THE DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**



**APPENDIX C**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

*Upon delivery of the Series B Bonds, Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the Alvord Unified School District, proposes to render its final approving opinion with respect to the Series B Bonds in substantially the following form:*

**APPENDIX D**

**PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL**

*Upon delivery of the Series B Bonds, the Law Offices of Samuel Norber, Beverly Hills, California, Special Tax Counsel to the Alvord Unified School District, expects to render its final approving opinion with respect to the Series B Bonds in substantially the following form:*

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX F

### SUMMARY OF COUNTY OF RIVERSIDE INVESTMENT POLICIES AND PRACTICES AND DESCRIPTION OF INVESTMENT POOL

#### Riverside County Treasury Pool

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

The Riverside County Treasurer maintains one Pooled Investment Fund ("PIF") for all local jurisdictions having funds on deposit in the Riverside County Treasury. As of August 31, 2010, the portfolio assets comprising the PIF had a market value of \$5,166,434,405.70.

State law requires that all operating moneys of the Riverside County, school districts and certain special districts be held by the Riverside County Treasurer. On June 30, 2004, the Auditor-Controller performed an analysis on the Riverside County Treasury which resulted in the identification and classification of "mandatory vs. discretionary" depositors. Collectively these mandatory deposits constituted approximately 86% of the funds on deposit in the Riverside County Treasury, while approximately 14% of the total funds on deposit in the Riverside County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions, with the prior consent of the Board of Supervisors and Riverside County Treasurer, to participate in Riverside County's PIF, none have been authorized entry, nor are any pending consideration. The desire of Riverside County is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are made in accordance with Riverside County Treasurer's Statement of Investment Policy, which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment.

The structure of the Pooled Investment Fund as of August 31, 2010, was:

	Market Value
Federal Agency	\$4,051,249,162
Money Market Funds	499,162,162
Commercial Paper	149,853,472
Negotiable CD's	-
Medium Term Notes	-
Municipal Bonds	25,111,651
Certificates of Deposit	-
Bond - U.S. Treasury	440,422,959
Local Agency Obligation	635,000
Total	\$5,166,434,406

Yield Based Upon Book Value  
Weighted Average Maturity

0.87%  
1.09 Years

The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In keeping with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Section 53844 requires that the investment income be credited to the specific fund from which the investment was made.

The Board of Supervisors has established an "Investment Oversight Committee" (IOC) in compliance with California Government Code Section 27131. Currently, the IOC is composed of Riverside County Finance Director, Riverside County Treasurer-Tax Collector, a designee of Riverside County Superintendent of Schools, a school district representative and a public member at large. The purpose of the committee is to review the prudence of Riverside County's investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board of Supervisors.

Riverside County has obtained a rating on the PIF of "AAA/V1+" from Fitch Ratings and a "Aaa/MR1" rating from Moody's Investors Service. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

The Underwriter has made no independent investigation of the investments in the Riverside County PIF and has made no assessment of the current Riverside County Investment Policy. The value of the various investments in the Riverside County PIF will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the PIF will not vary significantly from the values described herein.

For additional information, see the APPENDIX G – "COUNTY INVESTMENT POLICY."

*Neither the District nor the Underwriter has made an independent investigation of the investments in the Pools and neither has made an assessment of the current County Investment Policy. The value of the various investments in the Pools will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pools will not vary significantly from the values described herein.*

## APPENDIX H

### BOOK-ENTRY ONLY SYSTEM

*The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series B Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series B Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.*

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series B Bonds (the “Securities”). The Securities 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 Security certificate will be issued for each maturity of the Securities, 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.

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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

Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

10. 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, Security certificates will be printed and delivered to DTC.

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



**APPENDIX I**

**CAPITAL APPRECIATION BONDS  
TABLE OF ACCRETED VALUES**

**APPENDIX J**

**CONVERTIBLE CAPITAL APPRECIATION BONDS  
TABLE OF ACCRETED VALUES**

**APPENDIX K**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**