

General Obligation Bonds. On February 12, 2004, the School District issued the 2004 General Obligation Refunding Bonds in the amount of \$47,425,000. The bonds were issued at an aggregate price of \$52,870,926, (representing the principal amount of \$47,425,000 plus an original issue premium of \$5,965,132 less underwriter's discount of \$248,981 and cost of issuance of \$270,225). The bonds mature August 1, 2020, and yield interest rates of 0.95 to 4.10 percent. As of June 30 2012, the principal balance of \$22,355,000 remained outstanding. Unamortized premium received on issuance of bonds amounted to \$340,034 as of June 30, 2012.

On February 2, 2006, the School District issued the 2005 General Obligation Refunding Bonds in the amount of \$6,740,000. The bonds were issued at an aggregate price of \$7,189,566, (representing the principal amount of \$6,740,000 plus an original issue premium of \$516,847 less underwriter's discount of \$67,281). The bonds mature August 1, 2025, and yield interest rates of 3.10 to 4.40 percent. As of June 30, 2012, the principal balance of \$5,780,000 remained outstanding. Unamortized premium received on issuance of bonds amounted to \$2,610,528 as of June 30, 2012.

On November 6, 2012, the voters of the School District approved the issuance of not to exceed \$165,000,000. The Series 2013-A Bonds are the first series of bonds issued under the November 6, 2012 authorization. The annual debt service requirements on the Series 2013-A Bonds is shown in "DEBT SERVICE SCHEDULE" above.

Community Facilities Districts. As of June 30, 2012, the community facilities districts formed by the School District had an aggregate of \$74,945,000 of bonds outstanding.

Accumulated Unpaid Employee Vacation. The accumulated unpaid employee vacation for the School District at June 30, 2012, amounted to \$569,016.

Short-Term Debt; Tax and Revenue Anticipation Notes. [Revise depending on POS date before or after 2/1/13; update for pending TRANS sales: The School District issued a mid-year series of tax and revenue anticipation notes dated February 24, 2012, through the California Cash Reserve Program, sponsored by the California School Boards Associate Finance Corporation, in the amount of \$24,725,000 with a stated interest rate of 0.600%. Those notes matured on February 1, 2013, and were sold by the School District to supplement cash flow. The School District also issued a series of tax and revenue anticipation notes, dated July 2, 2012, through the California Cash Reserve Program, sponsored by the California School Boards Associate Finance Corporation, in the amount of \$24,490,000 with a stated interest rate of 1%. Those notes matured on February 1, 2013, and were sold by the School District to supplement its cash flow. In each case, repayment requirements were that a percentage of principal and interest be deposited with the Fiscal Agent until 100% of principal and interest due was on account by January 31, 2013. The School District also issued \$34,800,000 of Tax Revenue Anticipation Notes, dated July 2, 2012, through the California Cash Reserve Program Authority. The notes matured on February 1, 2013, with an interest rate of 0.700%. The notes were sold by the School District to supplement cash flow. Repayment required that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning December, 2012, until 100% of principal and interest due was on account by January 31, 2013. The moneys were required to remain on deposit until the maturity date of the applicable series of notes, at which time the moneys were applied to pay the principal and interest on such notes.]

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. Collectively, these deferrals are referred to as the "Cash Management Deferrals." This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals have been codified and are expected to be on-going. Legislation enacted with respect to Fiscal Years 2011-12 and 2012-13 provides for additional inter-fiscal year deferrals. As of June 30, 2012, the State's Cash Management Deferrals to the School District totaled

approximately \$40,510,086. The deferrals for Fiscal Year 2012-13 will be approximately \$25,755,801. The School District applied for and was granted the deferral exemption on apportionments for July, August, September and October, 2012. The School District has continued to manage the impact of the State's Cash Management Deferrals internally and by using short-term borrowing options. The School District cannot assure that if the State's Cash Management Deferrals continue for a significant period of time, or if the State's Cash Management Deferrals are increased, that the School District will be able to resort to additional short-term borrowing options in order to manage its cash flow.

EFFECT OF STATE BUDGET ON REVENUES

The information in this section concerning the State budget and State 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 and Accreted Value of or interest on the Series 2013-A Bonds is payable from the general fund of the School District. The Series 2013-A 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 of the Series 2013-A Bonds. See "THE SERIES 2013-A BONDS – Security" herein.

Most 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 " – SCHOOL DISTRICT FINANCIAL INFORMATION – State Funding of Education" 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. Commencing with Fiscal Year 2009-10, various mandates and restrictions on local school districts were removed, allowing flexibility to spend funding for 42 categorical programs as school districts wish. These flexibility provisions have been extended for seven years, 2008-09 through 2014-15 by Education Code Section 42605. Revenues received by the School District from all State sources accounted for approximately 82% of total general fund revenues in Fiscal Year 2010-11, for approximately 81% of total general fund revenues in Fiscal Year 2011-12 and is estimated to account for approximately 84% of total general fund revenues in Fiscal Year 2012-13.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

Education Provisions of the California State Budget. Following enactment of Proposition 25, on November 2, 2010, the Governor is required by the State Constitution to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15. Prior to enactment of Proposition 25, the final budget was required to be approved by a 2/3rds majority vote of each house of the Legislature and the June 15 deadline was routinely breached. For example, prior to enactment of Proposition 25, the State Budget was signed by the Governor on October 8, 2010, the latest budget approval in State history. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure. State income tax, sales tax, and other receipts can fluctuate significantly from year to year depending on economic conditions in the State and the nation. Because funding for K-12 education is closely related to overall State income, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The School District cannot predict how State income or State education funding will vary over the entire

term to maturity of the Series 2013-A Bonds, and the School District takes no responsibility for informing Owners of the Series 2013-A Bonds as to any such annual fluctuations. Information about the State budgeting process, the State Budget and State spending for education is available at various State-maintained websites, including (i) the State's website, where recent official statements for State bonds are posted, (ii) the California State Treasurer's Internet home page which includes the State's audited financial statements, 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 State's Rule 15c2-12 filings for State bond issues, financial information which includes an overview of the State economy and government, State finances, State indebtedness, litigation and discussion of the State budget and its impact on school districts, (iii) the California Department of Finance's internet home page which includes the text of the budget and information regarding the State budget, and (iv) the State Legislative Analyst's Office ("LAO") which prepares analyses of the proposed and adopted State budgets. *The State has not entered into any contractual commitment with the School District, the Underwriter or the Owners of the Series 2013-A Bonds to provide State budget information to the School District or the Owners of the Series 2013-A Bonds. Although the State sources of information listed above are believed to be reliable, neither the School District nor the Underwriter assumes any responsibility for the accuracy of the State budget information set forth or referred to therein.*

2011-12 State Budget; 2012-13 State Budget

Ballot Propositions. On November 2, 2010, voters approved Propositions 22, 25 and 26. Proposition 22 prohibits State legislators from using 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.

2011-12 State Budget; Legislation Regarding Redevelopment Funding Mechanisms. On December 6, 2010, Governor Schwarzenegger called an emergency session of the Legislature to address the \$6.1 billion projected deficit for Fiscal Year 2010-11. During budget briefings held in December 2010, then Governor-elect Jerry Brown announced that the projected deficit through June 30, 2012, had likely grown from the \$25.1 billion reported in the Fiscal Outlook Report to approximately \$28 billion. On January 20, 2011, Governor Brown extended the state of fiscal emergency for an additional 45 days.

On January 3, 2011, Jerry Brown was sworn in as Governor and on January 10, 2011, the Governor released his proposed budget for Fiscal Year 2011-12 ("Proposed 2011-12 Budget"). The Proposed 2011-12 Budget was designed to address an estimated budget shortfall of \$25.4 billion in the Fiscal Year 2011-12 California State Budget. The budget shortfall consisted of an \$8.2 billion projected deficit for Fiscal Year 2010-11 and a \$17.2 billion gap between projected revenues and spending in Fiscal Year 2011-12. The Governor's proposal included approximately \$12.5 billion in budget cuts, \$12 billion in tax extensions and changes, and \$1.9 billion in other solutions. The Governor proposed calling a state-wide special election in June to extend for five more years tax measures currently set to expire.

The Proposed 2011-12 Budget included cuts in a number of areas and a realignment of services from the State to local governments. With respect to education, total 2011-12 Proposition 98 funding was proposed at approximately \$49 billion, which reflected approximately the same amount as Fiscal Year 2009-10. The State general fund comprised approximately \$36 billion of total proposed Proposition 98 funding for Fiscal Year 2011-12. These totals include funding for K-12 schools and

community colleges. The proposed level of funding met the Proposition 98 funding requirements but did so by incorporating proposals which deferred approximately \$2.1 billion in K-12 and community college costs to Fiscal Year 2012-13. The Proposed 2011-12 Budget also extended various flexibility options for school districts for two additional years.

The Proposed 2011-12 Budget proposed elimination of the funding mechanism for redevelopment agencies (the "RDA Provisions"). By July 1, 2011, existing agencies were to be disestablished and successor local agencies would be required to use the tax increment revenues that redevelopment agencies would otherwise have received to retire redevelopment agency debts and contractual obligations "in accordance with existing payment schedules." The RDA Provisions would have diverted what was estimated in the Proposed 2011-12 Budget as \$1.7 billion in Fiscal Year 2011-12 to offset State general fund costs for Medi-Cal and trial courts. An additional estimated \$210 million would be distributed on a one-time basis to cities, counties, and special districts proportionate to their current share of the county-wide property tax. The RDA Provisions proposed that, after Fiscal Year 2011-12, the money available after payment of the redevelopment agency debt and contractual obligations would be distributed to schools, counties, cities, and non-enterprise special districts for general uses.

The Governor's May Revision (the "2011 May Revision") to the Proposed 2011-12 Budget was released on May 16, 2011. The 2011 May Revision reflected an estimated \$6.6 billion in new State revenues over the Proposed 2011-12 Budget's estimated amounts for Fiscal Year 2010-11 and Fiscal Year 2011-12. With respect to education, the 2011 May Revision provided an additional \$3 billion to schools in Fiscal Year 2011-12 but approximately \$2.85 billion would have gone toward eliminating deferrals, not increased revenue limit funding, and \$2.1 billion of that amount would be used to eliminate the K-12 deferral referenced above contained in the Proposed 2011-12 Budget. The 2011 May Revision assumed tax extensions would be approved by the voters and assumed a vote by the Legislature to temporarily extend the taxes until a public vote on November 6, 2011. If tax extensions were not approved and other offsetting revenues generated, school funding in Fiscal Year 2011-12 would have been reduced. The 2011 May Revision included the proposed elimination of the RDA Provisions.

The Governor signed the 2011-12 State Budget (the "2011-12 State Budget") on June 30, 2011, one of the earliest budget approvals in State history. The 2011-12 State Budget reflected an estimated \$85.9 billion in State general fund spending, an approximately 6.1% reduction from Fiscal Year 2010-11. Since the 2011 May Revision, tax receipts came in higher than expected by an estimated \$1.2 billion in May and June 2011. With the improved revenue receipts, the 2011-12 State Budget projected an additional \$4 billion in estimated 2011-12 revenues in addition to the \$6.6 billion in higher tax receipts reflected in the 2011 May Revision. The 2011-12 State Budget included a major realignment of public safety programs from the State to local governments and makes substantial cuts to various State programs. The 2011-12 State Budget maintained K-12 education funding at levels similar to Fiscal Year 2010-11 funding. The 2011-12 State Budget recognized the potential risk to the State's fiscal condition if the higher revenue estimates did not materialize and included additional cuts to higher education, health and human services and public safety if revenues were projected to fall short of expectations by more than \$1 billion with additional cuts in education, such as shortening the school year by 7 days, eliminating the home-to-school transportation program and reducing community college apportionments if revenues are projected to fall short by more than \$2 billion. The 2011-12 State Budget indicated the Governor planned to seek voter approval of a ballot measure by November 6, 2012 to constitutionally protect public safety realignment, supplementing the State's revenues to restore education funding, paying down the State debt and balancing the budget into the future. With respect to education, among other provisions, the 2011-12 State Budget deferred approximately \$2.1 billion in K-12 funding, extended flexibility options to school districts for an

additional two years, decreased part-day State preschool funding and shifted mental health services from counties to schools. The 2011-12 State Budget included provisions similar to the proposed elimination of the RDA Provisions, but each redevelopment agency could avoid elimination by choosing to make remittances to K-12 school districts and county offices of education located within the applicable project area. Such remittances in the aggregate were estimated to total approximately \$1.7 billion in 2011-12 to K-12 school districts and county offices of education. Additional changes to the 2011-12 Budget occurred since its adoption.

2012-13 State Budget; 2012 May Revision. On January 6, 2012, the Governor released his proposed budget for Fiscal Year 2012-13 ("Proposed 2012-13 Budget"). The Proposed 2012-13 Budget addressed an estimated budget shortfall of \$9.2 billion in the Fiscal Year 2012-13 California State Budget. The budget shortfall was estimated to consist of a \$4.1 billion projected deficit for Fiscal Year 2011-12 and a \$5.1 billion gap between projected revenues and spending in Fiscal Year 2012-13. The Governor's proposal included approximately \$4.2 billion in budget cuts, \$4.4 billion in revenues from the temporary tax increases referenced above, and \$1.7 billion in other solutions. The Governor proposed calling a state-wide special election on November 6, 2012 to increase the sales and use tax by 0.5% for four years and to increase the income tax on annual earnings over \$250,000 for five years.

The Proposed 2012-13 Budget included cuts in a number of areas and a realignment of services from the State to local governments. With respect to education, total 2012-13 Proposition 98 funding was proposed at approximately \$52.5 billion, which reflected an increase of \$4.9 billion compared to Fiscal Year 2011-12. The State general fund share comprised approximately \$37.5 billion of total proposed Proposition 98 funding for Fiscal Year 2012-13, including approximately \$6.6 billion in assumed initiative revenues. These totals included funding for K-12 schools and community colleges. The proposed level of funding met the Proposition 98 funding requirements but did so by incorporating proposals which deferred substantial amounts of K-12 and community college costs to Fiscal Year 2013-14. (With respect to the School District, the deferral in the 2011-12 State Budget was approximately \$40.5 million.) The Proposed 2012-13 Budget also included various flexibility options for school districts and local accountability measures.

The Proposed 2012-13 Budget assumed passage of Proposition 30, the Governor's proposed tax initiative, which was estimated to provide approximately \$6.6 billion in additional revenue for education programs. In the event the initiative did not pass, the Proposed 2012-13 Budget included a trigger reduction of \$4.8 billion. A reduction of this magnitude would result in a funding decrease equivalent to more than the cost of three weeks of instruction. It also continued to provide 20% of program funds a year in arrears. The Proposed 2012-13 Budget included a series of adjustments or "rebenchings" of the Proposition 98 guarantee. The most significant adjustment related to the elimination of the sales tax on gasoline in 2010-11. On December 14, 2012, the California Secretary of State certified that Proposition 30 was approved on November 6, 2012.

The Proposed 2012-13 Budget incorporated the effects of the elimination of the funding mechanism for redevelopment agencies (the "RDA Provisions") which elimination occurred on February 1, 2012. As of February 1, 2012, existing agencies were disestablished and successor local agencies are required to use the tax increment revenues that redevelopment agencies would otherwise have received to retire redevelopment agency debts and contractual obligations "in accordance with existing payment schedules."

The Governor's May Revision (the "2012 May Revision") to the Proposed 2012-13 Budget was released on May 14, 2012. The 2012 May Revision indicated that the budget shortfall had increased from an estimated \$9.2 billion at the time of the Proposed 2012-13 Budget to an estimated

\$15.7 billion due to the prior revenue forecast being too high (\$4.3 billion), Proposition 98 spending increases (\$2.4 billion) and federal government and court blocked budget cuts (\$1.7 billion). These increases were offset by a reduction of approximately \$41.9 million from a variety of other factors.

The 2012 May Revision assumed the passage of the Governor's proposed initiative at the November 6, 2012 election, which would temporarily increase the personal income tax on the State's wealthiest taxpayers for seven years and increase the sales tax by one-quarter of one percent for four years from January 1, 2013 to December 31, 2016. The proposed initiative is estimated to generate \$8.5 billion through the Fiscal Year 2012-13 budget year, with revenues to be used to enable the State to meet its existing Proposition 98 obligations and to increase funding for schools and community colleges by an additional \$2.9 billion. If the initiative is not approved, the 2012 May Revision proposes cuts to Proposition 98 funding of approximately \$5.5 billion, a decrease equivalent to the cost of three weeks of instruction. The estimated increase from the addition of three tax brackets for taxable incomes beginning at \$500,000 for joint households (\$250,000 for single filers) with rates of 10.3%, 11.3% and 12.3% for seven years estimated to generate revenues of approximately \$3.1 billion in Fiscal Year 2012-13 and \$4.7 billion in Fiscal Year 2013-14.

The 2012 May Revision proposed replacing the current school finance system with a simpler, more transparent funding formula that removes various spending restrictions that prevent schools from managing their funds based on local educational priorities. The 2012 May Revision proposed to reduce the payments to schools that are deferred each year from approximately \$10.4 billion to \$7.6 billion and to fund the Quality Education Investment Act (QEIA) program within the Proposition 98 guarantee. The 2012 May Revision continued to provide additional flexibility to schools by consolidating the vast majority of categorical programs and revenue limit funding into a weighted student formula that provides funding to schools. If the proposed initiative was not approved, the estimated \$5.5 billion reduction for K-14 programs would be accomplished by not paying an estimated \$2.8 billion repayment of deferrals in Fiscal Year 2012-13 and by an approximate \$2.7 billion reduction in programmatic funding for schools. School districts would be provided flexibility to reduce the school year by a combined total of 15 days in 2012-13 and 2013-14 (subject to contract negotiation with affected employee representation organizations), or through a combination of reserves or other savings options to absorb the reduction over a two-year period. As indicated above, deferrals in Fiscal Year 2012-13 were authorized by AB 103 adopted on May 23, 2012. The School District is authorized to borrow temporary funds to cover its annual cash flow deficits; and as a result of Cash Management Deferrals, the School District might find it necessary to increase the size or frequency of its cash flow borrowings in Fiscal Year 2012-13.

On June 15, 2012, the Legislature passed a \$92.1 million State budget bill, which bill differed in numerous ways from the 2012 May Revision and which budget bill continued to assume passage of the proposed initiatives at the November 6, 2012, election. Subsequently, the Legislature passed numerous budget implementing bills on a majority vote intended to address the Governor's demand for deeper cuts to close the anticipated deficit. On June 28, 2012, the Governor signed the State budget bill into law.

2013-14 State Budget. On January __, 2013, the Governor released his proposed budget for Fiscal Year 2013-14 ("Proposed 2013-14 Budget"). The Proposed 2013-14 Budget addressed an estimated budget shortfall of \$__ billion in the Fiscal Year 2012-13 California State Budget. The budget shortfall was estimated to consist of a \$__ billion projected deficit for Fiscal Year 2012-13 and a \$__ billion gap between projected revenues and spending in Fiscal Year 2013-14. The Governor's proposal included approximately \$__ billion in budget cuts, \$__ billion in revenues from the temporary tax increases referenced above and \$__ billion in other solutions.

The Proposed 2013-14 Budget included cuts in a number of areas and a realignment of services from the State to local governments. With respect to education, total 2013-14 Proposition 98 funding was proposed at approximately \$___ billion, which reflected an increase of \$___ billion compared to Fiscal Year 2012-13. The State general fund share comprised approximately \$___ billion of total proposed Proposition 98 funding for Fiscal Year 2013-14, including approximately \$___ billion in assumed initiative revenues. These totals included funding for K-12 schools and community colleges. The proposed level of funding met the Proposition 98 funding requirements but did so by incorporating proposals which deferred substantial amounts of K-12 and community college costs to Fiscal Year 2014-15. (With respect to the School District, the deferral in the 2012-13 State Budget was approximately \$___ million.) The Proposed 2013-14 Budget also included various flexibility options for school districts and local accountability measures.

As of December 15, 2012, the First Interim Budget Report's multi-year projection reflected a budget that was not balanced in the second subsequent year. The First Interim Report reflects the current year 2012-13 budget as meeting its 3% reserve and has an ending fund balance of \$27.6 million. The School District self-certified itself as "qualified" in accordance with the budget process for school districts as set forth in legislation implementing Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. (For a further description of portions of AB 1200, see "Budget Process" below.) The School District's budget was approved by the County Office of Education noting economic concerns. On April 10, 2012, the School District and Temecula Valley Educators' Association ("TVEA") agreed to a Memorandum of Understanding ("TVEA MOU") whereby TVEA and School District management agreed to take ten (10) furlough days, plus one if Proposition 30 did not pass. Regarding the 2012-13 budget, the TVEA MOU increased class sizes to 30 in grades K-3, 33 in grades 4 and 5, 36 in grade 6 and 38 in grades 7 and 8. Restoration language, if Proposition 30 passes, calls for the School District and TVEA to return to the table to discuss restoration of furlough days if certain criteria have been met.

On August 16, 2012, the School District and the California School Employees' Association ("CSEA") agreed to a Memorandum of Understanding ("CSEA MOU") whereby CSEA agreed to take eight (8) furlough days, plus one if Proposition 30 did not pass. Other reductions by CSEA concerning the 2012-13 budget were \$22,757 of reclassification funds, \$35,962 of professional growth funds and \$82,997 of funds set aside to lower CSEA members' health and welfare costs. Restoration language if Proposition 30 passes dictates that two (2) furlough days will be restored and six (6) days banked for future reductions.

Restoration as stated above will be discussed in mid-January after release of the Governor's Budget Proposal for 2013-14.

Additional changes to the 2012-13 State Budget could occur subsequent to its adoption and the School District cannot predict what funding for, and provisions relating to, school districts will ultimately apply to the School District in Fiscal Year 2012-13.

Future Budgets. The School District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with a projected structural State budget deficit and changing State revenues and expenditures. Future State budgets will be affected by national and State economic conditions and other factors. From Fiscal Year 2001-02 through Fiscal Year 2010-11, the Governor and the State Legislature came within several weeks of meeting the statutory deadline for approval of the State Budget only three times, but since enactment of Proposition 25 on November 2, 2010, the Governor and the State Legislature met the statutory deadline for approval of the State Budget in Fiscal Years 2011-12 and 2012-13.

Recent Litigation Regarding State Budgetary Provisions; Redevelopment Litigation. On July 18, 2011, the California Redevelopment Association, the League of California Cities, and the Cities of Union City and San Jose filed petition for a writ of mandate in *California Redevelopment Association et al. v. Ana Matosantos et al.* ("Matosantos") with the Supreme Court of California alleging that ABx1 26 and ABx1 27 violate the California Constitution, as amended by Proposition 22. The petitioners alleged, among other things, that ABx1 26 and ABx1 27 seek to illegally divert tax increment revenue from redevelopment agencies by threatening such agencies with dissolution if payments are not made to support the State's obligation to fund education. The petition was accompanied by an application for a stay seeking to delay implementation of the provisions of ABx1 26 and ABx1 27 until the claims were adjudicated.

On December 29, 2011, the California Supreme Court issued its ruling in *Matosantos*. The Court upheld ABx1 26, the bill that dissolves all redevelopment agencies and directs the resolution of their activities. However, it found that ABx1 27, which allows redevelopment agencies to avoid elimination by making certain payments to offset state budget expenses, is unconstitutional. As a result, all redevelopment agencies were required to dissolve and transfer their assets and liabilities to "successor agencies" that will wind down the redevelopment agencies' affairs. Based on the decision, all redevelopment agencies were dissolved as of February 1, 2012.

Tax increment revenues that would have been directed to redevelopment agencies will be distributed to make "Pass-Through Payments" to local agencies that they would have received under prior law and to successor agencies for retirement of the redevelopment agencies' debts and for limited administrative costs. The remaining revenues will be distributed as property tax revenues to cities, counties, school districts, community college districts and special districts. The School District cannot predict whether, or to what extent, the elimination of redevelopment agencies will affect the Pass-Through Payments or whether amounts received will be offset against other funds the State would otherwise have paid to the School District. See "THE SERIES 2013-A BONDS – Security."

The School District makes no representations as to how the elimination of redevelopment agencies may affect the State's funding of education in Fiscal Year 2012-13, or in future fiscal years, or whether future legislation may adversely affect education funding in the future.

The School District is able to receive a portion of the tax increment, either through statutory or contractual entitlements, collected to finance certain redevelopment projects existing within the School District. Currently, the School District is receiving such payments relating to certain redevelopment project areas pursuant to pass through agreements. Such pass-through payments are not pledged to the repayment of the Series 2013-A Bonds.

Litigation Regarding Shift of Funds from State General Fund to Special Funds. On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a lawsuit to restore more than \$2 billion that had been designated for California public schools under the voter-approved Proposition 98 formula, but which was cut from the 2011-12 State Budget. The lawsuit alleged that the Governor and legislators have failed to comply with Proposition 98 by shifting approximately \$5 billion in sales tax revenues to counties in a new realignment fund. School officials argued that by diverting approximately \$5 billion in sales taxes, the State avoided sending approximately \$2 billion to schools under Proposition 98. On March 27, 2012, a superior court issued a preliminary ruling which indicated the court believed the State has the power to create new special funds, and that none of those dollars have to be devoted to schools under Proposition 98. On June 1, 2012, the court adopted the tentative ruling as an order. On July 27, 2012, the petitioners filed a notice of appeal of the court's decision.

The School District makes no representations regarding how the decision may affect the State's ability to fund education in Fiscal Year 2012-13 or in future fiscal years.

Litigation Challenging the System of Financing for Public Schools in California

Litigation Regarding Alignment of School Finance System with Prescribed Educational Program. On May 20, 2010, more than 60 individual students and their respective families, nine California school districts, the California Congress of Parents, Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.*, (the "Robles Complaint") in the Alameda County Superior Court. The Robles Complaint alleges, among other things, that the State's current system of funding public education is not designed to support core education programs and that the State has failed to meet its constitutional duties to maintain and support a system of common schools. The Robles Complaint further alleges that the State's system for funding education is not rationally or demonstrably aligned with the goals and objectives of the State's prescribed educational program, and the costs of ensuring that children of all needs have the opportunity to become proficient in accordance with State academic standards. The Robles Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program, as well as to direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution. On January 14, 2011, the Superior Court dismissed major portions of the case, allowing the plaintiffs to proceed only on the question of whether the State's public education funding scheme provides equal opportunities to students throughout the State, but rejecting the claim that the State Constitution mandates an overall qualitative standard for public education. On July 26, 2011, the Superior Court issued a ruling sustaining demurrer to the complaint but granting leave to amend the complaint on or before August 25, 2011. On November 3, 2011, the court dismissed the case. On January 24, 2012, the plaintiffs filed a notice of appeal to the Court of Appeal of the State of California, First Appellate District, from the judgment entered on November 3, 2011, sustaining the demurrer. The School District cannot predict the likelihood of success of such appeal or how such appeal, if successful, could result in a change in how school funding of education is implemented in the State.

Litigation Regarding Curricular and Extracurricular Educational Activities. A settlement of a lawsuit between the State and the American Civil Liberties Union ("ACLU") in which the ACLU alleged that the State was failing to monitor and prevent school districts from charging fees to students in violation of the free school guarantee in the California Constitution. Essentially, California's constitutional provision prohibiting student fees applies to curricular and extracurricular educational activities, unless the fees are authorized by the Legislature. The impact of the lawsuit and proposed Legislation (AB 165) to California school districts is difficult to predict.

SCHOOL DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the School District and the School District's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and Accreted Value of or interest on the Series 2013-A Bonds is payable from the general fund of the School District. The Series 2013-A 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 2013-A BONDS – Security" herein.

Accounting Practices

The accounting practices of the School District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts. Significant accounting policies followed by the School District are explained in Note 1 to the School District's audited financial statements for the Fiscal Year ended June 30, 2012, which are included as Appendix B.

The School District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the School District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

Financial Statements

The School District's general fund finances the legally authorized activities of the School District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the School District for the Fiscal Year ended June 30, 2012, and prior fiscal years are on file with the School District and available for public inspection at the office of the Superintendent of the Temecula Valley Unified School District, 31550 Rancho Vista Road, Temecula, California 92592, telephone number (951) 506-7940. Excerpts from the audited financial statements for the year ended June 30, 2012, are included in Appendix B herein.

Vavrinek, Trine, Day & Co., LLP has not been requested to consent to the use or to the inclusion of its reports in this Official Statement and they have neither audited nor reviewed this Official Statement. The School District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31, following the close of each fiscal year.

The following table shows information from the School District's audited financial statements for the Fiscal Years 2007-08 through 2011-12.

Table 4
AUDITED FINANCIAL STATEMENTS
TEMECULA VALLEY UNIFIED SCHOOL DISTRICT

BALANCE SHEET – GENERAL FUND

	AUDITED 2007-08	AUDITED 2008-09	AUDITED 2009-10	AUDITED 2010-11	AUDITED 2011-12
Assets					
Deposits and Investments	\$17,169,332	\$18,661,013	\$16,700,408	\$13,678,183	\$6,646,095
Receivables	17,861,725	24,066,977	36,693,555	45,251,814	58,741,366
Due from Other Funds	289,199	1,279,475	317,822	758,426	330,115
Prepaid Expenditures	4,679	919,644	579,552	675,535	0
Stores Inventory	<u>89,083</u>	<u>44,090</u>	<u>74,254</u>	<u>67,418</u>	<u>60,045</u>
TOTAL ASSETS	\$25,414,018	\$44,971,199	\$54,365,591	\$60,431,376	\$49,906,705
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$6,552,923	\$8,289,113	\$9,591,219	\$7,105,044	\$7,456,596
Due to Other Funds	2,022,352	3,576,789	986,002	3,793,915	6,736,610
Other Current Liabilities	0	0	17,610,000	14,850,000	24,725,000
Deferred Revenue	<u>77,745</u>	<u>1,940,083</u>	<u>970,571</u>	<u>5,231,424</u>	<u>108,521</u>
TOTAL LIABILITIES	\$8,653,020	\$13,805,985	\$29,157,792	\$30,980,383	\$39,026,727
Fund Balance					
Nonspendable	0	0	0	\$792,953	\$110,045
Restricted	0	0	0	1,945,378	3,136,143
Committed	0	0	0	0	0
Assigned	0	0	0	20,560,035	17,175,041
Unassigned	0	0	0	6,152,627	6,329,665
Reserved:					
Revolving Cash	\$50,000	\$50,000	\$50,000	0	-
Stores Inventories	89,083	44,090	74,254	0	0
Prepaid Expenditures	4,679	1,377,470	579,552	0	0
Reserve for all others	473,853	0	0	0	0
Restricted Programs	8,518,491	11,420,463	2,227,600	0	0
Unreserved:					
Designated	17,624,892	18,273,191	22,276,393	0	0
Undesignated, reported in:					
Debt Service Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL FUND BALANCE	\$26,760,998	\$31,165,214	\$25,207,799	\$29,450,993	\$26,750,894
TOTAL LIABILITIES AND FUND BALANCE	\$35,414,018	\$44,971,199	\$54,365,591	\$60,431,376	\$65,777,621

(1) New fund balance definitions were implemented in 2010-11, including Nonspendable, Restricted, Assigned and Unassigned.

Source: Temecula Valley Unified School District audited financial statements.

The following table shows information from the School District's adopted budgets and audited financial statements for the Fiscal Years 2010-11 and 2011-12, the School District's adopted budget for Fiscal Year 2012-13 and the School District's First Interim Report as of December 15, 2012.

As of December 15, 2012, the First Interim Budget Report's multi-year projection reflected a budget that was not balanced in the second subsequent year. The First Interim Report reflects the current year 2012-13 budget as meeting its 3% reserve and has an ending fund balance of \$27.6 million. The School District self-certified itself as "qualified" and the budget was approved by the County Office of Education noting economic concerns. On April 10, 2012, the School District and the Temecula Valley Educators' Association ("TVEA") agreed to a Memorandum of Understanding (the "TVEA MOU") whereby TVEA and School District management agreed to take ten (10) furlough days, plus one if Proposition 30 did not pass. Regarding the 2012-13 budget, the TVEA MOU increased class sizes. Restoration language, if Proposition 30 passes, called for the School District and TVEA to return to the table to discuss restoration of furlough days if certain criteria have been met.

On August 16, 2012, the School District and the California School Employees' Association ("CSEA") agreed to a Memorandum of Understanding ("CSEA MOU") whereby CSEA agreed to take eight (8) furlough days, plus one if Proposition 30 did not pass. Other reductions by CSEA concerning the 2012-13 budget were \$22,757 of reclassification funds, \$35,962 of professional growth funds and \$82,997 of funds set aside to lower CSEA members' health and welfare costs. Restoration language if Proposition 30 passes dictates that two (2) furlough days will be restored and six (6) days banked for future reductions.

Restoration as stated above will be discussed in mid-January after the Governor's Budget Proposal for 2013-14.

Contained within each MOU were some concessions relating to Fiscal Year 2012-13 which reduced the cost of certificated salaries in Fiscal Year 2012-13 resulting in a balanced budget in Fiscal Year 2012-13 and the School District having a reserve in excess of 3% in Fiscal Year 2012-13, but which concessions do not extend to later fiscal years such that the School District will need to address shortfalls in Fiscal Years 2013-14 (if any) and 2014-15 and shortfalls in required reserves in Fiscal Years 2013-14 (if any) and 2014-15. At First Interim Budget Report, the only shortfall was in Fiscal Year 2014-15. The School District's budget assumed that Proposition 30 and Proposition 38, each of which provided funding for schools, would not pass at the November 6, 2012 election. Proposition 30 was approved on November 6, 2012. (The California Secretary of State certified the results on December 14, 2012, upon completion of review and verification of ballots cast.) The School District will be evaluating the impact of passage of Proposition 30 on revenues of the School District. In certifying the First Interim 2012-13 budget as qualified due to the second subsequent year reflecting a negative ending fund balance, the Board indicates on a "Commitment to Fiscal Solvency" reductions in an amount necessary to maintain a positive certification in Fiscal Year 2014-15. The Fiscal Year 2012-13 First Interim budget presented below does not reflect the restoration of any furlough days with either TVEA or CSEA.

Table 5
TEMECULA VALLEY UNIFIED SCHOOL DISTRICT
GENERAL FUND BUDGET – FISCAL YEARS 2008-09 THROUGH 2012-13

	2010-11 Original Adopted Budget ⁽¹⁾	2010-11 Unaudited Actuals ⁽¹⁾	2011-12 Original Adopted Budget	2011-12 Unaudited Actuals	2012-13 Original Adopted Budget	2012-13 1 st Interim Report
Revenues						
Revenue Limit Sources	\$141,659,217.00	\$148,572,386.03	\$149,805,616.00	\$147,626,247.41	\$135,269,693.00	\$147,865,216.00
Federal Revenue	13,806,642.00	15,168,125.41	14,208,966.00	16,281,421.94	9,007,303.00	9,799,281.00
Other State Sources	18,813,961.00	22,157,164.82	18,107,932.00	21,687,018.72	18,708,578.00	20,308,265.00
Other Local Revenue	23,191,480.00	23,383,052.96	22,067,384.00	22,637,021.87	22,183,557.00	22,114,668.00
Total Revenues	\$197,471,300.00	\$209,280,729.22	\$204,189,898.00	\$208,233,709.94	\$185,169,131.00	\$200,087,430.00
Expenditures						
Certificated Salaries	\$112,272,818.00	\$111,373,434.58	\$112,079,874.00	\$115,560,339.48	\$104,278,149.00	\$105,084,674.00
Classified Salaries	29,052,523.00	29,008,832.60	29,970,779.00	31,160,343.49	32,006,175.00	31,618,839.00
Employee Benefits	37,972,003.00	38,269,084.51	39,562,302.00	39,898,827.86	37,041,327.00	36,977,437.00
Books and Supplies	8,728,710.00	7,418,739.45	7,352,829.00	6,716,687.61	6,797,201.00	7,015,093.37
Services & Other Oper. Exp.	16,756,426.00	15,126,879.06	18,290,033.00	15,335,998.72	15,738,740.00	16,324,020.00
Capital Outlay	64,000.00	527,342.10	121,500.00	642,860.28	275,000.00	257,393.00
Other Outgo	148,100.00	110,572.78	139,099.00	143,318.94	114,552.00	114,552.00
Transfers of Indirect/Direct Costs	(217,091.00)	(199,101.89)	(220,460.00)	(210,114.71)	(247,989.00)	(247,989.00)
Total Expenditures	\$204,777,489.00	\$201,635,783.19	\$205,295,956.00	\$209,248,661.67	\$196,003,155.00	\$197,144,019.37
Excess (deficiency) of Revenue over (under) Expenditures	(\$7,306,189.00)	\$7,644,946.03	(\$1,106,058.00)	(\$1,014,951.73)	(\$10,834,024.00)	\$2,943,410.63
Other Financing Sources Uses						
Transfer In	\$50,000.00	\$50,000.00	\$50,000	\$55,000.00	\$0.00	\$0.00
Transfers Out	(2,805,508.00)	3,451,751.74	2,137,125.00	1,740,147.14	2,079,052.00	2,079,052.00
Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Total Other Financing Sources	(\$2,755,508.00)	(\$3,401,751.74)	(\$2,087,125.00)	(\$1,685,147.14)	(\$2,079,052.00)	(\$2,079,052.00)
Net Increase (Decrease) in Fund Balance	(\$10,061,697)	\$4,243,194.29	(\$938,792)	(\$2,700,098.87)	(\$12,913,076.00)	\$864,358.63
Fund Balance -- Beginning	\$21,800,321.00	\$25,207,798.53	\$22,732,918	\$29,450,992.82	\$23,860,388.00	\$26,750,893.95
Fund Balance -- Ending	\$11,738,624.00	\$29,450,992.82	\$21,794,126	\$26,750,893.95	\$10,947,312.00	\$27,615,253.58

(1) [The actual amounts reported for Fiscal Year 2010-11 are for the general fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.]

Source: Temecula Valley Unified School District

Budget Process

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

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

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 Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the School District to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the School 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. The school district is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file with the county superintendent no later than September 8. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budgets have been disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district

that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years. 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.

In the last two years, the School District self-certified itself as “qualified” for its Fiscal Year 2011-12 second interim certification, and for its Fiscal Year 2012-13 first interim certification. The School District has never received a negative certification. The self-certification as “qualified” in Fiscal Year 2011-12 was based on the inability of the School District to meet its future financial obligations for Fiscal Year 2012-13 due to the uncertainty of the State to meet its financial obligations to the School District in such year. The self-certification as “qualified” in Fiscal Year 2012-13 was based on the inability of the School District to meet its future financial obligations for Fiscal Year 2014-15 due to the uncertainty of the State to meet its financial obligations to the School District in such year. The County Superintendent concurred with the “qualified” status in each instance. After the Governor’s Budget Act was adopted for each respective fiscal year, the School District made revisions to its respective budget and multi-year budget projections for subsequent years. The Board certifies in a “Commitment to Fiscal Solvency” that the 2014-15 Budget will be balanced.

The School District cannot predict and will have no control over the outcome of any further reductions to the 2012-13 State Budget or how the 2012-13 State Budget will affect the funding of K-12 school districts. The Series 2013-A 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 of the Series 2013-A Bonds and are not dependent upon receipt of moneys from the State. See “THE SERIES 2013-A BONDS – Security” herein.

General Fund Revenues, Expenditures and Changes in Fund Balances

The School District’s statement of revenues, expenditures and changes in fund balances with respect to its general fund, excluding non-major governmental funds for the Fiscal Years ending June 30, 2008, through June 30, 2012, are set forth below.

Table 6
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
GENERAL FUND
FOR FISCAL YEARS ENDING JUNE 30, 2008 THROUGH 2012⁽¹⁾

	<u>Audited Actuals 2007-08</u>	<u>Audited Actuals 2008-09</u>	<u>Audited Actuals 2009-10⁽¹⁾</u>	<u>Audited Actuals 2010-11</u>	<u>Audited Actuals 2011-12</u>
Revenue					
Revenue limit sources	161,412,3866	\$159,115,319	\$140,923,404	\$148,572,385	\$147,628,249
Federal sources	7,611,630	16,868,599	14,098,895	15,168,125	16,281,422
Other State sources	29,707,885	24,841,357	30,936,660	26,851,197	27,226,551
Other local sources	<u>25,074,227</u>	<u>22,300,048</u>	<u>24,071,691</u>	<u>23,383,055</u>	<u>22,637,019</u>
Total Revenues	\$223,806,128	\$223,125,323	\$210,030,650	\$213,974,762	\$213,773,241
Expenditures					
Instruction	\$154,137,925	\$152,151,262	\$152,367,793	\$146,672,797	\$152,280,989
Instruction – Related Services:					
Supervision of instruction	4,385,055	3,925,328	3,172,160	3,125,142	3,596,101
Instructional library, media and technology	3,202,524	3,417,900	3,286,276	2,999,965	3,214,294
School site administration	12,326,727	11,012,282	10,404,390	9,843,205	10,822,528
Pupil Services:					
Home-to-school transportation	4,194,069	3,748,248	4,277,883	4,192,855	4,359,033
Food services	0	0	0	0	96
All other pupil services	11,809,048	11,640,638	11,524,816	10,677,479	11,304,367
General Administration Services:					
Data processing services	1,250,105	1,319,870	1,216,539	1,354,348	1,172,758
Other general administration	6,471,549	6,679,474	6,728,844	7,523,672	7,905,032
Plant services	18,686,226	18,793,806	17,625,182	16,695,956	17,076,226
Facilities acquisition and construction	0	0	0	79,027	11,259
Ancillary services	513,151	653,747	632,717	734,792	775,627
Community services	360,915	267,207	202,231	173,795	173,752
Other outgo	23,445	6,626	63,430	31,473	64,220
Enterprise activities	2,278,110	2,405,752	1,962,832	1,785,346	1,815,418
Debt Service					
Principal	65,929	68,257	71,461	73,162	75,745
Interest and other	<u>369,740</u>	<u>185,947</u>	<u>32,748</u>	<u>366,802</u>	<u>140,748</u>
Total Expenditures	<u>\$220,074,518</u>	<u>\$216,276,344</u>	<u>\$213,569,302</u>	<u>\$206,329,816</u>	<u>\$214,788,193</u>
Excess (Deficiency) of Revenues Over (Under)	\$3,731,610	\$6,848,979	(\$3,538,652)	\$7,644,946	(\$1,014,952)
Other Financing Sources (Uses)					
Transfers in	\$ 14,334	\$ 1,132,026	\$ 1,100,000	\$ 50,000	\$ 50,000
Transfers out	<u>(2,051,930)</u>	<u>(3,576,789)</u>	<u>(3,518,763)</u>	<u>(3,451,752)</u>	<u>(1,735,147)</u>
Net Financing Sources (Uses)	<u>(\$2,037,596)</u>	<u>(\$2,444,763)</u>	<u>(\$2,418,763)</u>	<u>(\$3,401,752)</u>	<u>(\$1,685,147)</u>
Net Change in Fund Balances	1,694,014	4,404,216	(5,957,415)	\$4,243,194	(\$2,700,099)
Fund Balance – Beginning	<u>\$25,066,984</u>	<u>\$26,760,998</u>	<u>\$31,165,214</u>	<u>\$25,207,799</u>	<u>\$29,450,993</u>
Fund Balance – Ending	<u>\$26,760,998</u>	<u>\$31,165,214</u>	<u>\$25,207,799</u>	<u>\$29,450,993</u>	<u>\$26,750,894</u>

⁽¹⁾Commencing with Fiscal Year 2009-10, various mandates and restrictions on local school districts were removed, allowing flexibility to spend funding for 42 categorical programs as school districts wish. These flexibility provisions have been extended for seven years, 2008-09 through 2014-15 by Education Code Section 42605.

Source: Temecula Valley Unified School District.

[The First Interim Report for Fiscal Year 2012-13 was approved by the Board on December 11, 2012, with a qualified certification. The Board certifies in its "Commitment to Fiscal Solvency" that it will make the cuts necessary in Fiscal Year 2014-15 to maintain a balanced budget with a minimum of 3% reserve.]

State Funding of Education

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

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of A.D.A.

Table 1 in the section of Appendix A of the Official Statement captioned "THE SCHOOL DISTRICT – Allocation of State Funding to School Districts." sets forth the following recent fiscal year and estimated Fiscal Year 2012-13 data: (i) students enrolled at the California Basic Educational Data System ("CBEDS"); (ii) revenue limit funded A.D.A.; (iii) base revenue limit amount; and (iv) deficated base revenue limit funded A.D.A. per student. The School District's attendance rate in 2011-12 was approximately 96.2% and the A.D.A. in 2012-13 is estimated to be approximately 27,528. [review/update/sample from another school district financing: As indicated in Table 1 of Appendix A, the School District has experienced declining enrollment in recent years. State law provides that for purposes of revenue limit calculations, the A.D.A. used will be the higher of current or the previous fiscal year A.D.A. 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. See, "THE SCHOOL DISTRICT – Allocation of State Funding to School Districts."

Revenue Sources

The School District categorizes its general fund revenues into four sources: (1) revenue limit sources (consisting of a mix of State and local revenues), (2) federal revenues, (3) other State revenues and (4) other local revenues. Each of these revenue sources is described below.

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

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

In Fiscal Year 2010-11, the School District's deficated base revenue limit per unit of A.D.A. was \$5,312.17. For Fiscal Year 2011-12, the School District's deficated base revenue limit per unit of A.D.A. was \$5,254.82. For Fiscal Year 2012-13, the School District budget has assumed a deficated base revenue limit per unit of A.D.A. of \$5,309.08.

In Fiscal Year 2010-11, the School District received \$148,572,385 of revenue limit source income, representing approximately 71% of its general fund revenues. In Fiscal Year 2011-12, the School District received \$147,628,249 of revenue limit source income, representing approximately 71% of its general fund revenues as of June 30, 2012. For Fiscal Year 2012-13, the School District is projecting approximately \$147,865,216 of revenue limit source income, representing 74% of its projected general fund revenues.

Funding of the School District's revenue limit is accomplished by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. In Fiscal Year 2011-12, \$45,219,380 or 30.6% of the School District's revenue limit sources were derived from property taxes. Generally, the State's apportionments amount to the difference between the School District's revenue limit and its local property tax revenues.

Beginning in Fiscal Year 1978-79, Proposition 13 and its implementing legislation permitted each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness) and prescribed how levies on county-wide property values were to be shared with local taxing entities within each county. Property taxes collected by the County which are used to pay the principal and Accreted Value of and interest on the Series 2013-A Bonds do not constitute local property taxes for purposes of being applied toward the School District's revenue limit.

Federal Revenues. The federal government provides funding for several School District programs, including special education programs, programs under the No Child Left Behind Act, and specialized programs such as nutrition education and Indian education. The federal revenues, most of which are restricted, comprised approximately 7.2% of general fund revenues in 2010-11, approximately 7.8% in 2011-12 and are budgeted to equal approximately 4.9% of such revenues in 2012-13.

Other State Revenues. As discussed above, the School District receives State apportionment of basic and equalization aid in an amount equal to the difference between the School District's revenue limit and its property tax sources. In addition to such apportionment revenue, the School District receives substantial other State revenues ("Other State Revenues"). In Fiscal Years 2010-11 and 2011-12, Other State Revenues comprised for approximately 10.6% and 10.4%, respectively, of total general fund revenues. In Fiscal Year 2012-13, Other State Revenues are projected to equal approximately 10.0% of total general fund revenues.

Some of the Other State Revenues are restricted to specific types of program uses such as special education. These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, Class Size Reduction Program, Tier 3 Funding and home-to-school transportation. On February 20, 2009, Governor Schwarzenegger signed a 17-month budget that included categorical flexibility provisions that allowed sweeping of categorical ending fund balances to the unrestricted general fund to be used for any education purpose. Additionally, Senate Bill X3 (SBX3) authorized the reclassification of thirty-nine previously restricted categorical programs to unrestricted funds. Since the funds are unrestricted, program or funding requirements, as otherwise provided in statute, regulation, or budget act provisional language associated with the funding, are not in effect; therefore, the School District may choose to use these funds for any educational purpose. These flexibility provisions have been extended for seven years, 2008-09 through 2014-15 by Education Code Section 42605.

Other State revenues include 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 comprised approximately 1.84% of general fund revenues for the School District in 2010-11, 2.1% in 2011-12 and are budgeted to equal approximately 2.36% of such revenues in 2012-13.

Other Local Revenues. In addition to property taxes, the School District receives additional local revenues from items such as interest earnings and other local sources ("Other Local Sources"). Other local revenues comprised approximately 11.17% of general fund revenues in 2010-11, 10.87% of general fund revenues in 2011-12 and are budgeted to equal approximately 11.06% of general fund revenues in 2012-13.

District Obligations

General Obligation Bonds. On November 7, 1989, the voters of the School District approved the issuance of not to exceed \$65,000,000 of general obligation bonds. As indicated in Outstanding Debt; Financial Obligations above, as of June 30, 2012, \$22,355,000 and \$5,780,000 of refunding bonds issued under such authorization were outstanding.

On November 6, 2012, the voters of the School District approved the issuance of not to exceed \$165,000,000 of general obligation bonds. On January 22, 2012, the Board approved a resolution authorizing the issuance of the Series 2013-A Bonds. The annual debt service for the Series 2013-A Bonds is shown in "DEBT SERVICE SCHEDULE" herein.

Operating Leases. The School District has entered into various operating leases for equipment with lease terms in excess of one year. Fiscal Year 2012-13 expenditures for operating leases are approximately \$450,988. The School District leases contain purchase options and consist of vehicles and relocatable buildings.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A, as amended, limits the amount of any *ad valorem* taxes on real property to 1% of the "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978 or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds or more of the votes cast on the proposition, or (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 School District, but only if certain accountability measures are included in the proposition as provided by Proposition 39. The tax for payment of the Series 2013-A Bonds falls within the exception for bonds approved by a 55% vote.

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 has occurred after the

1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

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

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 1979.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency claims on tax increment, if any, and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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

All taxable property is shown at 100% of assessed 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 taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Inflationary Adjustment of Assessed Valuation

As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIII A, when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment. On May 10, 2004, a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the “recapture” provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of the School District is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as individual pieces of real or personal property. The assessed value of unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the School District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The School District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the School District. Because the School District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula.

Article XIII B of the California Constitution

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIII B to the California 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 moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including appropriations for 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 was originally to be based on certain Fiscal Year 1978-79 expenditures, and 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 consecutive two-year period 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. In the event the School District receives any proceeds of taxes in excess of the allowable limit in any fiscal year, the School District may implement a statutory procedure to concurrently increase the School District's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIII B were modified by Proposition 111 in 1990 (see "Proposition 111" below).

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter

referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of State general fund revenues as the percentage appropriated to such districts in Fiscal Year 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is approximately 35% of the State general fund.

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budget 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. (See "– EFFECT OF STATE BUDGET ON REVENUES" and "– SCHOOL DISTRICT FINANCIAL INFORMATION" below.)

Proposition 111

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990" ("Proposition 111"), which modified the State Constitution to alter the Article XIII B spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

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

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

b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts,

but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the then current cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, was recalculated beginning in Fiscal Year 1990-91. It is based on the actual limit for Fiscal Year 1986-87, adjusted forward to Fiscal Year 1990-91 as if Proposition 111 had been in effect.

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

Proposition 218

An initiative measure entitled "Right to Vote on Taxes Act," also known as Proposition 218 (the "Proposition 218"), was approved by California voters at the November 5, 1996, state-wide general election, and became effective on November 6, 1996. Proposition 218 added Articles XIII C and XIII D to the California Constitution, and all references herein to Articles XIII C and XIII D are references to the text as set forth in Proposition 218.

Among other things, Article XIII C establishes that every tax imposed by a local government is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), and prohibits special purpose government agencies such as school districts from levying general taxes.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The initiative power is, however, limited by the United States Constitution's prohibition against state or local laws "impairing the obligation of contracts." The Series 2013-A Bonds represent a contract between the School District and the Owners secured by the collection of *ad valorem* property taxes. While not free from doubt, it is likely that,

once the Series 2013-A Bonds are issued, the taxes securing them would not be subject to reduction or repeal. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the United States Constitution.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the School District. No developer fees imposed by the School District are pledged or expected to be used to pay the Series 2013-A Bonds.

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

Jarvis v. Connell

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

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A ("Proposition 1A"), which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocation the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State could shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within

three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

See “ – EFFECT OF STATE BUDGET ON REVENUES – Past State Budgets; 2012-13 State Budget” below.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as “Proposition 39”) to the California Constitution. Upon passage of Proposition 39, implementing legislation entitled “Strict Accountability in Local School Construction Bonds Act of 2000” (the “Strict Accountability in Local School Construction Bonds Act”) became operative. Proposition 39 (1) allows school facilities’ bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments of Proposition 39 may be changed only with another State-wide vote of the people. The statutory provisions of the Strict Accountability in Local School Construction Bonds Act, as amended, may be changed by a majority vote of both houses of the Legislature and approved by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition and implementing legislation are K-12 school districts, including the School District, community college districts and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. The Strict Accountability in Local School Construction Bonds Act approved in June 2000, as amended, places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district), or \$25 (for a community college district), per \$100,000 of taxable property value. These requirements are statutory provisions and are not part of the Proposition 39 changes to the California Constitution. The Strict Accountability in Local School Construction Bonds Act statutory provisions can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

State Cash Management Legislation

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State’s cash flow. Collectively, these deferrals are referred to as the “Cash Management Deferrals.” This practice has included deferring certain apportionments from one

fiscal year to the next. These “cross-year” deferrals have been codified and are expected to be on-going. Legislation enacted with respect to Fiscal Years 2011-12 and 2012-13 provides for additional inter-fiscal year deferrals.

On March 24, 2011, the Governor signed into law Senate Bill 82 (“SB 82”), which extended into Fiscal Year 2011-12 provisions of existing law designed to effectively manage the State’s cash resources. SB 82 authorizes the deferral of State apportionments during Fiscal Year 2011-12, as follows: (i) \$700 million from July 2011 to September 2011, (ii) \$700 million from July 2011 to January 2012, (iii) \$1.4 billion from August 2011 to January 2012, (iv) \$2.4 billion from October 2011 to January 2012, and (v) \$1.4 billion from March 2012 to April 2012. On May 23, 2012, the Governor signed into law Assembly Bill 103 (“AB 102”), which authorized deferral of State apportionments during Fiscal Year 2012-13, without specifying limitations on the amount of the deferrals.

As of June 30, 2012, the State’s Cash Management Deferrals to the School District totaled approximately \$40,510,086. The deferrals for Fiscal Year 2012-13 will be approximately \$25,755,801. The School District has continued to manage the impact of the State’s Cash Management Deferrals internally and by using short-term borrowing options. The School District cannot assure that if the State’s Cash Management Deferrals continue for a significant period of time, or if the State’s Cash Management Deferrals are increased, that the School District will be able to resort to additional short-term borrowing options in order to manage its cash flow.

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 “– Proposition 98” and “– Proposition 111” above.

Future Initiatives and Legislation

Articles XIII A, XIII B, XIII C, XIII D and Propositions 98, 111 and 218 were each adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process, Propositions 1A and 39 were each legislatively-referred constitutional amendments which were approved by the electorate, and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County, the School District or local districts to increase revenues or to increase appropriations.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

**EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS OF
THE TEMECULA VALLEY UNIFIED SCHOOL DISTRICT
FOR FISCAL YEAR 2011-12**

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION

The School District is located within the City of Temecula (the "City") in Riverside County (the "County"), in the western region of the County. The following information concerning the City, the County and the State of California (the "State") is presented as general background information. The Series 2013-A Bonds are not a debt or obligation of the City, the County or the State and the taxing power of the City, the County and the State are not pledged to the payment of the Series 2013-A Bonds. Property taxes for the payments of the Series 2013-A Bonds will only be levied on taxable property within the boundaries of the School District. The School District will not, and is not committing to, update this information as part of its continuing disclosure commitment. The County, including its Board of Supervisors, officers, officials, agents and other employees, are required, only to the extent required by law, to: (i) levy and collect ad valorem taxes for payment of the Series 2013-A Bonds in accordance with the law; and (ii) transmit the proceeds of such taxes to the paying agent for the payment of the principal of and interest on Series 2013-A Bonds at the time such payment is due

Population

The City's population as of January 1, 2012, was approximately 103,092 persons, representing approximately 4.6% of the population of the County. The population of the City, the County and the State from 2003 to 2012 is shown in the following table. Since 2003, Temecula's population has increased by approximately 39.0%, representing an annual compound growth rate of approximately 3.35%.

POPULATION OF TEMECULA, RIVERSIDE COUNTY AND THE STATE OF CALIFORNIA 2003-2012

Year	City of Temecula		Riverside County		State of California	
	Population	Annual % Change	Population	Annual % Change	Population	Annual % Change
2003	74,157	--	1,730,219	--	35,163,609	--
2004	76,407	3.0	1,814,485	4.9	35,570,847	1.2
2005	78,808	3.1	1,895,695	4.5	35,869,173	0.8
2006	90,120	14.4	1,975,913	4.2	36,116,202	0.7
2007	93,122	3.3	2,049,902	3.7	36,399,676	0.8
2008	95,332	2.4	2,102,741	2.6	36,704,375	0.8
2009	97,741	2.5	2,140,626	1.8	36,966,713	0.7
2010	99,757	2.1	2,179,692	1.8	37,223,900	0.7
2011	101,255	1.5	2,205,731	1.2	37,427,946	0.5
2012	103,092	1.8	2,227,577	1.0	37,678,563	1.7

Note: California Department of Finance for January 1.

Employment

The following table summarizes wage and salary employment in the County from 2007 to 2011. Trade, transportation and utilities, manufacturing, government and retail trade are the largest employment sectors in the County.

ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT COUNTY OF RIVERSIDE 2007-2011*

Industry	Average Annual Employment ⁽¹⁾				
	2007	2008	2009	2010	2011
Total Farm	13,000	13,100	12,400	12,400	12,800
Total Non-Farm	607,200	578,900	533,900	523,600	536,000
Natural Resources and Mining	700	500	500	400	400
Construction	68,900	54,700	40,400	35,600	34,300
Manufacturing	54,400	48,400	39,000	37,900	39,000
Trade, Transportation and Utilities	130,000	126,400	117,200	117,000	119,700
Wholesale Trade	21,100	20,400	18,700	19,100	19,900
Retail Trade	88,000	84,900	78,800	78,500	79,400
Finance and Insurance	13,500	12,400	11,800	11,100	10,900
Real Estate	9,500	9,900	8,900	8,200	7,400
Other Services	20,100	19,400	18,100	18,100	19,000
Government	108,800	110,600	109,300	107,800	112,200
Total, All Industries	<u>620,200</u>	<u>592,000</u>	<u>546,300</u>	<u>536,000</u>	<u>548,800</u>

⁽¹⁾ Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

* Not seasonally adjusted.

Source: California Employment Development Department, based on March, 2011 benchmark.

The following tables summarize civilian labor force, employment and unemployment in the City and the County from 2002 to 2011. The average unemployment rate in the City in calendar year 2011 was 9.3% and in the County in calendar year 2011 was 13.6%; in contrast, the average unemployment rate in California in 2011 was 11.7%. Through October 2012, the unemployment rate in the City was 8.2% and in the County was 12.0% compared to California at 9.8%.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
CITY OF TEMECULA
ANNUAL AVERAGES, 2002-2011***

Year	Civilian Labor Force	Employed Labor Force ⁽¹⁾	Unemployed Labor Force ⁽²⁾	Unemployment Rate ⁽³⁾
2002	30,800	29,400	1,300	4.3%
2003	32,000	30,600	1,400	4.4%
2004	33,700	32,400	1,400	4.0%
2005	35,200	33,900	1,300	3.6%
2006	36,400	35,200	1,200	3.3%
2007	37,100	35,600	1,500	4.0%
2008	37,200	35,000	2,100	5.7%
2009	36,700	33,300	3,400	9.2%
2010	37,300	33,600	3,700	10.0%
2011	37,500	34,000	3,500	9.3%

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

* Not seasonally adjusted.

Source: California Employment Development Department, based on March 2011 benchmark.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
RIVERSIDE COUNTY
ANNUAL AVERAGES, 2002-2011***

Year	Civilian Labor Force	Employed Labor Force ⁽¹⁾	Unemployed Labor Force ⁽²⁾	Unemployment Rate ⁽³⁾
2002	750,400	701,800	48,600	6.5%
2003	781,700	730,700	51,100	6.5%
2004	820,900	771,600	49,300	6.0%
2005	854,300	808,100	46,100	5.4%
2006	883,400	839,000	44,400	5.0%
2007	903,400	849,900	54,500	6.0%
2008	912,700	835,000	77,700	8.5%
2009	916,500	793,900	122,600	13.4%
2010	937,500	801,600	135,900	14.5%
2011	938,400	810,600	127,800	13.6%

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

* Not seasonally adjusted.

Source: California Employment Development Department, based on March 2011 benchmark.

Construction Activity

The level of construction activity in the City and the County as measured by total building permit valuations and new residential dwelling units is shown in the following tables.

BUILDING PERMIT ACTIVITY CITY OF TEMECULA 2007-2011

	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽²⁾
Valuation (\$000):					
Residential	\$194,888,351	\$100,451,479	\$72,006,373	\$68,489,143	\$62,054,258
Non-residential	<u>151,320,960</u>	<u>138,074,079</u>	<u>20,866,892</u>	<u>14,235,576</u>	<u>16,305,032</u>
TOTAL	\$346,209,311	\$238,525,558	\$92,873,265	\$82,724,719	\$78,359,290
Residential Units:					
Single family	697	301	323	342	280
Multiple family	<u>237</u>	<u>575</u>	<u>32</u>	<u>6</u>	<u>8</u>
TOTAL	934	876	355	348	288

⁽¹⁾ Source: Construction Industry Research Board.

⁽²⁾ Source: California Homebuilding Foundation.

BUILDING PERMIT ACTIVITY COUNTY OF RIVERSIDE 2007-2011

	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽²⁾
Valuation (\$000):					
Residential	\$2,587,832,400	\$1,576,983,500	\$1,053,694,100	\$1,079,636,800	\$879,948,697
Non-residential	<u>1,458,142,700</u>	<u>1,041,813,100</u>	<u>376,818,700</u>	<u>539,379,400</u>	<u>559,409,023</u>
TOTAL	\$4,045,975,100	\$2,618,796,000	\$1,430,512,800	\$1,619,016,200	\$1,439,357,720
Dwelling Units:					
Single family	9,763	3,815	3,431	4,031	2,659
Multiple family	<u>2,690</u>	<u>2,104</u>	<u>759</u>	<u>526</u>	<u>1,061</u>
TOTAL	12,453	5,919	4,190	4,557	3,720

⁽¹⁾ Source: Construction Industry Research Board.

⁽²⁾ Source: California Homebuilding Foundation.

Income

Between 2002 and 2011, total personal income in the County increased by 53.7%, representing an average annual compound growth rate of 4.89%. Per capita personal income in the County grew by 15.8% during this time, representing an average annual compound growth of 1.64%.

The following tables summarize personal income for the County for 2002 to 2011.

RIVERIDE COUNTY PERSONAL INCOME

2002-2011
(In Thousands)

Year	Riverside County	Annual Percent Change
2002	43,619,440	—
2003	46,998,865	7.7%
2004	50,899,043	8.3%
2005	55,177,252	8.4%
2006	60,450,090	9.6%
2007	63,749,464	5.5%
2008	65,067,438	2.1%
2009	61,956,156	(4.8)%
2010	63,949,636	3.2%
2011	67,024,780	4.8%

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

PER CAPITA PERSONAL INCOME 2002-2011

Year	Riverside County	California	United States
2002	25,854	34,241	33,049
2003	26,528	35,167	33,830
2004	27,416	37,080	35,518
2005	28,563	38,951	37,177
2006	30,039	41,760	39,658
2007	30,720	43,448	41,456
2008	30,842	44,226	42,787
2009	28,865	41,225	40,227
2010	29,029	42,080	41,404
2011	29,927	43,834	43,169

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

Retail Sales

Taxable sales in the City and the County are shown below. Between 2007 and 2010, taxable sales in the City decreased by approximately 15.6%. The largest taxable sales sectors in the City are general merchandise, auto dealers and auto supplies, eating and drinking places and service stations.

**TAXABLE SALES
CITY OF TEMECULA
2007-2010***

	Taxable Sales (\$000)			
	2007	2008	2009	2010
Apparel Stores	\$131,852	\$109,439	\$112,400	\$119,186
General Merchandise Stores	413,334	387,330	339,035	362,572
Food Stores	73,193	68,190	72,796	71,194
Eating & Drinking Places	237,481	220,853	225,760	237,997
Home Furnishings & Appliances	88,162	79,968	67,336	67,526
Building Materials	130,488	108,641	97,877	99,657
Motor Vehicles & Parts	523,215	392,431	309,649	322,715
Service Stations	218,835	230,681	173,696	196,542
Other Retail Stores	406,487	273,344	145,770	149,402
Total Retail Stores	\$2,223,047	\$1,870,877	\$1,544,319	\$1,626,791
All Other Outlets	306,891	436,194	511,527	553,511
Totals All Outlets	\$2,583,392	\$2,307,071	\$2,058,846	\$2,180,302

*As of December 10, 2012, data for calendar year 2011 is not available.
Source: California Board of Equalization.

**TAXABLE SALES
COUNTY OF RIVERSIDE
2007-2010***

	Taxable Sales (\$000)			
	2007	2008	2009	2010
Apparel Stores	\$1,171,013	\$1,121,543	\$1,293,271	\$1,391,174
General Merchandise Stores	3,593,134	3,389,936	2,855,733	2,947,905
Food Stores	1,352,609	1,254,366	1,251,220	1,267,758
Eating & Drinking Group	2,388,039	2,340,554	2,266,853	2,317,486
Home Furnishings & Appliances	843,945	816,379	858,098	883,109
Building Materials	1,961,911	1,435,337	1,237,518	1,232,145
Automotive Group	4,301,385	3,115,036	2,449,747	2,620,568
Service Stations	2,835,690	3,011,476	2,300,247	2,685,840
Other Retail Stores	2,794,790	2,204,621	1,544,800	1,573,517
Total Retail Stores	\$21,242,516	\$18,689,248	\$16,057,488	\$16,919,500
All Other Outlets	7,781,093	7,314,346	6,170,390	6,233,280
Totals All Outlets	\$29,023,609	\$26,003,595	\$22,227,877	\$23,152,780

*As of December 10, 2012, data for calendar year 2011 is not available.
Source: California Board of Equalization.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series 2013-A Bonds, Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the Temecula Valley Unified School District, proposes to render their final approving opinion with respect to the Series 2013-A Bonds in substantially the following form:

Board of Education of the
Temecula Valley Unified School District
31550 Rancho Vista Road
Temecula, California 92592

Re: \$ _____ Temecula Valley Unified School District
General Obligation Bonds, 2012 Election, Series 2013-A
Final Opinion

Ladies and Gentlemen:

We have acted as Bond Counsel for the Temecula Valley Unified School District ("District") in connection with the proceedings for the issuance and sale by the District of \$ _____ principal amount of Temecula Valley Unified School District General Obligation Bonds, 2012 Election, Series 2013-A ("Bonds"). The Bonds are being issued pursuant to the Resolution of Issuance of the Board of Education of the District, adopted on January 22, 2013 (Resolution No. 2012-13/____) ("Bond Resolution"), the provisions of the California Constitution, in accordance with the statutory authority set forth in _____ of the California Education Code and related California law. The Bonds are being issued to pay costs of issuance of the Bonds.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the issuance of the Bonds. In this connection, we have also examined such certificates of public officials and officers of the District, the County of Riverside ("County") and the purchaser of the Bonds, including certificates as to factual matters, including, but not limited to the Tax Certificate, as we have deemed necessary to render this opinion.

Attention is called to the fact the we have not been requested to examine, and have not examined, any documents or information relating to the District or the County other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been, or may be supplied to any purchaser of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only matters set forth as our opinion in the Official Statement).

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or

omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their execution and delivery, and we disclaim any obligation to update this letter. As to questions of fact material to our opinions, we have relied upon the documents and matters referred to above; and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Resolution and in certain other documents, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

The Bond Resolution and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to the effect on any Bond or the effect on interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing, we are of the following opinions:

1. The Bonds are valid and binding general obligations of the District.
2. All taxable property in the territory of the District is subject to *ad valorem* taxation without limitation as to rate or amount (except as to certain classes of personal property which is taxable at limited rates) to pay the Bonds. The County is required by law to include in its annual tax levy the principal and Accreted Value of and interest coming due on the Bonds to the extent necessary funds are not provided from other sources.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences arising with respect to the Bonds.

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

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of February 1, 2013, by and among the Temecula Valley Unified School District (the "School District"), U.S. Bank National Association, in its capacity as paying agent (the "Paying Agent"), and _____, a _____, in its capacity as dissemination agent (the "Dissemination Agent") under this Disclosure Agreement, in connection with the issuance of \$ _____ aggregate principal amount of Temecula Valley Unified School District 2012 Election General Obligation Bonds, Series 2013-A (the "Series 2013-A Bonds").

WITNESSETH:

WHEREAS, pursuant to the Resolution of the Board of Education of the School District (Resolution No. 20____/____), adopted on January 22, 2013 (the "School District Resolution"), the School District has issued the Series 2013-A Bonds; and

WHEREAS, the Series 2013-A Bonds are payable from and secured by *ad valorem* taxes levied by Riverside County against taxable property within the School District;

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the School District for the benefit of the owners and beneficial owners of the Series 2013-A Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

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

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

"Annual Report Date" shall mean eight months next following the end of the School District's fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

"Disclosure Representative" shall mean the Superintendent of the School District, Assistant Superintendent of Business Services or either of their designee(s), or such other officer(s) or employee(s) as the School District shall designate in writing to the Dissemination Agent from time to time.

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

"EMMA System" shall mean the Electronic Municipal Market Access system of the MSRB or such other electronic system designated by the MSRB (as defined below) or the S.E.C. for compliance with S.E.C. Rule 15c2-12(b).

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“School District” shall mean Temecula Valley Unified School District, Temecula, California.

Section 3. Provision of Annual Reports.

(a) The School District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 1, 2014, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB, to the Paying Agent and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) days prior to said date, the School District shall provide the Annual Report to the Dissemination Agent. 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 Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the Annual Report Date if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 days prior to March 1 in any year, the Dissemination Agent shall notify the School District of such failure to receive the Annual Report. The School 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 it hereunder. The Dissemination Agent may conclusively rely upon such certification of the School District and shall have no duty or obligation to review such Annual Report.

(b) If the School District is unable to provide to the MSRB through the EMMA System an Annual Report and to the Participating Underwriter an Annual Report by the Annual Report Date, the Dissemination Agent shall send a notice to the MSRB through the EMMA System and to the School District, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the electronic filing requirements of the MSRB for the Annual Report;

(ii) provide any Annual Report received by it to the MSRB through the EMMA System as provided herein; and

(iii) if the Dissemination Agent is other than the School District and to the extent it can confirm such filing of the Annual Report, file a report with the School District, the Paying Agent and the Participating Underwriter certifying that the Annual

Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and confirming that it has been filed with the MSRB through the EMMA System.

Section 4. Content of Annual Reports. The School District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the School District 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 audited financial statements are not available at the time required for filing, unaudited financial statements shall be submitted with the Annual Report and audited financial statements shall be submitted once available.

(b) The following information regarding the Series 2013-A Bonds, any other bonds, including any refunding bonds, issued by the School District:

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

(ii) Principal amount and accreted value of the Series 2013-A Bonds, any general obligation bonds issued by the School District and any general obligation refunding bonds relating to the School District outstanding as of a date within 60 days preceding the date of the Annual Report and a statement as to the amount of general obligation bonds authorized by the School District;

(iii) Assessed value of taxable property in the School District as shown on the most recent equalized assessment roll;

(iv) Balance in the Series 2013-A Bonds Debt Service Fund as of a date within 60 days preceding the date of the Annual Report and the balance of any other fund in connection with the Series 2013-A Bonds not referenced in clause (iv) hereof;

(v) A statement as to whether or not the County includes the tax levy for payment of the Series 2013-A Bonds in its Teeter Plan and if not, information regarding the amount of the annual ad valorem taxes levied in the School District, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year; and

(vi) Top ten property owners in the School District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value and their percentage of total secured assessed value, if the aggregate secured assessed valuation of the top ten property owners is greater than 3% of the aggregate secured assessed valuation of the School District.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the School District shall provide such further information, if any, as may be required pursuant to federal securities laws applicable to such information as is necessary to make the statements required under Sections 4(b) not materially misleading, in the light of the circumstances under which they are made.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the School District or related public entities, which have been submitted to the MSRB through the EMMA System or the S.E.C. If the

document included by reference is a final official statement, it must be available from the MSRB. The School District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the School District shall give, or cause to be given in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Series 2013-A Bonds, as applicable:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, 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;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;⁽¹⁾

⁽¹⁾ For the purposes of the event identified in subparagraph (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the School District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the School District.

- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within three business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event and request that the School District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (e). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of the Listed Events described under clauses (a) (ii), (iii), (vi), (x), (xi), (xii), (xiii) and (xiv) above shall mean actual knowledge by an officer of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) As soon as practicable so as to provide notice not in excess of ten business days after the occurrence of the Listed Event, the School District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e). The School District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the MSRB through the EMMA System.

(d) If the School District determines that a Listed Event subject to a materiality requirement referenced in clauses (a) (ii), (vii), (viii), (x), (xiii) or (xiv) would not be material under applicable federal securities law, the School District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the School District to report the occurrence of a Listed Event and has received a notice of the occurrence in a format suitable for filing with the MSRB, the Dissemination Agent shall file a notice of such occurrence with the MSRB through the EMMA System and shall provide a copy of such notice to the Participating Underwriter.

Section 6. Termination of Reporting Obligation. The School District's, the Paying Agent's and the Dissemination Agent's obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the Series 2013-A Bonds, (ii) prior redemption of the Series 2013-A Bonds or (iii) payment in full of all the Series 2013-A Bonds. If such termination occurs prior to the final maturity of the Series 2013-A Bonds, the School District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be _____. The Dissemination Agent may resign by providing at least thirty days' written notice to the School District and the Paying Agent (if the Paying Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the

Annual Report or notice of a Listed Event nor shall the Dissemination Agent be responsible for filing any Annual Report or notice of a Listed Event not provided to it by the School District in a timely manner and in a form suitable for filing.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the School District, the Paying Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Paying Agent and/or the Dissemination Agent shall agree to any amendment so requested by the School District, so long as such amendment does not adversely affect the rights or obligations of the Paying Agent and/or the Dissemination Agent, as applicable), and any provision of this Disclosure Agreement 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 2013-A 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 2013-A 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 owners of the Series 2013-A Bonds in the manner provided in the School District Resolution for amendments to the School District Resolution with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Series 2013-A 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 statements or information in order to provide information to investors to enable them to evaluate the ability of the School 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 through the EMMA System in the same manner as for a Listed Event under Section 5(b).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically

required by this Disclosure Agreement, the School District shall have no obligation under this Disclosure Agreement to update such information or include such information in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the School District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Paying Agent may, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Series 2013-A Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Paying Agent, and any owner or beneficial owner of the Series 2013-A Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the School District, the Paying Agent or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the School District Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the School District, the Paying Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of the Paying Agent and the Dissemination Agent. Sections 10 and 11 of the Paying Agent/Bond Registrar Agreement made and entered into with respect to the Series 2013-A Bonds (the "Paying Agent Agreement"), by and between the School District and the Paying Agent, are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Paying Agent Agreement, and the Paying Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Paying Agent thereunder. The Paying Agent and the Dissemination Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the School District. The Paying Agent shall have no obligation to make any disclosure concerning the Series 2013-A Bonds, the School District or any other matter except as expressly set out herein, *provided* that no provision of this Disclosure Agreement shall limit the duties or obligations of the Paying Agent under the School District Resolution. The Paying Agent and the Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Paying Agent has or may have any banking, fiduciary or other relationship with the School District or any other party, apart from the relationship created by the School District Resolution and this Disclosure Agreement, shall not be construed to mean that the Paying Agent has knowledge or notice of any event or condition relating to the Series 2013-A Bonds or the School District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Paying Agent or the Dissemination Agent may contain such disclaimer language concerning the Paying Agent's or the Dissemination Agent's responsibilities hereunder with respect thereto as the Paying Agent or the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the School District as to the materiality of any event for purposes of Section 5 hereof. Neither the Paying Agent nor the Dissemination Agent makes any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Paying Agent and the Dissemination Agent shall be paid compensation by the School District for their services provided hereunder in accordance with their schedule of fees, as amended from time to time, and all reasonable expenses, legal fees and advances made or incurred by the Paying Agent and the Dissemination Agent, as applicable, in the performance of their respective duties hereunder. The School District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the Series 2013-A Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the School District, the Paying Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the Series 2013-A Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the School District:	Temecula Valley Unified School District 31550 Rancho Road Temecula, California 92592 Telephone: (951) 506-7940 Telecopier: (951) 695-7121 Attention: Superintendent
----------------------------	--

If to the
Dissemination
Agent:

Telephone:
Telecopier:

If to the
Paying Agent:

U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, California 90017
Telephone: (213) 615-6052
Telecopier: (213) 630-6215

If to the
Participating
Underwriter:

Stifel, Nicolaus & Company, Incorporated, dba
Stone & Youngberg, a Division of Stifel Nicolaus
515 South Figueroa Street, Suite 1800
Los Angeles, California 90071
Attention: Municipal Research Department
Telephone: (213) 615-6052
Telecopier: (213) 443-5023

provided, however, that all such notices, requests or other communications may be made by telephone and promptly confirmed by writing. The parties may, by notice given as aforesaid, specify a different address for any such notices, requests or other communications.

Section 14. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 15. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 17. Merger. Any person succeeding to all or substantially all of the Paying Agent's corporate trust business shall be the successor Paying Agent without the filing of any paper or any further act.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement
as of the date first above written.

TEMECULA VALLEY UNIFIED SCHOOL
DISTRICT

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,
as Paying Agent

By: _____
Authorized Officer

_____,
as Dissemination Agent

By: _____
Authorized Officer

[EXECUTION PAGE OF CONTINUING DISCLOSURE AGREEMENT]

EXHIBIT A

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligated Person: Temecula Valley Unified School District

Name of Obligation: Temecula Valley Unified School District
2012 Election General Obligation Bonds, Series 2013
(Riverside County, California)

Date of Delivery: February [27], 2013

NOTICE IS HEREBY GIVEN that the Temecula Valley Unified School District (the "School District") has not provided an Annual Report with respect to the above-named Series 2012 Bonds as required by the Continuing Disclosure Agreement, dated as of February 1, 2013, by and among the School District, U.S. Bank National Association, as Paying Agent, and _____, as Dissemination Agent. [The School District anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

_____, as Dissemination Agent,
on behalf of the Temecula Valley Unified
School District

cc: Temecula Valley Unified School District
U.S. Bank National Association, as Paying Agent
Stifel, Nicolaus & Company, Incorporated, dba
Stone & Youngberg LLC, a Division of Stifel Nicolaus

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

RIVERSIDE COUNTY POOLED INVESTMENT FUND

APPENDIX G

**COUNTY OF RIVERSIDE
OFFICE OF THE TREASURER TAX-COLLECTOR
STATEMENT OF INVESTMENT POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

BOOK-ENTRY-ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2013-A Bonds, payment of principal and Accreted Value of and interest on the Series 2013-A Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Series 2013-A Bonds, confirmation and transfer of beneficial ownership interests in the Series 2013-A Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Series 2013-A Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect 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.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2013-A Bonds. The Series 2013-A 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 Series 2013-A Bond will be issued for each maturity of the Series 2013-A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.com. The information on such website is not incorporated herein by such reference or otherwise.

Purchases of Series 2013-A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013-A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013-A Bond ("Beneficial Owner") is in

turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013-A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013-A Bonds, except in the event that use of the book-entry-only system for the Series 2013-A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013-A 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 2013-A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013-A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013-A 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 2013-A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013-A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013-A Bonds documents. For example, Beneficial Owners of the Series 2013-A Bonds may wish to ascertain that the nominee holding the Series 2013-A 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 Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2013-A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013-A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, Accreted Value and redemption price of and interest payments on the Series 2013-A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the School District or 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 School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Accreted Value, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the School 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.

DTC may discontinue providing its services as depository with respect to the Series 2013-A Bonds at any time by giving reasonable notice to the School District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2013-A Bond certificates are required to be printed and delivered.

The School 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 2013-A Bond certificates will be printed and delivered to DTC.

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

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Series 2013-A Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the School District will discontinue the Book-Entry-Only System with DTC for the Series 2013-A Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully registered Series 2013-A Bond for each maturity of the Series 2013-A Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the Series 2013-A Bonds, then the Series 2013-A Bonds shall no longer be restricted to being registered in the Series 2013-A Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Series 2013-A Bonds shall designate.

In the event that the Book-Entry-Only System is discontinued, the following provisions would also apply: (i) the Series 2013-A Bonds will be made available in physical form, (ii) principal and Accreted Value of and redemption premiums, if any, on the Series 2013-A Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the Series 2013-A Bonds will be transferable and exchangeable as provided in the Resolution.

The School District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Series 2013-A Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal and Accreted Value of or redemption price of or interest on the Series 2013-A Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Series 2013-A Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Series 2013-A Bonds or the Resolution. The School District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal and Accreted Value of or interest on the Series 2013-A Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or

that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The School District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Series 2013-A Bonds or any error or delay relating thereto.

APPENDIX I

TABLE OF ACCRETED VALUE OF CAPITAL APPRECIATION BONDS

[See separate file]

APPENDIX J

TABLE OF ACCRETED VALUE OF CONVERTIBLE CAPITAL APPRECIATION BONDS

APPENDIX K

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]