

GENERAL FUND BUDGETING
FISCAL YEARS ENDING JUNE 30, 2010 THROUGH JUNE 30, 2013
Desert Sands Unified School District

	Fiscal Year 2009-10		Fiscal Year 2010-11		Fiscal Year 2011-12		Fiscal Year 2012-13
	Adopted Budget	Audited ⁽¹⁾	Adopted Budget	Audited ⁽¹⁾	Adopted Budget	Audited ⁽¹⁾	Adopted ⁽²⁾
REVENUES							
Revenue Limit Sources	\$134,737,962	\$128,282,042	\$135,416,300	\$135,485,666	\$135,958,963	\$134,131,384	\$135,147,254
Federal Sources	21,455,397	24,949,190	23,204,204	19,741,667	20,800,111	22,754,999	15,834,589
Other State Sources	23,468,830	34,973,361	27,840,780	33,227,599	25,234,982	34,033,999	26,877,658
Other Local Sources	31,489,176	33,940,218	34,968,498	41,266,506	34,623,792	40,181,269	33,995,549
TOTAL REVENUES	211,151,365	222,144,811	221,429,782	229,721,438	216,617,848	231,101,651	211,855,050
EXPENDITURES							
Certificated Salaries	107,287,525	113,452,646	102,209,692	104,287,957	103,164,473	105,596,787	103,647,215
Classified Salaries	31,065,798	32,604,560	31,131,587	31,161,932	30,467,398	31,969,428	30,787,403
Employee Benefits	46,481,246	46,898,952	50,736,911	50,141,046	52,223,707	55,714,086	51,968,942
Books & Supplies	7,820,768	8,598,512	15,128,871	8,383,927	6,681,344	10,538,638	9,786,846
Services & Other Operating Expenses	17,604,050	17,273,137	20,179,953	18,974,127	17,465,198	17,326,494	17,641,026
Capital Outlay	--	--	--	--	--	--	857,807
Other Outgo	(84,601)	54,580	(273,184)	(209,021)	(292,049)	781,151	62,562
Transfers of Direct Support/Indirect Costs	--	--	--	--	--	--	(681,826)
Debt Service	--	28,805	29,800	28,806	28,807	28,806	--
TOTAL EXPENDITURES	210,174,786	218,911,192	219,143,630	212,768,774	209,738,878	221,955,390	214,069,974
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	976,579	3,233,619	2,286,152	16,952,664	6,878,970	9,146,261	(2,214,924)
OTHER FINANCING SOURCES/(USES)							
Operating Transfers In	--	132,000	2,135,000	635,000	635,000	635,342	--
Other Uses	--	--	--	--	--	--	--
Operating Transfers Out ⁽³⁾	(8,837,262)	(7,714,384)	(10,770,350)	(17,034,463)	(9,767,047)	(14,407,772)	(10,352,164)
TOTAL OTHER FINANCING SOURCES/(USES)	(8,837,262)	(7,582,384)	(8,635,350)	(16,399,463)	(2,253,077)	(13,772,430)	(10,352,164)
NET INCREASE (DECREASE) IN FUND BALANCE	(7,860,683)	(4,348,765)	(6,349,198)	553,201	(9,132,047)	(4,626,169)	(12,567,088)
Fund Balance, July 1	27,920,330	27,920,330	23,571,565	23,571,565	27,081,148	27,081,148	20,972,068⁽⁵⁾
Audit Adjustment	--	--	2,956,382⁽⁴⁾	2,956,382⁽⁴⁾	--	--	--
Adjusted Beginning Balance	27,920,330	27,920,330	26,527,947	26,527,947	27,081,148	27,081,148	20,972,068
Fund Balance, June 30	\$20,059,647	\$23,571,565	\$20,178,749	\$27,081,148	\$24,825,071	\$22,454,979	\$8,404,980

⁽¹⁾ For audited results for fiscal years 2009-10 through 2011-12 in revised reporting format, see "DESERT SANDS UNIFIED SCHOOL DISTRICT - Financial Statements of the District."

⁽²⁾ From the District's unaudited actuals for fiscal year 2011-12, dated as of September 4, 2012.

⁽³⁾ Operating Transfers Out primarily reflect transfers of tax increment revenues to pay debt service on the District's outstanding certificates of participation. See "DISTRICT FINANCIAL INFORMATION - Revenue Sources - Redevelopment Revenue."

⁽⁴⁾ Reflects audit restatement of the District's general fund ending balance from the prior year to conform to changes in GASB Statement No. 54's definition of governmental funds. See "Financial Statements."

⁽⁵⁾ Budgeted figures do not reflect the inclusion of Fund 17 within the District's general fund.

Source: *Desert Sands Unified School District*.

State Budget Measures

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

2012-13 Budget. On June 27, 2012, the Governor signed into law the State budget for fiscal year 2012-13. Prior to the conclusion of the State's regular legislative session, the Legislature adopted a series of trailer bills which made various amendments to the budget bill approved by the Governor. Collectively, the budget bill and related trailer bills are referred to as the "2012-13 Budget." The Legislative Analyst's Office (the "LAO") has released a report entitled "California Spending Plan," which summarizes provisions of the 2012-13 Budget (the "LAO Budget Summary"). The following information is drawn from the LAO Budget Summary.

The 2012-13 Budget seeks to close a budget gap of \$15.7 billion through a combination of measures totaling \$16.4 billion. Specifically, the 2012-13 Budget authorizes \$4.7 billion of expenditure reductions, \$8.8 billion of net revenue increases, and \$5.8 billion of other measures. The 2012-13 Budget assumed voter approval of a modified tax initiative proposed by the Governor in his May revision to the proposed State budget. The tax initiative, labeled as "Proposition 30," was approved by the voters at the November 6, 2012 general election. The 2012-13 Budget estimates that Proposition 30 will generate approximately \$8.5 billion in additional revenues for fiscal years 2011-12 and 2012-13. Pursuant to the provisions of Proposition 30, these additional revenues will be placed into an Education Protection Account and included in the calculation of the Proposition 98 minimum funding guarantee. As a result, the minimum funding guarantee is projected to increase by \$2.9 billion, resulting in a net benefit to the State general fund of \$5.6 billion. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 30."

With the implementation of all measures, the 2012-13 Budget assumes, for fiscal year 2011-12, total revenues of \$86.8 billion and expenditures of \$87.0 billion. The State is projected to end fiscal year 2011-12 with a total budget deficit of \$3.6 billion. For the current fiscal year, the 2012-13 Budget projects total revenues of \$95.9 billion and authorizes total expenditures of \$91.3 billion. This represents an increase of \$9 billion, or approximately 10%, from the prior year. The State is projected to end the 2012-13 fiscal year with a total budget surplus of \$948 million.

The 2012-13 Budget authorized an additional \$6 billion of trigger reductions which were to become effective in the event Proposition 30 did not pass. The trigger reductions would have included approximately \$5.4 billion of reductions to schools and community college funding.

For fiscal year 2011-12, the Proposition 98 minimum funding guarantee is revised at \$46.9 billion, including \$33.1 billion from the State general fund. This amount is approximately \$1.7 billion less than the level set by the State budget for fiscal year 2011-12. This reduction primarily reflects lower than estimated State general fund revenues and updated estimates of local property tax collections, offset by Proposition 30 revenues attributable to fiscal year 2011-12. To bring ongoing Proposition 98 funding in line with the reduced funding guarantee, the 2012-13 Budget redirects \$893 million of fiscal year 2011-12 appropriations towards other uses. Specifically, (i) \$672 million is counted towards meeting legal settlement obligations under the Quality Education Investment Act of 2006, and (ii) \$221 million replaces ongoing Proposition 98 funds with one-time funds unspent from prior years. The LAO notes that this accounting adjustment does not affect the amount of funding schools and community colleges receive.

For fiscal year 2012-13, the Proposition 98 minimum funding guarantee is set at \$53.5 billion, including \$36.8 billion from the State general fund. This funding level reflects an increase of \$6.6 billion,

or approximately 14%, from the prior year. The funding increase is supported by a \$3.7 billion growth in baseline revenues and \$2.9 billion of Proposition 30 revenues.

Proposition 98 funding for K-12 education for fiscal year 2012-13 is set at \$47.2 billion, reflecting an increase of \$6 billion (or 14%) above the revised 2011-12 level. Programmatic spending remains relatively flat, as most of the additional funding is designated for existing Proposition 98 obligations. The 2012-13 Budget provides that \$3.3 billion will be used to backfill one-time spending decisions made in fiscal year 2011-12, and \$2.2 billion will be designated to pay down existing apportionment deferrals. The LAO also notes that other spending increases will have no net programmatic effect. The 2012-13 Budget provides \$110 million to more closely align K-12 and community college educational mandate funding, \$99 million to complete the shift in responsibility for mental health services from county health agencies to schools, and \$60 million for anticipated student growth in a few categorical programs.

Significant features relating to K-12 education funding include the following:

- *Deferral Reduction.* The 2012-13 Budget provides \$2.2 billion in Proposition 98 funding to reduce school district and community college apportionment deferrals.
- *Charter Schools.* The 2012-13 Budget includes several changes to existing law that provide charter schools with additional access to facility space and short-term cash. The plan includes provisions that give charter schools priority to lease or purchase surplus school district property, and authorizes county offices of education and county treasurers to provide short-term loans to charter schools. Charter schools are further authorized to issue their own tax and revenue anticipation notes or have their respective county office of education issue such notes on their behalf.
- *Educational Mandates.* The 2012-13 Budget provides \$167 million to fund a discretionary block grant for K-12 educational mandates. Participating school districts and county offices of education would receive a \$28 per-unit of ADA allocation, while participating charter schools would receive \$14 per-unit of ADA allocation. In addition, county offices of education are to receive \$1 per-unit of ADA for all ADA served within their respective counties. Local educational agencies that choose not to participate in this block grant program could continue to seek reimbursement for mandated activities through the existing claims process, subject to audits by the State Controller. The 2012-13 Budget continues to suspend the same educational mandates that were suspended by the 2011-12 State budget legislation, and does not eliminate any further mandates.
- *Child Care and Preschool Programs.* The 2012-13 Budget provides \$2.2 billion in funding for subsidized child care and preschools programs. This represents a decrease of \$185 million, or 8%, from the prior year. The 2012-13 Budget also consolidates the State's subsidized preschool program by funding all part-day/part-year preschool slots within Proposition 98. The LAO notes that this consolidation is an accounting change, with no programmatic effect.
- *Gubernatorial Vetoes.* As part of approving the enacting legislation, the Governor vetoed (i) all funding for the Early Mental Health Initiative, for an expected savings of \$15 million, (ii) \$10 million in Proposition 98 funding for child nutrition in private schools and child care centers, and (iii) \$8.1 million in one-time Proposition 98 funding for the support of regional activities and statewide administration of the Advancement Via Individual Determination program.

The 2012-13 Budget assumes that schools and community colleges will receive \$3.2 billion in revenues in fiscal year 2012-13 resulting from the dissolution of redevelopment agencies, including \$2.5 billion for school districts and \$165 million for county offices of education. This figure is composed of (i) \$1.7 billion of anticipated residual property tax revenues and (ii) \$1.5 billion in cash and other liquid assets of former redevelopment agencies. These increased revenues would offset Proposition 98 spending by an identical amount. The budget package also establishes a series of sanctions and incentives to encourage successor agency participation with redevelopment dissolution laws. The LAO notes that while the State currently backfills school districts if local property taxes fall short of budgetary assumptions, there has previously been no similar requirement for community colleges and K-12 special education. The 2012-13 Budget provides authority for the State to do so if the sums anticipated from the dissolution of redevelopment agencies do not meet such assumptions.

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

Fiscal Outlook Report. In November 2012, the LAO released a summary of its revised projections for State general fund tax revenues and related spending (the "Fiscal Outlook Report"). The following information is drawn from the Fiscal Outlook Report.

The Fiscal Outlook Report provides the LAO's projections of the State's general fund revenues and expenditures for fiscal years 2012-13 through 2017-18 under current law, absent any actions to close the projected State budgetary deficit, as further discussed below. The LAO's projections primarily reflect current-law spending requirements and tax provisions, while relying on the LAO's independent assessment of the outlook for the State's economy, demographics, revenues, and expenditures. The LAO notes that its revenue estimates take into account a number of voter initiatives approved at the November 2012 general election, including Proposition 30.

Absent corrective action, the LAO projects that the State will end the 2012-13 fiscal year with a \$943 million deficit. This would eliminate the \$948 million surplus projected by the 2012-13 Budget, and reflects an overall \$1.9 billion budgetary gap. This gap is a product of (i) \$625 million of lower revenue estimates for fiscal years 2011-12 and 2012-13, (ii) \$2.7 billion in higher expenditures and (iii) an offsetting positive adjustment of \$1.4 billion to the fiscal year 2010-11 ending fund balance.

The LAO notes that its revised revenue estimates are driven primarily by lower than anticipated personal income tax and corporate tax collections (totaling \$153 million and \$558 million, respectively) for both fiscal years 2011-12 and 2012-13. Notwithstanding the overall reduction in projected revenues, the LAO notes that the passage of Proposition 39 at the November 2012 general election—which changes the way multistate corporations calculate taxable income—contributes to an increase in the Proposition 98 minimum funding guarantee. The LAO's revised minimum funding guarantee is estimated to be \$53.8 billion.

The LAO's projected increase results in part from lower expected savings to the State general fund from the distribution of redevelopment agency assets. The LAO projects a \$1.4 billion savings to from such assets, a figure approximately \$1.8 billion lower than the savings projected by the 2012-13 Budget. The LAO attributes this to several factors: (i) lower than expected distributions of liquid assets and residual property taxes to school and community colleges, (ii) recent information suggesting that redevelopment agencies had higher than anticipated debt, and (iii) distributions of property taxes to basic aid districts that do not offset State education costs. The LAO notes, however, that estimates relating to redevelopment agencies are subject to considerable uncertainty, and are likely to change prior to the deadline for adopting the State budget for the upcoming year.

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

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

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

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

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

- ***Deferral Reduction.*** The 2012-13 Budget provides \$1.9 billion to pay down school district and community college apportionment deferrals. The Proposed Budget includes a plan to eliminate all remaining apportionment deferrals by fiscal year 2016-17.
- ***Growth Funding.*** The 2012-13 Budget provides \$63 million to fund a 1.65% cost-of-living adjustment to certain categorical programs, including special education, child nutrition, and California American Indian Education Centers. The Proposed Budget also funds a 0.10% increase in K-12 ADA, but assumes no increase in funded enrollment levels at community colleges.
- ***New K-12 Funding Formula.*** The Proposed Budget would significantly restructure State funding for K-12 education by consolidating revenue limits and almost all categorical programs into a single funding formula. This formula would provide a base funding grant per pupil, with supplemental funding for school districts that serve English learners and students from low income families, provide lower class sizes in grades K-3, or offer career technical education classes in high school. The Proposed Budget allocates \$1.6 billion to begin increasing funding levels to a target base rate, with supplemental grants adjusted in tandem with the base increase. The Proposed Budget estimates the new formula will be fully implemented by fiscal year 2019-20.

- *Energy Efficiency Projects.* The 2012-13 Budget allocates supplemental corporate tax revenues raised by Proposition 39 (approved at the November 2012 general election) to schools and community colleges. Proposition 39 requires most interstate businesses to determine their taxable income using a single sales factor method, and provides that all revenues raised from the measure be transferred to a Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects. The Proposed Budget would allocate all Proposition 39-related funding over the next five years exclusively to schools and community colleges, in an amount equal to \$450 million in fiscal year 2012-13 and \$550 million annually thereafter. For fiscal year 2013-14, this would include \$400.5 million for school districts. Under the proposal, the California Department of Education and California Community College Chancellor's Office, in consultation with the California Energy Commission and California Public Utilities Commission, would develop guidelines for schools and community colleges in prioritizing the use of the funds.
- *Adult Education.* The Proposed Budget includes several changes to adult education funding, including narrowing State support to core instructional programs such as adult elementary and secondary education, vocational training, English as a second language, and citizenship. The Proposed Budget would also eliminate school district adult education categorical programs and consolidate the associated funding (approximately \$600 million) into the proposed new K-12 funding formula. Adult education, under the Governor's plan, would be funded entirely through the community college system. The Proposed Budget would provide \$300 million to create a new adult education categorical program within the statewide community college budget. Funds would be distributed to colleges based on the number of students served in the prior fiscal year. While community colleges would be responsible for administering adult education, they would be authorized to contract with school districts to provide instruction through the latter's adult schools.
- *K-12 Educational Mandates.* The Proposed Budget provides \$100 million to augment the existing block grant program, reflecting the addition of two large educational mandates within the program: the Graduation Requirements ("GR") mandate and Behavioral Intervention Plans ("BIP"). Unlike other mandates included in the block grant program, the Proposed Budget does not provide school districts the option to submit independent claims for reimbursement in connection with GR and BIP.
- *Retiring K-14 Obligations.* The Proposed Budget would use half of the projected year-to-year growth in Proposition 98 spending in fiscal years 2013-14 through 2015-16 to reduce outstanding obligations to schools and community colleges, including the reduction of all apportionment deferrals, funding settle-up payments to reduce outstanding mandate claims, and retiring the State's obligations associated with the Emergency Repair Program and the QEIA.
- *Redevelopment Agency Funds.* The Proposed Budget assumes lower State general fund savings from the distribution of offsetting residual property tax revenues and redevelopment agency liquid assets. For the current year, the Proposed Budget projects that redevelopment-related distributions will be \$1.1 billion less than what was assumed by the State budget for fiscal year 2012-13. For fiscal year 2013-14, the Proposed Budget projects that such distributions will be \$494 million less than previously assumed. The LAO notes that, while the Governor's projections are reasonable, the process for

dissolving redevelopment agencies has yet to be fully implemented, subjecting associated State general fund savings projections to considerable uncertainty.

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

Recent Litigation Regarding State Budgetary Provisions. On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the County of San Francisco (the "CSBA Petition"). The petitioners allege that the fiscal year 2011-12 State budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately \$2.1 billion. The CSBA Petition seeks an order from the Court compelling the State Director of Finance, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution. On May 31, 2012, the court denied the CSBA Petition, finding that Proposition 98 does not prohibit the State from assigning sales tax revenues to a special fund that previously were deposited into the State general fund. The court also found that, upon doing so, the State was not required to rebench the minimum funding guarantee. On July 27, 2012, the petitioners filed a notice of appeal of the court's decision.

The District makes no representations regarding the viability of the claims in the CSBA Petition, nor can the District predict whether the petitioners will be successful. Moreover, the District makes no representations as to how a final decisions by the Superior Court would affect the State's ability to fund education in future fiscal years.

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES

Article XIII A of the California Constitution

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

Article XIII A has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the adjusted base year value described above. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (i) on any indebtedness approved by the voters prior to July 1, 1978, or (ii) as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, 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% or more of the votes cast of the proposition, but only if certain accountability measurers are included in the proposition. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State taxes for the purpose of increasing tax revenues.

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, if any, claims on tax increment 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.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now 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.

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

Article XIII B of the California Constitution

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

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

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

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

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

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

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

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

Article XIII C and Article XIII D of the California Constitution

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

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

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

Proposition 26

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

Propositions 98 and 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The

Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of State general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

The 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 budgets in a different way than is proposed in the Governor's Budget.

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

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

- a. 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 are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

- c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.
- e. 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) 40.9% of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

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

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school

facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district), or \$25 (for a community college district), per \$100,000 of taxable property value when assessed valuation is projected to increase in accordance with Article XIII A of the Constitution. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. See “—Article XIII A of the California Constitution” above.

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 District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the 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 District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may 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.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was projected approximately \$1 billion in fiscal year 2011-12, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2012-13 State budget, to be constitutional. As a result, all redevelopment agencies in California will be dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide. The District makes no representations regarding what affect the implementation of ABx1 26 will have on the District's future receipt of tax increment revenues.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Proposition 98." From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education

Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

State Cash Management Legislation

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals have been codified and are expected to be on-going. Legislation enacted with respect to fiscal year 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 2012-13 provisions of existing law designed to effectively manage the State's cash resources. SB 82 authorizes the deferral of State apportionments during fiscal year 2012-13, as follows: (i) \$700 million from July 2011 to September 2011, (ii) \$700 million from July 2011 to January 2012, (iii) \$1.4 billion from August 2011 to January 2012, (iv) \$2.4 billion from October 2011 to January 2012, and (v) \$1.4 billion from March 2012 to April 2012. Collectively, these deferrals are referred to as the "Cash Management Deferrals." SB 82 required the State Department of Education was required to certify to school districts no later than April 15, 2011 which of the 2012-13 Cash Management Deferrals will be implemented, and in what amounts. On April 15, 2011, the Department of Education released a projected scheduled of State apportionments showing that all of the 2012-13 Cash Management Deferrals would be implemented. SB 82 provides for an exemption to the Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed. The District applied for and received an exemption from the SB 70 deferral and has applied for the SB 82 deferral.

In the event any of the Cash Management Deferrals are implemented, SB 82 requires that the State Controller, State Treasurer and State Director of Finance review, as necessary but no less than monthly, the actual State general fund cash receipts and disbursements in comparison to the Governor's most recent revenue and expenditure projections. If the Controller, Treasurer and Director of Finance determine that sufficient cash is available to pay the State apportionments being deferred while maintaining a prudent cash reserve, such State apportionments are required to be paid as soon as feasible.

Future Initiatives

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

General Information

The District is a unified school district providing elementary and secondary levels of education under a single Board of Education and centralized administration. Established in 1966, the District currently operates 19 elementary schools, one charter elementary school, six middle schools, one charter middle school, four comprehensive high schools, two continuation high schools, one Alternative Education School and one adult school. The District encompasses approximately 752 square miles of the southern part of the County, serving the cities of Indio, Coachella, La Quinta, Indian Wells, Palm Desert, Rancho Mirage and the community of Bermuda Dunes.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the district and copies of the most recent and subsequent audited financial reports of the District may be obtained by contacting: Desert Sands Unified School District, 47-950 Dune Palms Road, La Quinta, California 92253, Attention: Assistant Superintendent, Business Services.

Administration

The District is governed by a five-member Board of Education, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

BOARD OF EDUCATION Desert Sands Unified School District

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Gary Tomak	President	December 2016
Michael Duran	Vice President/Clerk	December 2014
Donald B. Griffith	Member	December 2014
Wendy Jonathan	Member	December 2014
Matteo Monica	Member	December 2014

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Dr. Sharon P. McGehee is currently the Superintendent of the District. Brief biographies of key personnel follow:

Dr. Sharon P. McGehee. Dr. Sharon P. McGehee began her term as the District's Superintendent in November 2007. Prior to arriving at the District, Dr. McGehee served as the Superintendent of the Ontario-Montclair School District for six years, and, prior to that, as its Deputy Superintendent, Administrative Services and Assistant Superintendent, Personnel Services, Director of Certificated Personnel and teacher. Dr. McGehee holds a Bachelors of Arts in Sociology from the University of California, Santa Barbara, a Masters of Science in Education Administration from California State University, Fullerton and a Doctorate in Philosophy in Education from the Claremont Graduate School. She holds a life credential in elementary teaching and a credential in administrative services.

Cynthia McDaniel, Assistant Superintendent, Business Services. Cynthia McDaniel began her term as the District's Assistant Superintendent, Business Services in November 2008. Prior to that

appointment, Ms. McDaniel served as the Director of Fiscal Services for the District for 17 years. Ms. McDaniel also previously served the District as its Accounting Supervisor and Senior Account Clerk. She has 32 cumulative years of service with the District.

District Growth

The following table reflects the ADA and enrollment for the District for the last six years, and a projection for fiscal year 2012-13:

AVERAGE DAILY ATTENDANCE AND ENROLLMENT⁽¹⁾
Fiscal Years 2006-07 through 2012-13
Desert Sands Unified School District

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>	<u>Enrollment</u>
2006-07	26,034	28,277
2007-08	26,476	28,775
2008-09	25,750	28,976
2009-10	25,781	29,328
2010-11	25,633	29,123
2011-12	25,610	29,199
2012-13 ⁽¹⁾	25,589	29,199

⁽¹⁾ ADA figures are net of charter school students.

⁽²⁾ Projected.

Source: *Desert Sands Unified School District.*

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the State Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education, or the State Board of Education.

A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to: (i) to provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; (ii) to hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability; and (iii) to provide competition within the public school system to stimulate improvements in all public schools.

The District has approved two petitions to establish charter schools within the District: Washington Charter School, which opened in the 1994-95 fiscal year, and Palm Desert Middle Charter School, which opened in July 2008 (collectively, the "Charter Schools"). Approximately 2,171 students are currently enrolled in the Charter Schools (approximately 1,824 of which were formerly enrolled in the District). The District can make no representations as to whether additional charter schools will be established within the boundaries of the District, the amount of any future transfers of students from the District to charters schools, and the corresponding financing impact on the District.

Employee Relations

The District currently employs 1,236 full-time equivalent certificated professionals as well as 982 full-time equivalent classified employees and 108 management staff. District employees, except for management and some part-time employees, are represented by two employee bargaining units as follows:

LABOR BARGAINING UNITS Desert Sands Unified School District

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Desert Sands Teacher's Association	1,265	6/30/2013
California School Employees Association	959	6/30/2015

Source: Desert Sands Unified School District.

District Retirement Systems

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

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

The District's contribution to STRS were \$9,354,222 in fiscal year 2009-10, \$8,541,738 52 in fiscal year 2010-11, and \$8,670,157 in fiscal year 2011-12. For fiscal year 2012-13, the District has budgeted its contribution to be \$8,833,764.

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

The District's contribution to PERS is capped at 13.02% of gross expenditures for any given fiscal year. To the extent the District's contribution rate to PERS is less than 13.02%, the State will reduce the District's revenue limit for that year by the difference between the maximum contribution rate and the District's actual contribution rate. Alternatively, if the District's contribution rate is greater than

13.02%, the State is required to provide additional revenue limit allocations to the District to make up the difference.

The District's contributions to PERS were \$5,543,103 in fiscal year 2009-10, \$5,514,691 in fiscal year 2010-11, and \$5,666,126 in fiscal year 2011-12. For fiscal year 2012-13, the District has budgeted its contribution to be \$6,052,112.

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

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

FUNDED STATUS
STRS (Defined Benefit Program) and PERS
As of a June 30, 2010 Valuation Date
(Dollar Amounts in Millions)⁽¹⁾

<u>Plan</u>	<u>Accrued Liability</u>	<u>Value of Trust Assets</u>	<u>Unfunded Liability</u>
Public Employees Retirement Fund (PERS)	\$55,307	\$38,435 ⁽²⁾	\$(16,872)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	196,315	140,291 ⁽³⁾	(56,024)

⁽¹⁾ Amounts may not add due to rounding.

⁽²⁾ Reflects market value of assets as of June 30, 2010.

⁽³⁾ Reflects actuarial value of assets as of June 30, 2010.

Source: CalPERS State & Schools Actuarial Valuation; CalSTRS Defined Benefit Program Actuarial Valuation.

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

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employee's Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of

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

Alternate Pension Plan

As established by Federal law, all public sector employees who are not members of their employers existing retirement systems (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Accumulation Program of Part-Time and Limited-Service Employees ("APPLE") Plan as its alternative plan. The District contributes 3.75% of an employee's gross earnings. An employee is required to contribute 3.75% of his or her gross earnings to the pension plan. During fiscal year 2011-12, the District's required and actual contributions for the APPLE Plan amounted to \$107,015, which was 3.75% of its current year covered payroll. For fiscal year 2012-13, the District projects that contributions to the APPLE Plan will be approximately \$136,040.

Supplemental Employee Retirement Plan

The District has adopted a supplemental early retirement plan ("SERP") whereby certain eligible employees are provided an annuity to supplement the retirement benefits such employees are entitled to receive through the STRS or PERS retirement systems. The District has entered into an agreement with the Public Agency Retirement System (PARS), whereby the District pays contributions to the PARS administrator, who then provides supplemental income to eligible employees. The annuities were purchased for 182 employees. Five payments of \$1,834,299 per year are being paid over a five year period starting in July 2010. The accumulated future liability for the District for the SERP, as of July 1, 2012, amounted to \$5,502,898.

Other Post-employment Benefits

Program Benefits. The Desert Sands Unified School District Retiree Health Program (the "Program") is a single-employer defined benefit health care program administered by the District. The Program provides medical benefits to eligible retirees and their spouses. Membership of the Program consists of 267 retirees and beneficiaries currently receiving benefits and 2,179 active Program members.

Funding Policy. The contribution requirements of the Program members and the District are established and amended by the District, its bargaining units, and unrepresented groups on an annual basis. The District's contribution is currently based on a projected pay-as-you-go basis to cover the cost of benefits for current retirees. For fiscal year 2012-13, the District's projected contribution to the Program is \$2,760,000, all of which is expected to be used for premiums.

Accrued Liability. The District has implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, pursuant to which the District has commissioned and received several actuarial studies of its accrued liability in connection with post-employment benefits provided by the Program. The most recent of these studies, prepared by Total Compensation Systems, Inc. and dated as of May 11, 2011, concluded the District's total unfunded actuarial accrued liability (the "AAL") for such benefits, as of January 1, 2011, was \$43,237,628, and that the District's annual required contribution ("ARC") in respect of such benefits was \$4,425,661, beginning January 1, 2011. The ARC is composed of the value of future benefits earned by current employees during each fiscal year (the "Normal Cost"), and the amount necessary to amortize the AAL. Collectively, the ARC is the amount that would be necessary to fund both the Normal Cost and the AAL in accordance with Governmental Accounting Standards Board Statements Nos. 43 and 45.

As of June 30, 2012, the District recognized a net, long-term obligation (the "Net OPEB Obligation") with respect to Program benefits of \$10,809,063, based on its contributions towards the actuarially-determined ARC. See "DESERT SANDS UNIFIED SCHOOL DISTRICT – Existing Indebtedness" herein and "APPENDIX D – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2011-12 – Note 12."

Risk Management

The District is exposed to various risks related to torts, theft, damage and destruction of assets, errors and omissions, personal injuries and natural disasters. The District purchases commercial insurance for first party damage with coverage up to a maximum of \$250 million, subject to various underlying policy and per-occurrence limits. The District also purchases commercial insurance for general liability claims with coverage of up to \$1 million per occurrence, with excess liability coverage up to \$25 million per-occurrence, and with \$60 million in aggregate coverage. The District self-insures for worker's compensation, with excess coverage purchased up to \$50,000,000.

The District is a member of the Riverside Schools' Insurance Authority and the Riverside County Employer/Employee Partnership for Benefits joint powers authorities (each, a "JPA"). The District pays an annual premium to each entity for its property liability, and health and welfare coverage, respectively. Each JPA is governed by a board consisting of representatives from member districts. Each governing board controls the operations of its JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond the District's representation on the governing boards. Member districts share surpluses and deficits proportionally to their participation in the JPA. The relationships between the District and the JPAs are such that neither of the JPAs is a component unit of the District for financial reporting purposes.

See also "APPENDIX D – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2011-12 – Note 13" and "—Note 16."

Ad Valorem Property Taxation

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

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES."

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

Property within the District has a total assessed valuation for fiscal year 2012-13 of \$31,876,691,971. The following table represents an six-year history of assessed valuations in the District:

ASSESSED VALUATIONS
Desert Sands Unified School District
Fiscal Years 2006-07 through 2012-13

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>
2006-07	\$31,869,751,870
2007-08	35,905,592,167
2008-09	37,413,532,192
2009-10	35,226,588,575
2010-11	33,410,344,848
2011-12	32,096,278,749
2012-13	31,876,691,971

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District's control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District.

Appeals and Reductions of Assessed Valuations

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

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

No assurance can be given that property tax appeals in the future will not significantly reduce the assessed valuation of property within the District

Secured Tax Charges and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed.

A ten percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty (i.e., interest) to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning December 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office

in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The County levies and collects all property taxes for property falling within that county's taxing boundaries.

Historical annual secured tax charges and delinquencies within the District are shown in the following table.

SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 2005-06 through 2011-12
Desert Sands Unified School District
(General Obligation Bond Debt Service Levy)

<u>Fiscal Year</u>	<u>Secured Tax Charge⁽¹⁾</u>	<u>Amount Delinquent June 30</u>	<u>% Delinquent June 30</u>
2005-06	\$20,486,706.05	\$495,233.32	2.42%
2006-07	23,036,657.80	869,670.03	3.78
2007-08	26,430,894.22	1,087,253.91	4.11
2008-09	28,939,204.74	1,301,620.19	4.50
2009-10	27,605,084.56	898,282.22	3.25
2010-11	32,242,760.93	728,144.56	2.26
2011-12	35,448,960.89	568,084.03	1.60

⁽¹⁾ Debt service levy only.

Source: California Municipal Statistics, Inc.

Tax Rates

The following table summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area ("TRA") within the District from 2008-09 to 2012-13.

SUMMARY OF AD VALOREM TAX RATES (TRA 75-004)
Fiscal Years 2008-09 through 2012-13
Desert Sands Unified School District

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Desert Sands Unified School District	.07990	.08112	.10036	.11467	.11156
Desert Community College District	.01995	.01995	.01995	.01995	.01995
Coachella Valley Water District	.04000	.06000	.08000	.08000	.08000
	1.13985%	1.16107%	1.20031%	1.21462%	1.21151%

Source: California Municipal Statistics, Inc.

Principal Taxpayers

The following table lists the major taxpayers in the District in terms of their 2012-13 secured assessed valuations.

LARGEST 2012-13 LOCAL SECURED TAXPAYERS Desert Sands Unified School District

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2012-13 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.	KSL Desert Resort	Hotel	\$218,000,028	0.70%
2.	WEA Palm Desert LP	Shopping Center	141,940,644	0.45
3.	DS Hotel	Hotel	138,255,385	0.44
4.	Garden of Champions	Recreational	103,250,295	0.33
5.	Pru Desert Crossing	Commercial	90,540,504	0.29
6.	Gardens SPE II	Hotel	80,874,024	0.26
7.	Time Warner Entertainment	Communications	78,335,485	0.25
8.	Elisabeth E. Stewart	Residential Properties	65,655,246	0.21
9.	Worldmark the Club	Hotel	58,513,067	0.19
10.	Sunrise Desert Partners	Residential Properties	54,515,640	0.17
11.	Harsch Inv Realty	Commercial	51,750,380	0.17
12.	Felcor Esmeralda	Hotel	51,077,312	0.16
13.	Monarch Sevilla Venture	Apartments	50,833,625	0.16
14.	Grand Champions LLC	Hotel	50,287,647	0.16
15.	Segovia Operations	Assisted Living Facility	46,716,000	0.15
16.	Jackson 42	Shopping Center	46,116,710	0.15
17.	Vintage Club	Golf Course	44,378,417	0.14
18.	Inland American La Quinta Pavilion	Commercial	43,399,514	0.14
19.	El Paseo Collection	Commercial	41,338,931	0.13
20.	Walgreen Co.	Commercial	<u>41,137,656</u>	<u>0.13</u>
			<u>\$1,496,916,510</u>	<u>4.80%</u>

⁽¹⁾ 2012-13 local secured assessed valuation: \$31,205,081,734.

Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of the 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 District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on their 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 District.

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

Alternative Method of Tax Apportionment - "Teeter Plan"

With respect to collection of property taxes, the County has adopted the Teeter Plan, which is an alternate method of tax apportionment authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) (the "Law") for distribution of certain property tax and assessment levies on the secured roll. Pursuant to the Law, the County adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes and assessments are distributed to participating County taxing agencies on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all taxing agencies is avoided. In connection with its adoption of the Teeter Plan, the County advanced to the participating taxing agencies an amount equal to 95% of the total prior years delinquent secured property taxes and assessments (not including penalties and interest) and 100% of the current year's delinquent secured property taxes and assessments outstanding.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur as a result of sale of tax-defaulted property. Once the tax losses reserve fund reaches a level of three percent of the total of all taxes and assessments levied on the secured roll for that year, one percent of the total of all taxes and assessments levied on the secured roll for that year, and any additional penalties and interest normally credited to the tax losses reserve fund may be credited to the County General Fund. Upon adoption of a resolution by the Board of Supervisors of the County by August 1 of any fiscal year, the ten percent tax losses reserve fund threshold may be reduced to 25% of the total delinquent taxes and assessments for the previous year. The County did not elect to fund the tax losses reserve fund at a required threshold initially, thereby requiring penalties and interest to be credited first to the tax losses reserve fund to meet its required threshold before allowing any additional penalties and interest to be credited to the County General Fund. The tax loss reserve fund is now fully funded and amounts in excess of the required minimum may be transferred to the County General Fund in the future.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal years the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for the agency.

Existing Indebtedness

Long-Term Debt. A schedule of changes of the District in long-term debt for the year ended June 30, 2011, is shown below:

	<u>Balance June 30, 2011</u>	<u>Additions and Adjustments</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
2004 Series A General Obligation Bonds	\$11,760,000	--	\$3,730,000	\$8,030,000
2006 Series General Obligation Bonds	96,425,000	--	1,020,000	95,405,000
2006 General Obligation Refunding Bonds	81,476,200	7,432,138	20,915,000	67,993,338
2008 General Obligation Bonds	100,000,000	--	--	100,000,000
Premium on Issuance	1,286,576	--	71,475	1,215,101
2002 Refunding Certificates of Participation	6,560,000	--	600,000	5,960,000
2003 Refunding Certificates of Participation	9,875,000	--	910,000	8,965,000
2008 Certificates of Participation	45,570,000	--	2,590,000	42,980,000
Premium on Issuance	260,289	--	20,024	240,265
Capital leases	250,488	--	108,960	141,528
PARS Retirement Program	7,337,197	--	1,834,299	5,502,898
Accumulated vacation (net)	821,709	--	141,327	680,382
Workers' Compensation IBNR ⁽¹⁾	6,422,926	--	1,017,828	5,405,098
Net OPEB Obligation ⁽²⁾	<u>9,073,544</u>	<u>5,086,404</u>	<u>3,350,885</u>	<u>10,809,063</u>
Total	<u>\$377,118,929</u>	<u>\$12,518,542</u>	<u>\$36,309,798</u>	<u>\$353,327,673</u>

⁽¹⁾ Reflects liabilities associated with certain workers' compensation claims, including an amount for claims that have been incurred but not reported ("IBNR").

⁽²⁾ Reflects the change in the District's Net OPEB Obligation, based on the District's contributions towards its actuarially-determined ARC. See "DESERT SANDS UNIFIED SCHOOL DISTRICT – Other Post-employment Benefits."

Source: *Desert Sands Unified School District.*

Certificates of Participation. On October 24, 2008, the District executed and delivered its Certificates of Participation (2008 Financing Project) in an aggregate principal amount of \$54,505,000 (the "2008 Certificates") for the purpose of financing the modernization, repair and equipping of Indio High School and Palm Desert High School. On December 13, 2012, the District issued \$13,000,000 of its Refunding Certificates of Participation (the "2012 Certificates"), in a principal amount not-to-exceed \$13,000,000, to refund certain other then-outstanding certificates of participation.

The following table summarizes future annual lease payment requirements of the District with respect its outstanding certificates of participation, including the Certificates.

**ANNUAL LEASE PAYMENTS – CERTIFICATES OF PARTICIPATION
Desert Sands Unified School District**

<u>Year Ending March 1</u>	<u>2008 Certificates</u>	<u>2012 Certificates</u>	<u>Total Annual Lease Payments</u>
2013	\$4,995,150.00	\$1,629,604.58	\$6,624,754.58
2014	4,997,550.00	1,993,175.00	6,990,725.00
2015	4,995,550.00	1,980,575.00	6,976,125.00
2016	4,998,300.00	1,968,750.00	6,967,050.00
2017	4,995,812.50	1,986,750.00	6,982,562.50
2018	4,998,062.50	1,980,000.00	6,978,062.50
2019	4,997,062.50	1,979,500.00	6,976,562.50
2020	4,997,562.50	1,989,750.00	6,987,312.50
2021	4,996,362.50	--	4,996,362.50
2022	4,996,650.00	--	4,996,650.00
2023	4,998,712.50	--	4,998,712.50
2024	4,996,687.50	--	4,996,687.50
	<u>\$59,963,462.50</u>	<u>\$15,508,104.58</u>	<u>\$75,471,567.08</u>

Source: Desert Sands Unified School District.

General Obligation Bonds. On November 6, 2001, the voters of the District approved the issuance of \$450,000,000 of general obligation bonds of the District (the "Authorization"), payable from *ad valorem* taxes levied on taxable property within the District. The District issued two series of bond anticipation notes ("BANs") in anticipation of issuing bonds pursuant to the Authorization. Following the retirement of the BANs, the District issued four series of bonds comprising the entirety of the Authorization, as well as one series of refunding bonds to refund outstanding portions thereof. The following table summarizes all outstanding issuances in connection with the Authorization.

Election of 2001 General Obligation Bonds

<u>Issuance</u>	<u>Initial Principal Amount</u>	<u>Principal Currently Outstanding⁽¹⁾</u>	<u>Date of Delivery</u>
Series 2004	\$146,000,000.00		June 11, 2004
Series 2006	130,000,000.00		June 23, 2006
Series 2008	100,000,000.00		November 18, 2008
Series 2012	74,000,000.00		December 13, 2012
2006 Refunding Bonds ⁽²⁾	99,168,983.60		June 23, 2006

⁽¹⁾ As of March 1, 2012.

⁽²⁾ Advance refunded a portion of the outstanding Series 2004 Bonds.

The following tables display the annual debt service requirements of the District for all of its outstanding general obligation bonds (and assuming no optional redemptions).

**ANNUAL DEBT SERVICE
GENERAL OBLIGATION BONDS
Desert Sands Unified School District**

Period Ending August 1	Series 2004 Bonds	Series 2006 Bonds⁽¹⁾	2006 Refunding Bonds⁽¹⁾	Series 2008 Bonds	Series 2012 Bonds	Total Annual Debt Service
2013	\$4,316,500.00	\$5,960,118.76	\$21,500,000.00	\$5,681,400.00	\$1,708,701.67	\$39,166,720.43
2014	4,320,750.00	6,166,356.26	22,090,000.00	6,020,200.00	2,697,950.00	41,295,256.26
2015	--	6,381,543.76	26,805,000.00	5,612,200.00	2,697,950.00	41,496,693.76
2016	--	6,607,575.00	13,230,000.00	9,557,700.00	3,947,950.00	33,343,225.00
2017	--	6,837,900.00	--	9,749,950.00	6,355,450.00	22,943,300.00
2018	--	7,076,400.00	--	9,942,875.00	6,354,600.00	23,373,875.00
2019	--	7,321,900.00	--	10,142,725.00	6,357,400.00	23,822,025.00
2020	--	7,583,150.00	--	10,343,825.00	6,354,000.00	24,280,975.00
2021	--	7,848,400.00	--	10,555,700.00	6,354,400.00	24,758,500.00
2022	--	8,121,400.00	--	10,764,225.00	6,353,200.00	25,238,825.00
2023	--	8,405,650.00	--	10,978,087.50	6,360,200.00	25,743,937.50
2024	--	8,699,400.00	--	11,200,450.00	6,354,300.00	26,254,150.00
2025	--	9,005,900.00	--	11,425,700.00	6,353,100.00	26,784,700.00
2026	--	9,318,150.00	--	11,651,950.00	6,354,300.00	27,324,400.00
2027	--	9,646,500.00	--	11,882,700.00	6,352,500.00	27,881,700.00
2028	--	9,980,750.00	--	12,121,950.00	6,356,250.00	28,458,950.00
2029	--	10,329,750.00	--	--	6,354,250.00	16,684,000.00
2030	--	10,691,000.00	--	--	6,354,800.00	17,045,800.00
2031	--	11,067,000.00	--	--	6,355,100.00	17,422,100.00
Total	<u>\$8,637,250.00</u>	<u>\$157,048,843.78</u>	<u>\$83,625,000.00</u>	<u>\$157,631,637.50</u>	<u>\$106,376,401.67</u>	<u>\$513,319,132.95</u>

⁽¹⁾ The Series 2006 Bonds and 2006 Refunding Bonds mature on June 1 of the years indicated; interest payment dates on such bonds are made semiannually on June 1 and December 1.

Community Facilities District Bonds. In June 2000, Community Facilities District No. 1 (the "CFD") within the District issued \$2,285,000 of Special Tax Bonds (the "CFD Bonds"), pursuant to the Mello-Roos Community Facilities Act of 1982. The CFD Bonds are limited obligations of the District payable from a special tax to be levied on land within the CFD. The CFD Bonds were issued and delivered to finance the acquisition and construction of various public school improvements, fund a reserve account and pay the costs of issuance of the CFD Bonds. The CFD Bonds mature on September 1, 2025, and are currently outstanding in a principal amount equal to \$1,445,000.

Capital Leases. The District leases various equipment items under agreements (the "Capital Leases") that provide for title to pass to the District upon execution of a bargain purchase option. Future minimum lease payments with respect to these Capital Leases are shown in the following table.

<u>Fiscal Year</u>	<u>Lease Payment</u>
2013	120,485
2014	<u>28,805</u>
Total	<u>149,290</u>

Statement of Direct and Overlapping Debt

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

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

The table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The table also shows the corresponding portion of the overlapping entity's existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not given in the table.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Desert Sands Unified School District

TO COME

⁽¹⁾ Excludes issue to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

RIVERSIDE COUNTY POOLED INVESTMENT FUND

The following information concerning the Riverside County Pooled Investment Fund has been provided by the Riverside County Treasurer-Tax Collector (the "Treasurer") and has not been confirmed or verified by either the District or the Underwriter. Further, neither the District nor the Underwriter can make any representation herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

It is expected that amounts held under the Resolution will be invested in the Pooled Investment Fund of the Treasurer-Tax Collector of the County of Riverside.

The County Treasurer maintains one Pooled Investment Fund (the "PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of December 30, 2012, the portfolio assets comprising the PIF had a market value of \$5,999,501,448.83.

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the County Treasurer. On June 30, 2011, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of "mandatory" vs. "discretionary" depositors. Collectively, these mandatory deposits constituted approximately 70.74% of the funds on deposit in the County Treasury, while approximately 29.26% of the total funds on deposit in the County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions to participate in the County's PIF, the desire of the County Treasurer is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are to be made in accordance with the County Treasurer's 2012 Statement of Investment Policy, which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. Investments are not authorized in reverse-repurchase agreements except for an unanticipated and immediate cash flow need that would otherwise cause the County Treasurer to sell portfolio securities prior to maturity at a principal loss.

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The investments in the Pooled Investment Fund as of December 31, 2012 in were as follows:

**COUNTY OF RIVERSIDE TREASURY POOL
PORTFOLIO COMPOSITION
(as of December 31, 2012)**

<u>Investment Category</u>	<u>Book Value ('000s)</u>	<u>Market Value ('000s)</u>	<u>Book Yield</u>
Repurchase Agreements	\$400,000.00	\$400,000.00	0.09%
Money Market Funds	440,000.00	440,000.00	0.04
CalTrust	54,000.00	54,000.00	0.32
Demand Deposit Accounts/Passbook	400,000.00	400,000.00	0.08
Local Agency Obligations	510.00	510.00	0.89
U.S. Treasury Bills	49,915.47	49,998.50	0.19
U.S. Treasury Bonds	655,276.36	655,303.75	0.22
FHLMC Discount Notes	99,828.54	99,973.00	0.19
FHLMC Bonds	630,659.87	632,424.50	0.55
FNMA Discount Notes	49,921.13	49,968.75	0.18
FNMA Bonds	804,628.92	805,967.71	0.66
FHLB Discount Notes	189,612.20	189,890.77	0.20
FHLB Bonds	1,286,987.87	1,288,207.50	0.34
FFCB Discount Notes	209,656.19	209,977.15	0.19
FFCB Bonds	261,062.22	261,373.99	0.43
Farmer MAC	102,203.3	102,329.66	0.57
Municipal Bonds	63,740.78	63,740.78	0.42
Commercial Paper	<u>295,819.68</u>	<u>295,835.39</u>	<u>0.13</u>
Totals	\$5,993,822.63	\$5,999,501.45	0.32%

Weighted Average Maturity (Years) 1.01

As of December 31, 2012, the market value of the PIF was 100.1% of book value. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

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

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

requirements requiring the County to have a local oversight committee. The committee is utilized by the County to manage, audit, and safeguard public funds and to perform other internal control measures.

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

TAX MATTERS

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

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

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

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

SUBSEQUENT TO THE ISSUANCE OF THE NOTES, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE NOTES OR THE MARKET

VALUE OF THE NOTES. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS SUCH AS THE NOTES. THE INTRODUCTION OR ENACTMENT OF ANY SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE NOTES, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF NOTES, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE NOTES.

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

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

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix B.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

RATING

The District received the rating of "_____" on the Notes from S&P. Certain information was supplied by the District to S&P to be considered in evaluating the Notes. The ratings issued reflects only the views of S&P, and any explanation of the significance of such rating should be obtained therefrom. There is no assurance that any rating obtained will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Notes.

LITIGATION

No litigation is pending or threatened concerning the validity of the Notes, and the District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other pledged revenues or contesting the District's ability to issue and retire the Notes.

LEGAL OPINION

Bond Counsel will render a final approving opinion with respect to the Notes substantially in the form attached as Appendix B. A copy of such approving opinion will be available at the time of delivery of the Notes.

ENHANCED INFORMATION REPORTING REQUIREMENTS

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

AVAILABILITY OF INFORMATION

Copies of the Resolutions are available, upon written request, from the District. For further information concerning the financial condition of the District, including copies of the 2011-12 audited financial statements, may be obtained from the District as they become available. Audited financial statements for fiscal years prior to 2011-12 are currently available for review.

This Official Statement contains financial data taken or constructed from the official records of the District. Such data has been reviewed by an authorized representative of each District acting in his or her official capacity. Such representative has determined that as of the date hereof the information contained herein is, to the best of his or her knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact, or omit to state a material fact, necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

UNDERWRITING

The Notes are being purchased for reoffering by RBC Capital Markets, LLC (the "Underwriter"). The Underwriter has agreed, pursuant to the purchase contract by and among the District, the County and the Underwriter (the "Note Purchase Contract"), to purchase the Notes at a price of \$ _____ (representing the aggregate principal amount of the Notes of \$ _____, plus a net original issue premium of \$ _____ and less an Underwriter's discount of \$ _____). The Note Purchase Contract provides that the Underwriter will purchase all of the Notes, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Note Purchase Contract.

The Underwriter may offer and sell Notes to dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

USE OF FINANCIAL STATEMENTS

The financial statements of the District, with supplemental information for the year ended June 30, 2012, the independent auditor's report of the District, and the report dated October 21, 2011 of Vavrinek, Trine, Day & Co., LLP, independent accountants (the "Auditor"), are included in this Official Statement as Appendix D. In connection with the inclusion of the excerpts described above and the report of the Auditor thereon in Appendix D to this Official Statement, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

CONTINUING DISCLOSURE

The District will covenant for the benefit of the holders of the Notes to provide notices of the occurrence of certain enumerated events. The notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the notices of material events is contained in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). In connection with the issuance of other debt obligations, the District has also covenanted to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than nine months following the end of the District's fiscal year, and to provide notices of the occurrence of certain enumerated events. Within the past five years, the District has not failed to file any Annual Reports or provide notices of material events as required by its existing continuing disclosure obligations, and the District is currently in compliance with its existing continuing disclosure obligations.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

By: _____
Dr. Sharon P. McGehee
Superintendent

APPENDIX A

ECONOMIC AND DEMOGRAPHIC PROFILE OF THE CITIES OF INDIO AND PALM DESERT AND THE COUNTY OF RIVERSIDE

The following information concerning the communities served by the District, including the Cities of Indio ("Indio") and Palm Desert ("Palm Desert," and together with Indio, the "Cities"), and the County of Riverside (the "County") is included only for the purpose of supplying general information thereof. The Notes are not obligations of the County of Riverside (the "County") and do not represent a lien or charge against any funds or property of County or the Cities. The following information is provided only to give prospective investors an overview of the general economic condition of the County and the State of California (the "State").

General

Riverside County is the fourth largest county in the State of California (the "State"), encompassing approximately 7,243 square miles. It is located in the southern portion of the State and is bordered by San Bernardino County on the north, Los Angeles and Orange Counties on the west, the State of Arizona and the Colorado River on the east, and San Diego and Imperial Counties on the south. The County, incorporated in 1893, is a general law county with its seat located in the city of Riverside.

The City of Indio is located in the Coachella Valley, approximately 120 miles east of the City of Los Angeles. Initially a railroad town, the city developed an agricultural economy and more recently, has largely become a residential and recreational area. Indio operates under a city council-city manager form of government with five elected members of the city council that appoint a city manager and city Attorney.

The City of Palm Desert is located in the Coachella Valley and borders Indio on its eastern side. The first development in the area was the result of an Army maintenance camp that quickly developed into a major shopping area. The city experienced rapid population growth from the 1980s through the 2000s. Palm Desert is a general law city with a five-member city council that appoints the mayor.

Population

The following table presents population estimates for the Cities, County and State from 2001 through 2012.

POPULATION ESTIMATES City of Indio, City of Palm Desert, Riverside County and the State of California 2001-2012

<u>Year⁽¹⁾</u>	<u>City of Indio</u>	<u>City of Palm Desert</u>	<u>Riverside County</u>	<u>State of California</u>
2001	49,681	41,685	1,589,708	34,256,789
2002	50,815	42,279	1,655,291	34,725,516
2003	52,551	43,204	1,730,219	35,163,609
2004	56,655	43,899	1,814,485	35,570,847
2005	62,024	47,422	1,895,695	35,869,173
2006	66,670	47,270	1,975,913	36,116,202
2007	70,948	46,867	2,049,902	36,399,676
2008	74,007	47,453	2,102,741	36,704,375
2009	74,590	47,993	2,140,626	36,966,713
2010	75,263	48,215	2,179,692	37,223,900
2011	76,817	48,920	2,205,731	37,427,946
2012	78,065	49,471	2,227,577	37,678,563

⁽¹⁾ As of January 1.

Source: California State Department of Finance, Demographic Research Unit. March 2010 Benchmark.

Personal Income

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

PERSONAL INCOME
County of Riverside, State of California, and United States
2005-2011
(Amounts in '000s)

<u>Year</u>	<u>County of Riverside</u>	<u>California</u>	<u>United States</u>
2005	\$55,177,252	\$1,387,661,013	\$10,476,669,000
2006	60,450,090	1,495,533,388	11,256,516,000
2007	63,749,464	1,566,400,134	11,900,562,000
2008	65,067,438	1,610,697,843	12,380,225,000
2009	62,255,019	1,526,531,367	12,168,161,000
2010	64,376,498	1,587,403,857	12,353,577,000
2011	-- ⁽¹⁾	1,676,564,972	12,981,740,848

⁽¹⁾ Data is not yet available.

Note: Dollars in Thousands.

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

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

<u>Year</u>	<u>County of Riverside</u>	<u>California</u>	<u>United States</u>
2005	\$28,563	\$38,767	\$35,424
2006	30,039	41,567	37,698
2007	30,720	43,240	39,461
2008	30,842	43,853	40,674
2009	29,000	42,395	39,635
2010	29,222	42,514	39,937
2011	-- ⁽²⁾	44,481	41,663

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

⁽²⁾ Data is not yet available.

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

Employment

The following table presents the Annual Average Labor Force for the Cities, County and State from 2007 through 2011.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT City of Indio, City of Palm Desert, County of Riverside and State of California 2007-2011⁽¹⁾

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u> ⁽²⁾	<u>Unemployment</u> ⁽³⁾	<u>Unemployment Rate</u>
2007	City of Indio	26,900	25,100	1,800	6.6%
	City of Palm Desert	25,500	24,600	900	3.5
	Riverside County	903,400	848,900	54,500	6.0
	State of California	17,928,700	16,970,200	958,500	5.3
2008	City of Indio	27,200	24,700	2,500	9.2
	City of Palm Desert	26,500	24,800	1,700	6.6
	Riverside County	912,700	835,000	77,000	8.5
	State of California	18,191,000	16,883,400	1,307,600	7.2
2009	City of Indio	27,400	23,500	4,000	14.5
	City of Palm Desert	25,000	23,000	2,000	8.0
	Riverside County	916,600	793,900	122,600	13.4
	California	18,204,200	16,141,500	2,062,700	11.3
2010	City of Indio	28,100	23,700	4,400	15.7
	City of Palm Desert	25,400	23,200	2,200	8.7
	Riverside County	937,500	801,600	135,900	14.5
	State of California	18,176,200	15,916,300	2,259,900	12.4
2011	City of Indio	28,100	24,000	4,100	14.7
	City of Palm Desert	25,600	23,500	2,100	8.2
	Riverside County	938,400	810,600	127,800	13.6
	State of California	18,384,900	16,226,600	2,158,300	11.7

⁽¹⁾ Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.

⁽²⁾ Includes persons involved in labor-management trade disputes.

⁽³⁾ Includes all persons without jobs who are actively seeking work.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2010 Benchmark.

Industry

The District is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"). The distribution of employment in the MSA is presented in the following table for the calendar years 2007 through 2011. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends within the communities served by the District.

INDUSTRY EMPLOYMENT & LABOR FORCE Riverside-San Bernardino-Ontario Metropolitan Statistical Area 2007-2011⁽¹⁾

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Farm	16,400	15,900	14,900	15,000	14,900
Mining and Logging	1,300	1,200	1,100	1,000	1,000
Construction	112,500	90,700	67,900	59,700	58,700
Manufacturing:	118,500	106,900	88,800	85,100	85,800
Service Providing:					
Wholesale Trade	56,800	54,100	48,900	48,600	49,400
Retail Trade	175,600	168,600	156,200	155,500	157,200
Transportation, Warehousing & Utilities	69,500	70,200	66,800	66,600	68,500
Information	15,400	14,900	15,100	15,800	15,000
Financial Activities	49,800	46,100	42,500	41,000	39,200
Professional & Business Services	145,200	137,700	124,300	123,400	126,100
Education & Health Services	127,200	131,800	133,600	133,800	137,900
Leisure & Hospitality	132,600	131,000	123,800	122,800	124,300
Other Services	41,200	40,800	37,300	38,200	39,300
Government	<u>225,300</u>	<u>229,900</u>	<u>228,400</u>	<u>234,300</u>	<u>227,300</u>
Total (all industries)	1,287,300	1,239,700	1,149,700	1,140,900	1,144,600

⁽¹⁾ Annual averages, unless otherwise specified.

Note: Items may not add to total due to independent rounding.

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

Largest Employers

The following tables show the largest employers located in the County and Cities as of fiscal year 2011.

LARGEST EMPLOYERS County of Riverside 2011

<u>Rank</u>	<u>Name of Business</u>	<u>Employees</u>	<u>Type of Business</u>
1.	County of Riverside	18,000	County Government
2.	March Air Reserve Base	8,525	Military Reserve Base
3.	Stater Bros. Markets	6,902	Supermarkets
4.	University of California, Riverside	4,907	University
5.	Corona Norco Unified School District	4,400	School District
6.	Pechanga Resort & Casino	4,000	Casino & Resort
8.	Riverside Unified School District	3,900	School District
9.	Kaiser Permanente Riverside Medical Center	3,500	Medical Center
10.	Riverside Community College	3,141	School District

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

LARGEST EMPLOYERS City of Indio 2011

<u>Rank</u>	<u>Name of Business</u>	<u>Employees</u>	<u>Type of Business</u>
1.	County of Riverside	1,288	County Government
2.	Desert Sands Unified School District ⁽¹⁾	1,070	School District
3.	John F. Kennedy Memorial Hospital	681	Hospital
4.	Granite Construction Co.	324	Construction Company
5.	City of Indio	241	City Government
6.	Riverside Superior Court	218	Local Court
7.	Target	175	Retail
8.	Home Depot	137	Home Improvement Retail
9.	Jackalope Ranch	125	Restaurant
10.	Mathis Brothers	115	Furniture Store

⁽¹⁾ For more updated information regarding the District's employee counts, see "DESERT SANDS UNIFIED SCHOOL DISTRICT – Labor Relations" in the front part of this Official Statement.

Note: The number of employees is based on the total employment within the city limits.

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

LARGEST EMPLOYERS
City of Palm Desert
2011

<u>Rank</u>	<u>Name of Business</u>	<u>Employees</u>	<u>Type of Business</u>
1.	JW Marriot-Desert Springs Resort & DS Villas	2,304	Hotel & Resort
2.	Universal Protection Services	1,500	Security
3.	Guthy Renker Corp.	825	Marketing
4.	Securitas-Security Service USA	700	Security
5.	Desert ARC	400	Disability Services
6.	Westin-Desert Willow	280	Hotel & Resort
7.	Bighorn Golf Club	250	Golf Club
8.	Time Warner cable	236	Media Company
9.	Indian Ridge Country Club	200	Country Club
10.	Marriot Shadow Ridge	200	Hotel & Resort

Source: City of Palm Desert 'Comprehensive Annual Financial Report' for the year ending June 30, 2011.

Taxable Sales

The following tables show the recent history of taxable transactions in the County and Cities.

TAXABLE SALES
County of Riverside
(Dollars in Thousands)

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2005	22,691	\$20,839,212	44,222	\$28,256,491
2006	23,322	21,842,345	43,672	29,816,237
2007	22,918	21,242,516	45,279	29,023,609
2008	23,604	18,689,249	46,272	26,003,595
2009	29,829	16,057,488	42,765	22,227,877
2010	32,534	16,919,500	45,688	23,152,780
2011	33,398	9,148,040	46,886	12,547,032

⁽¹⁾ Reflects taxable sales through the first half of 2011.

Note: In 2009, retail permits expanded to include permits for food services.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**TAXABLE SALES
City of Indio
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2005	840	\$675,657	1,688	\$793,341
2006	955	703,726	1,829	837,877
2007	1,048	521,813	1,607	615,851
2008	1,153	539,400	2,260	673,527
2009	1,651	460,477	2,065	566,670
2010	2,160	481,228	2,636	582,332
2011	2,240	274,331	2,750	332,771

⁽¹⁾ Reflects taxable sales through the first half of 2011.

Note: In 2009, retail permits expanded to include permits for food services.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**TAXABLE SALES
City of Palm Desert
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2005	1,733	\$1,317,337	3,263	\$1,529,342
2006	1,661	1,373,122	3,091	1,593,699
2007	1,627	1,375,037	3,129	1,593,698
2008	1,736	1,227,615	3,227	1,447,663
2009	2,202	1,038,073	2,945	1,213,935
2010	2,341	1,091,059	3,089	1,266,834
2011	2,410	621,554	3,148	725,857

⁽¹⁾ Reflects taxable sales through the first half of 2011.

Note: In 2009, retail permits expanded to include permits for food services.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

Building Activity

The following tables provide summaries of the building permit valuations and the number of new dwelling units authorized in the County and Cities from 2007 through 2011.

BUILDING PERMIT VALUATIONS County of Riverside 2007-2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Valuation (\$000):					
Residential	\$2,589,426	\$1,576,984	\$1,053,694	\$1,079,637	\$873,411
Non-residential	<u>1,474,851</u>	<u>1,041,813</u>	<u>376,819</u>	<u>539,379</u>	<u>559,398</u>
Total*	\$4,064,277	\$2,618,797	\$1,430,513	\$1,619,016	\$1,432,809
Residential Units:					
Single family	9,766	3,815	3,431	4,031	2,659
Multiple family	<u>2,679</u>	<u>2,104</u>	<u>759</u>	<u>526</u>	<u>1,061</u>
Total	12,445	5,919	4,190	4,557	3,720

* Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

BUILDING PERMIT VALUATIONS City of Indio 2007-2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Valuation (\$000):					
Residential	\$64,709	\$37,176	\$42,078	\$37,959	\$35,380
Non-residential	<u>40,823</u>	<u>52,088</u>	<u>12,458</u>	<u>8,992</u>	<u>17,847</u>
Total*	\$105,532	\$89,264	\$54,536	\$46,951	\$53,227
Residential Units:					
Single family	330	251	286	251	214
Multiple family	<u>80</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	410	251	286	251	214

* Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

BUILDING PERMIT VALUATIONS City of Palm Desert 2007-2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Valuation (\$000):					
Residential	\$155,872	\$130,251	\$18,674	\$35,492	\$51,346
Non-residential	<u>80,465</u>	<u>51,303</u>	<u>40,241</u>	<u>24,032</u>	<u>32,845</u>
Total*	\$236,337	\$181,554	\$58,915	\$59,524	\$84,191
Residential Units:					
Single family	217	66	33	74	86
Multiple family	<u>94</u>	<u>471</u>	<u>44</u>	<u>22</u>	<u>22</u>
Total	311	537	77	96	108

* Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

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

_____, 2013

Members of the Board of Education
Desert Sands Unified School District

§ _____
DESERT SANDS UNIFIED SCHOOL DISTRICT
County of Riverside, California
2012-13 Tax and Revenue Anticipation Notes

Members of the Board:

We hereby certify that we have examined certified copies of the legal proceedings and other proofs submitted pertaining to the issuance and sale of \$ _____ aggregate principal amount of the Desert Sands Unified School District (the "District"), County of Riverside, California 2012-13 Tax and Revenue Anticipation Notes (the "Notes"), issued by the Board of Supervisors of the County of Riverside (the "County") issued pursuant to Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (Sections 53850-53858, inclusive) of the State of California Government Code and pursuant to resolutions adopted by the Board of Supervisors of the County and the Board of Education of the District (collectively, the "Resolution"). The Notes are dated the date hereof and are due and payable on _____, 2013. Both the principal of and interest on the Notes are payable to the registered owner thereof at maturity in lawful money of the United States of America at the principal trust office of U.S. Bank National Association, as paying agent.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the Notes under the Constitution and laws of the State of California now in force, and the Notes constitute valid and legally binding general obligations of the District. The District has pledged (i) an amount equal to _____ percent (____%) of the principal of and interest due on the Notes from the first unrestricted revenues received by the District in the month ending _____, 2013, (ii) an amount equal to _____ percent (____%) of the principal of and interest due on the Notes from the first unrestricted revenues received by the District in the month ending _____, 2013, and (iii) an amount equal to _____ percent (____%) of the principal of and interest due on the Notes from the first unrestricted revenues received by the District in the month ending _____, 2013. The principal of the Notes and the interest thereon shall constitute a first lien and charge thereon and shall be paid from such pledged revenues, and to the extent not so paid shall be paid from any other moneys of the District lawfully available therefor.

We are further of the opinion that based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the District with certain covenants in the Resolution and with certain requirements of the Internal Revenue Code of 1986 (the "Code"), as amended, regarding the use, expenditure and investment of proceeds of the Notes, and the timely payment of certain investment earnings to the United States, interest on the Notes is not includable in the gross income of the holders of the Notes for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Notes to be included in federal gross income retroactive to the date of issuance of the Notes.

Interest on the Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Bond Counsel notes that interest on the Notes may be included as an adjustment in the calculation of federal corporate alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations. We are of the further opinion that interest on the Notes is exempt from personal income taxes imposed by the State of California. We express no opinion regarding other income tax consequences resulting from the ownership of, or the receipt of interest on, the Notes.

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

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

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

With respect to the opinions expressed herein, the rights of the holders of the Notes and the enforceability thereof are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

STRADLING YOCCA CARLSON & RAUTH

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Desert Sands Unified School District (the "District") in connection with the issuance by the District of \$_____ 2012-13 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to resolutions of the Board of Education of the District and the Board of Supervisors of the County of Riverside (collectively, the "Resolution"). The District covenants and agrees as follows:

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

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

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

"Holders" shall mean, while the Notes are registered in the name of The Depository Trust Company, any applicable participant in its depository system, or the owner of any Note for Federal income tax purposes.

"Listed Events" shall mean any of the events listed in Section 3(a) or 3(b) of this Disclosure Certificate.

"Participating Underwriter" shall mean RBC Capital Markets, LLC, as the original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

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

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

SECTION 3. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.
2. tender offers.
3. defeasances.
4. rating changes.

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

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

7. unscheduled draws on credit enhancement reflecting financial difficulties.

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

9. bankruptcy, insolvency, receivership or similar event (within the meaning of the Rule) of the District. For the purposes of the event identified in this Section 3(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) Pursuant to the provisions of this Section 3, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

1. non-payment related defaults.

2. modifications to rights of Noteholders.

3. optional, contingent or unscheduled calls.

4. unless described under Section 3(a)(5) above, adverse tax opinions, material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes.

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

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

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

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 3(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 3(b) hereof would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after

the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 3(c).

SECTION 4 Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the maturity of the Notes, the District shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 5. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

SECTION 6. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3 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 Notes, or the type of business conducted;

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

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders of the Notes.

SECTION 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 8. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Notes, and shall create no rights in any other person or entity.

Dated: _____, 2013

DESERT SANDS UNIFIED SCHOOL DISTRICT

By: _____

Cynthia McDaniel
Assistant Superintendent, Business Services

APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2011-12

APPENDIX E

BOOK ENTRY-ONLY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes 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 Note certificate will be issued for the Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, defaults, and proposed amendments to the Resolutions. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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