

Outstanding Bonds

In addition to each series of the Series 2016 Bonds (and not accounting for the planned refunding of the Prior Bonds with proceeds of the Series 2016 Refunding Bonds), the District has outstanding four additional series of general obligation bonds, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Series 2016 Bonds.

The District received authorization at an election held on June 3, 2008, to issue bonds of the District in an aggregate principal amount not to exceed \$43,440,000 to rehabilitate inadequate heating, ventilation, sewer, drainage and safety/security systems, upgrade school technology, replace portables with permanent classrooms and renovate, acquire, construct and equip classrooms and schools (the "2008 Authorization"). On August 27, 2008, the County, on behalf of the District, issued the Series 2008A Bonds as its first series of authorized bonds to be issued under the 2008 Authorization. On February 25, 2010, the County, on behalf of the District, issued the Val Verde Unified School District (County of Riverside, California) General Obligation Bonds, 2008 Election, 2010 Series B, in the initial aggregate principal amount of \$13,436,947.70 (the "Series 2010B Bonds") as its second and final series of authorized bonds to be issued under the 2008 Authorization.

The District received authorization at an election held on June 5, 2012, to issue bonds of the District in an aggregate principal amount not to exceed \$178,000,000 to construct authorized projects under the 2012 Authorization. On March 20, 2013, the County, on behalf of the District, issued the Series 2013A Bonds in the aggregate principal amount of \$40,540,000 as its first series of authorized bonds to be issued under the 2012 Authorization. On March 4, 2015, the County, on behalf of the District, issued the Series 2015B Bonds in the initial aggregate principal amount of \$38,949,540.30 as its second series of authorized bonds to be issued under the 2012 Authorization. The District applied a portion of the proceeds of the Series 2015B Bonds to defease the District's then-outstanding 2013 General Obligation Bond Anticipation Notes. See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – District Debt Structure."

A summary of the District's general obligation bonded debt is set forth on the following page.

Aggregate Debt Service

The following table summarizes the annual aggregate debt service requirements of all outstanding bonds of the District (including each series of the Series 2016 Bonds), assuming no early redemptions.

VAL VERDE UNIFIED SCHOOL DISTRICT (Riverside County, California) General Obligation Bonds – Aggregate Debt Service

Period Ending August 1,	2008 Authorization			2012 Authorization			Total
	Series 2008A Bonds ⁽¹⁾	Series 2010B Bonds	Series 2016 Refunding Bonds	Series 2013A Bonds	Series 2015B Bonds	Series 2016C Bonds	
2016	-	\$1,875,950.00	\$	\$1,697,162.50	\$1,357,268.76	\$	\$4,930,381.26
2017	-	1,951,750.00		1,697,162.50	1,477,268.76		5,126,181.26
2018	\$2,201,931.26	468,000.00		1,752,162.50	1,552,268.76		5,974,362.52
2019	2,229,187.50	-		1,821,062.50	1,612,268.76		5,662,518.76
2020	2,247,537.50	-		1,893,562.50	1,677,268.76		5,818,368.76
2021	2,272,037.50	-		1,969,562.50	1,747,268.76		5,988,868.76
2022	2,292,087.50	-		2,051,162.50	1,812,268.76		6,155,518.76
2023	2,317,187.50	139,037.50		2,130,062.50	1,887,268.76		6,473,556.26
2024	2,342,337.50	139,037.50		2,216,262.50	1,965,768.76		6,663,406.26
2025	2,362,262.50	139,037.50		2,304,462.50	2,044,268.76		6,850,031.26
2026	2,385,612.50	139,037.50		2,394,512.50	2,127,268.76		7,046,431.26
2027	2,348,712.50	139,037.50		2,496,262.50	2,204,268.76		7,188,281.26
2028	2,349,450.00	139,037.50		2,593,137.50	2,295,268.76		7,376,893.76
2029	2,371,500.00	139,037.50		2,699,825.00	2,385,268.76		7,595,631.26
2030	2,347,225.00	856,164.15		2,804,050.00	2,485,268.76		8,492,707.91
2031	2,438,825.00	889,461.50		2,913,200.00	2,590,268.76		8,831,755.26
2032	2,439,700.00	1,014,037.50		3,036,925.00	2,685,268.76		9,175,931.26
2033	2,479,250.00	1,110,650.00		3,154,525.00	2,795,268.76		9,539,693.76
2034	-	488,175.00		3,281,000.00	2,905,268.76		6,674,443.76
2035	-	-		3,415,750.00	3,020,268.76		6,436,018.76
2036	-	-		3,548,750.00	3,145,268.76		6,694,018.76
2037	-	-		3,689,500.00	3,270,268.76		6,959,768.76
2038	-	-		3,837,000.00	3,405,268.76		7,242,268.76
2039	-	-		3,995,250.00	3,535,268.76		7,530,518.76
2040	-	-		4,153,000.00	3,680,268.76		7,833,268.76
2041	-	-		4,319,500.00	3,825,268.76		8,144,768.76
2042	-	-		2,068,500.00	6,402,768.76		8,471,268.76
2043	-	-		-	8,809,768.76		8,809,768.76
2044	-	-		-	9,163,018.76		9,163,018.76
2045	-	-		-	-		-
Total	\$37,424,843.76	\$9,627,450.65	\$	\$73,933,312.50	\$87,864,044.04	\$	\$208,849,650.95

⁽¹⁾ Does not reflect the planned refunding of the Prior Bonds from proceeds of the Series 2016 Refunding Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS

Security Before and After the Crossover Date

The Series 2016C Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series 2016C Bonds, all as more fully described herein.

Prior to and on the Crossover Date, the Series 2016 Refunding Bonds will be secured by and payable solely from proceeds of the Series 2016 Refunding Bonds deposited into an escrow fund established therefor and the investment income and other earnings thereon and any uninvested money then held in the Escrow Fund. After the Crossover Date, the Series 2016 Refunding Bonds will be, without any further action on the part of the District or the owners or beneficial owners of the Series 2016 Refunding Bonds, payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. Subject to the redemption of the Prior Bonds on the Crossover Date, the Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series 2016 Refunding Bonds due after the Crossover Date, all as more fully described herein.

Levy of *Ad Valorem* Taxes

In order to provide sufficient funds for repayment of principal and interest when due on a school district's general obligation bonds (excluding general obligation bonds issued on a crossover basis prior to the crossover date therefor), the board of supervisors of the county, the superintendent of schools of which has jurisdiction over such school district, is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by such school district, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the school district. The assessor of the county in which the school district lies must annually certify to the board of supervisors the assessed value of all taxable property in the county situated in the school district's boundaries. The board of supervisors must levy upon the property of the school district within its own county the rate of tax that will be sufficient to raise not less than the amount needed to pay the interest and any portion of the principal of the general obligation bonds (excluding general obligation bonds issued on a crossover basis prior to the crossover date therefor) that is to become due during the year.

Accordingly, the Board of Supervisors of the County must levy upon the property of the District the rate of tax that will be sufficient to provide sufficient funds for repayment of principal and interest when due on the Series 2016C Bonds and, subsequent to the Crossover Date, the Series 2016 Refunding Bonds. When collected, the tax revenues will be deposited by the County in the applicable Debt Service Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District. Moneys in each Debt Service Fund will be invested by the County on behalf of the District in any one or more investments generally permitted to school districts authorized pursuant to Section 53601 *et seq.* or Section 53635 *et seq.* of the California Government Code by the Treasurer-Tax Collector, and consistent with the investment policy of the County. See APPENDIX E – "COUNTY OF RIVERSIDE POOLED INVESTMENT FUND AND INVESTMENT POLICY" herein.

Statutory Lien on Taxes (Senate Bill 222)

Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016), all general obligation bonds issued by local agencies, including refunding bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. Section 53515 further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district, holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as ex-officio treasurer of the school district.

Assessed Valuation of Property Within the District

Taxable property located in the District has a 2015-16 assessed value of \$6,700,970,746. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See “– *Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and

companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed 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 property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

The following table sets forth the assessed valuation of the various classes of property in the District's boundaries in fiscal years 2011-12 through 2015-16.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Assessed Valuations
Fiscal Years 2011-12 through 2015-16**

Fiscal Year	Local Secured	Utility	Unsecured	Total
2011-12	\$4,971,937,047	\$1,330,306	\$170,443,268	\$5,143,710,621
2012-13	4,894,739,424	222,020	181,358,021	5,076,319,465
2013-14	5,079,876,787	222,020	201,956,215	5,282,055,022
2014-15	5,827,920,130	222,020	205,348,024	6,033,490,174
2015-16	6,349,895,666	222,020	350,853,060	6,700,970,746

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each

portion of the tax year. See also “–*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction or reconstruction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner’s property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner’s property in any one year must submit an application to the county assessment appeals board (the “Appeals Board”). Following a review of the application by the county assessor’s office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor’s office, the County has in the past, pursuant to Article XIII A of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

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

See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues” for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Bonding Capacity. As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District’s fiscal year 2016-17 gross bonding capacity (also commonly referred to as the “bonding limit” or “debt limit”) is approximately \$167.5 million and its net bonding capacity is approximately \$63.04 million (taking into account current outstanding debt before issuance of each series of the Series 2016 Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District’s bonding capacity.

Assessed Valuation by Jurisdiction. The following table sets forth the percentage and value of the total assessed value of the District that resides in the cities of Moreno Valley and Perris and unincorporated portion of the County.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2015-16 Assessed Valuation by Jurisdiction⁽¹⁾**

Jurisdiction	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Moreno Valley	\$2,632,595,172	39.29%	\$13,224,174,633	19.91%
City of Perris	2,684,227,029	40.06	\$4,721,296,127	56.85%
Unincorporated Riverside County	1,384,148,545	20.66	\$36,331,022,777	3.81%
Total District	\$6,700,970,746	100.00%		
 Total Riverside County	 \$6,700,970,746	 100.00%	 \$238,256,114,839	 2.81%

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

Assessed Valuation by Land Use. The following table sets forth a distribution of taxable property located in the District on the fiscal year 2015-16 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2015-16 Assessed Valuation and Parcels by Land Use**

Type of Property	2015-16 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
<u>Non-Residential:</u>				
Agricultural/Rural	\$132,915,163	2.09%	384	1.54%
Commercial/Industrial	2,005,386,328	31.58	472	1.89
Vacant Commercial/Industrial	429,583,380	6.77	915	3.66
Other Vacant/Miscellaneous	69,760,831	1.10	1,167	4.67
Subtotal Non-Residential	<u>\$2,637,645,702</u>	<u>41.54%</u>	<u>2,938</u>	<u>11.75%</u>
<u>Residential:</u>				
Single Family Residence	\$3,303,094,678	52.02%	16,130	64.50%
Condominium/Townhouse	53,243,950	0.84	540	2.16
Mobile Homes/Lots	202,799,150	3.19	3,042	12.16
2-4 Residential Units	30,221,074	0.48	119	0.48
5+ Residential Units/Apartments	42,995,033	0.68	9	0.04
Miscellaneous Residential	1,340,548	0.02	10	0.04
Vacant Residential	78,555,531	1.24	2,221	8.88
Subtotal Residential	<u>\$3,712,249,964</u>	<u>58.46%</u>	<u>22,071</u>	<u>88.25%</u>
TOTAL	\$6,349,895,666	100.00%	25,009	100.00%

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

Assessed Valuation of Single-Family Homes. The following table sets forth the assessed valuation of single-family homes in the District for fiscal year 2015–16.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2015-16 Per Parcel Assessed Valuation of Single Family Homes**

	2015-16		Average Assessed	Median Assessed		
	Number of Parcels	Assessed Valuation	Valuation	Valuation		
Single Family Residential	16,130	\$3,303,094,678	\$204,780	\$195,960		
2015-16 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	23	0.143	0.143%	\$431,410	0.013%	0.013%
\$25,000 - \$49,999	65	0.403	0.546	2,476,714	0.075	0.088
\$50,000 - \$74,999	125	0.775	1.321	8,185,254	0.248	0.336
\$75,000 - \$99,999	499	3.094	4.414	44,416,328	1.345	1.681
\$100,000 - \$124,999	1,029	6.379	10.794	116,810,107	3.536	5.217
\$125,000 - \$149,999	1,835	11.376	22.170	253,846,775	7.685	12.902
\$150,000 - \$174,999	2,414	14.966	37.136	393,038,358	11.899	24.801
\$175,000 - \$199,999	2,393	14.836	51.971	447,008,490	13.533	38.334
\$200,000 - \$224,999	1,916	11.878	63.850	406,055,510	12.293	50.627
\$225,000 - \$249,999	2,022	12.536	76.386	479,484,809	14.516	65.144
\$250,000 - \$274,999	1,434	8.890	85.276	374,947,901	11.351	76.495
\$275,000 - \$299,999	892	5.530	90.806	254,449,058	7.705	84.200
\$300,000 - \$324,999	531	3.292	94.098	165,002,829	4.995	89.195
\$325,000 - \$349,999	363	2.250	96.348	121,509,987	3.679	92.874
\$350,000 - \$374,999	245	1.519	97.867	88,656,007	2.684	95.558
\$375,000 - \$399,999	160	0.992	98.859	61,726,332	1.869	97.427
\$400,000 - \$424,999	61	0.378	99.237	25,077,070	0.759	98.186
\$425,000 - \$449,999	41	0.254	99.492	17,922,575	0.543	98.728
\$450,000 - \$474,999	41	0.254	99.746	18,950,900	0.574	99.302
\$475,000 - \$499,999	12	0.074	99.820	5,779,001	0.175	99.477
\$500,000 and greater	29	0.180	100.000	17,269,263	0.523	100.000
Total	16,130	100.000%		\$3,303,044,678	100.000%	

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

Largest Taxpayers in District. The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2015-16 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Largest 2015-16 Local Secured Taxpayers**

	Property Owner	Primary Land Use	2015-16 Assessed Valuation	Percent of Total ⁽¹⁾
1.	Ross Dress for Less Inc.	Industrial	\$268,839,456	4.23%
2.	DB Rreef Perris CA Inc.	Industrial	135,292,820	2.13
3.	First Industrial	Industrial	116,000,068	1.83
4.	Walgreen Co.	Industrial	111,078,305	1.75
5.	FR Cal Indian Avenue	Industrial	110,449,884	1.74
6.	Lowes HIW Inc.	Industrial	85,516,613	1.35
7.	HIT Inland Empire 3700 Indian Ave.	Industrial	85,280,394	1.34
8.	I215 Logistics	Industrial	83,965,386	1.32
9.	Knox Logistix	Industrial	80,076,453	1.26
10.	HD California DFDC Landlord	Industrial	63,650,701	1.00
11.	Moreno Knox	Industrial	61,797,683	0.97
12.	FR Cal Moreno Valley	Industrial	57,928,860	0.91
13.	CLPF 16850 Heacock Street	Industrial	48,940,795	0.77
14.	Broadstone Lasselle Prop Owner	Apartments	44,700,000	0.70
15.	Stratford Ranch 1	Vacant	40,805,540	0.64
16.	Perris Ramona	Industrial	40,275,939	0.63
17.	Halle Properties	Industrial	30,787,643	0.48
18.	O'Reilly Auto Enterprises	Industrial	26,088,361	0.41
19.	CA Boulder Springs Holdings	Residential Development	25,379,565	0.40
20.	Duke Realty LP	Vacant	25,024,000	0.39
			\$1,541,878,466	24.28%

⁽¹⁾ 2015-16 local secured assessed valuation: \$6,349,895,666
Source: California Municipal Statistics, Inc.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See "*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" above.

Tax Rates

The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Series 2016 Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series 2016C Bonds and, after the Crossover Date, the Series 2016 Refunding Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by

State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, drought, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Series 2016 Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 21-388). This Tax Rate Area comprises approximately 7.55% of the total assessed value of the District.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 11-001)
Fiscal Years 2011-12 through 2015-16**

	2011-12	2012-13	2013-14	2014-15	2015-16
General Tax Rate	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
Val Verde Unified School District	0.03160	0.08383	0.07235	0.07882	0.07135
Riverside City Community College District	0.01700	0.01702	0.01768	0.01791	0.01725
Metropolitan Water District	0.00370	0.00350	0.00350	0.00350	0.00350
Eastern Municipal Water District I.D. U-22	0.03000	0.03000	0.03000	0.01100	0.01100
Total Tax Rate	\$1.08230	\$1.13435	\$1.12353	\$1.11123	\$1.10310

Source: California Municipal Statistics, Inc.

In accordance with the law which permitted the Series 2016C Bonds to be approved by at least 55% popular vote, bonds approved by the District’s voters at the June 5, 2012 election may not be issued unless the District projects that repayment of all outstanding bonds approved at such election will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2016C Bonds, the District projects that the maximum tax rate required to repay the Series 2016C Bonds and all other outstanding bonds approved at the June 5, 2012 election will be within that legal limit. The tax rate test applies only when new bonds are issued, and is not a legal limitation upon the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2016C Bonds in each year

Tax Charges and Delinquencies

A school district’s share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series 2016C Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The county treasurer-tax collector prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties,

and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer-tax collector.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. 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 on November 1. To collect unpaid taxes, the county treasurer-tax collector may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer-tax collector may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed. The following table sets forth a recent history of real property tax collections and delinquencies in the District.

The following table sets forth a recent history of real property tax collections and delinquencies in the District.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2010-11 through 2014-15**

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent (As of June 30)	Percentage Delinquent (As of June 30)
2010-11	\$1,622,026.59	\$59,734.20	3.68%
2011-12	1,524,752.52	39,559.73	2.59
2012-13	4,030,798.94	80,663.84	2.00
2013-14	3,634,817.05	62,114.18	1.71
2014-15	4,546,073.76	74,652.11	1.64

⁽¹⁾ Debt service levy.

Source: California Municipal Statistics, Inc.

Teeter Plan

In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing Section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under the Teeter Plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then-accumulated, secured roll property tax delinquencies and to place the remaining 5% in a tax losses reserve fund. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing

entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected. The District is included in the Teeter Plan.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors of a county orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. The County has never discontinued the Teeter Plan with respect to any levying agency.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective August 1, 2016 for debt issued as of July 14, 2016. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two 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 column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. 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.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Statement of Direct and Overlapping Bonded Debt**

2015-16 Assessed Valuation: \$6,700,970,746

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 8/1/16</u>
Metropolitan Water District	0.273%	\$253,521
Eastern Municipal Water District Improvement District No. U-9	79.489	2,201,845
Eastern Municipal Water District Improvement District No. U-22	34.958	890,380
Riverside County Flood Control District Zone No. 4	14.777	3,051,451
Riverside City Community College District	7.589	19,895,680
Val Verde Unified School District	100.000	105,556,488 ⁽¹⁾
Val Verde Unified School District Community Facilities District	100.000	40,440,000
Eastern Municipal Water District Community Facilities District No. 2003-25, Improvement Area C and D	85.071 & 100.000	5,262,960
City of Perris Community Facilities Districts	51.025-100.000	99,665,747
County Community Facilities Districts	92.725	<u>5,076,694</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$282,294,766
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	2.813%	\$25,030,967
Riverside County Pension Obligation Bonds	2.813	8,566,148
Riverside County Board of Education Certificates of Participation	2.813	26,302
Val Verde Unified School District Certificates of Participation	100.000	69,190,000
City of Moreno Valley Certificates of Participation	19.907	<u>14,129,590</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$116,943,007
Less: Riverside County supported obligations		<u>175,445</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$116,767,562
 <u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Successor Agency to Perris Redevelopment Agency	48.400-52.458%	\$33,196,875
Successor Agency to Riverside County Redevelopment Agency	5.588-36.413	63,012,018
Successor Agency to Moreno Valley Redevelopment Agency	0.871	<u>404,492</u>
TOTAL OVERLAPPING TAX INCREMENT DEBT		\$96,613,385
 GROSS COMBINED TOTAL DEBT		 \$495,851,158⁽²⁾
NET COMBINED TOTAL DEBT		\$495,675,713

⁽¹⁾ Excludes the Series 2016 Bonds described herein but includes the Prior Bonds to be refunded.

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

Ratios to 2015-16 Assessed Valuation:

Direct Debt (\$105,556,488)	1.58%
Total Overlapping Tax and Assessment Debt	4.21%
Combined Direct Debt (\$174,746,488)	2.61%
Gross Combined Total Debt	7.40%
Net Combined Total Debt	7.40%

Ratios to Redevelopment Incremental Valuation (\$1,555,253,654):

Overlapping Tax Increment Debt	6.21%
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Source: California Municipal Statistics, Inc.

TAX MATTERS

General. In the opinion of Bond Counsel, based on existing statutes, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 2016 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2016 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A copy of the proposed opinion of Bond Counsel is set forth in Appendix C hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2016 Bonds. The City has covenanted to comply with certain restrictions designed to assure that interest on the Series 2016 Bonds will not be includable in federal gross income. Failure to comply with these covenants may result in interest on the Series 2016 Bonds being includable in federal gross income, possibly from the date of issuance of the Series 2016 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2016 Bonds may affect the value of, or the tax status of interest on the Series 2016 Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code will not adversely affect the value of, or the tax status of interest on, the Series 2016 Bonds. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

If the initial offering price to the public (excluding bond houses and brokers) at which a maturity of the Series 2016 Bonds is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a maturity of the Series 2016 Bonds is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Series 2016 Bond (other than a purchaser who holds such Series 2016 Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Series 2016 Bond constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as the interest on the Series 2016 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis compounded semiannually (with straight-line interpolations between compounding dates) over the term of each such Series 2016 Bond and the basis of such Series 2016 Bond acquired at such initial offering price by an initial purchaser of each such Series 2016 Bond will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of such Series 2016 Bonds who purchase such Series 2016 Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such Series 2016 Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Series 2016 Bonds. All holders of such Series 2016 Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Series 2016 Bond based on the purchaser's yield to maturity in such Series 2016 Bond,

except that in the case of such a Series 2016 Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2016 Bond. A purchaser of such a Series 2016 Bond is required to decrease his or her adjusted basis in such Series 2016 Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Series 2016 Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Series 2016 Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Series 2016 Bond, and with respect to the state and local tax consequences of owning and disposing of such a Series 2016 Bond.

Certain agreements, requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to the effect on any Series 2016 Bond or the interest payable with respect thereto if any change occurs or action is taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Series 2016 Bonds is excludable from federal gross income under Section 103 of the Code, and is exempt from State of California personal income taxes, the ownership or disposition of the Series 2016 Bonds, and the accrual or receipt of interest on the Series 2016 Bonds may otherwise affect an Owner's state or federal tax liability. The nature and extent of these other tax consequences will depend upon each Owner's particular tax status and the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code may cause interest on the Series 2016 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the Series 2016 Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Series 2016 Bonds to some extent for high-income individuals. There can be no assurance that such future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code enacted or proposed after the date of issuance of the Series 2016 Bonds will not have an adverse effect on the tax exempt status or market price of the Series 2016 Bonds.

Internal Revenue Service Audit of Tax-Exempt Issues. The Internal Revenue Service ("IRS") has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar obligations).

Information Reporting and Backup Withholding. Information reporting requirements apply to interest (including original issue discount) paid after March 31, 2007 on tax-exempt obligations, including the Series 2016 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W 9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a

tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2016 Bond through a brokerage account has executed a Form W 9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2016 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

OTHER LEGAL MATTERS

Legal Opinion

The validity of each series of the Series 2016 Bonds and certain other legal matters are subject to the approving opinions of Nossaman LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to each series of the Series 2016 Bonds at the time of issuance of such series substantially in the form[s] set forth in Appendix C hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, and for the Underwriter by Kutak Rock LLP.

Legality for Investment in California

Under the provisions of the California Financial Code, each series of the Series 2016 Bonds is a legal investment for commercial banks in California to the extent that the Series 2016 Bonds, in the informed opinion of the bank, is prudent for the investment of funds of depositors, and, under provisions of the California Government Code, each series of the Series 2016 Bonds is eligible securities for deposit of public moneys in the State.

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of each series of the Series 2016 Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than 240 days following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2016-17 fiscal year (which is due no later than March 27, 2017) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

A review of the District's compliance with its previous continuing disclosure undertakings was conducted and it was found that, during the preceding five years, the District did not timely file certain of its annual reports and/or audited financial statements for certain fiscal years and, with respect to some of its annual reports, it appears the District did not include certain operating or financial data as was required by its previous continuing disclosure undertakings. Moreover, the District's audited financial statements for certain fiscal years were not correctly linked with CUSIP numbers for all of its obligations as was required by its previous continuing disclosure undertakings. In addition, the District did not timely file notice of certain notice events relating to rating changes. The District has decided to self-report to the U.S. Securities and Exchange Commission (the "SEC") under the SEC's Municipal Continuing Disclosure Cooperation Initiative ("MCDC Initiative") with respect to certain of its statements in prior official statements regarding the District's compliance with its prior continuing disclosure undertakings pursuant to the Rule. The District has subsequently filed all required portions of such reports and is now current on all filings pursuant to its previous continuing disclosure undertakings. The District is working to put in place policies and procedures, and provide continuing disclosure training, to enhance ongoing compliance with its continuing disclosure undertakings in the future. The District has also hired third parties to assist the District in complying with its continuing disclosure undertakings.

[Litigation & IRS Audit]

No litigation is pending or threatened concerning or contesting the validity of the Series 2016 Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Series 2016 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series 2016 Bonds or District officials who will sign certifications relating to the Series 2016 Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2016 Bonds.

The District is occasionally subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

[Discuss IRS audit and findings]

ESCROW VERIFICATION

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter relating to the computation of projected receipts of principal and interest on the government obligations, and the projected payments of principal, redemption premium, if any, and interest to retire the Prior Bonds to be refunded will be verified by Causey, Demgen & Moore, P.C., Denver, Colorado (the "Verification Agent"). Such computations will be based solely on assumptions and information supplied by the District and the Underwriter. The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study to evaluate the assumptions and information on which the computations are based, and will express no opinion on the data used, the reasonableness of the assumptions or the achievability of the projected outcome.

MISCELLANEOUS

Rating

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC has assigned its rating of “__” to the Series 2016 Bonds. A rating agency generally bases its rating on its own investigations, studies and assumptions. The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Series 2016 Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Series 2016 Bonds. Neither the Underwriter nor the District have undertaken any responsibility after the offering of the Series 2016 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Nossaman LLP, Irvine, California, is acting as Bond Counsel with respect to each series of the Series 2016 Bonds, and will receive compensation contingent upon the sale and delivery of each series of the Series 2016 Bonds. Fieldman, Rolapp & Associates, Inc., Irvine, California, is acting as the District's Financial Advisor with respect to the Series 2016 Bonds. Orrick, Herrington & Sutcliffe LLP, Irvine, California, is acting as Disclosure Counsel to the District. Kutak Rock LLP, Denver, Colorado, is acting as Underwriter's Counsel with respect to the Series 2016 Bonds. Payment of the fees and expenses of the Financial Advisor, Disclosure Counsel and Underwriter's Counsel is also contingent upon the sale and delivery of the Series 2016 Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series 2016 Bonds.

Underwriting

The Series 2016C Bonds are being purchased for reoffering to the public by Piper Jaffray & Co. (the “Underwriter”), pursuant to the terms of a purchase contract executed on _____, 2016, by and between the Underwriter and the District (the “Series 2016C Purchase Contract”). The Underwriter has agreed to purchase the Series 2016C Bonds at a price of \$_____ (representing the principal amount of the Series 2016C Bonds, [plus/less] [net] original issue [premium/discount] of \$_____ and less the Underwriter's discount of \$_____). The Series 2016C Purchase Contract provides that the Underwriter will purchase all of the Series 2016C Bonds, subject to certain terms and conditions set forth in the Series 2016C Purchase Contract, including the approval of certain legal matters by counsel.

The Series 2016 Refunding Bonds are being purchased for reoffering to the public by the Underwriter, pursuant to the terms of a purchase contract executed on _____, 2016, by and between the Underwriter and the District (the “Refunding Purchase Contract”). The Underwriter has agreed to purchase the Series 2016 Refunding Bonds at a price of \$_____ (representing the principal amount of the Series 2016 Refunding Bonds, [plus/less] [net] original issue [premium/discount] of \$_____, and less an Underwriter's discount of \$_____). The Refunding Purchase Contract provides that the Underwriter will purchase all of the Series 2016 Refunding Bonds, subject to certain terms and conditions set forth in the Refunding Purchase Contract, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series 2016 Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has provided the following paragraphs for inclusion in the section "Underwriting." The District cannot and does not make any representation as to the accuracy or the completeness thereof.

The Underwriter has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2016 Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Series 2016 Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Series 2016 Bonds that CS&Co. sells.

The Underwriter made a contribution to a bond referendum campaign or provided in-kind election related assistance to a bond referendum campaign and the campaign resulted in voter authorization for the Series 2016C Bonds being underwritten.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Series 2016 Bonds. Quotations from and summaries and explanations of the Series 2016 Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series 2016 Bonds.

The District has duly authorized the delivery of this Official Statement.

**VAL VERDE UNIFIED SCHOOL
DISTRICT**

By: _____
Superintendent

APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the Val Verde Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series 2016 Bonds is payable from the general fund of the District or from State revenues. Prior to and on the Crossover Date, the Series 2016 Refunding Bonds will be secured by and payable solely from proceeds of the Series 2016 Refunding Bonds deposited into an escrow fund established therefor and the investment income and other earnings thereon and any uninvested money then held in the escrow fund. The Series 2016C Bonds and, after the Crossover Date, the Series 2016 Refunding Bonds are payable from ad valorem taxes to be levied on property within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series 2016C Bonds and, after the Crossover Date, the Series 2016 Refunding Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS" in the front portion of this Official Statement.

THE DISTRICT

Introduction

The District services an area of approximately 67 square miles located in County of Riverside (the "County"), including portions of the Cities of Moreno Valley and Perris and adjacent unincorporated areas of the County and has a fiscal year 2016-17 enrollment of approximately 19,965 students. The District currently operates 12 elementary schools, four middle schools, three high schools, one continuation high school, one virtual academy, one opportunity school and one preschool. Total assessed valuation of taxable property in the District in fiscal year 2015-16 is \$6,700,970,746. The District operates under the jurisdiction of the Riverside County Superintendent of Schools.

Board of Education

The District is governed by a five-member Board of Education (the "District Board"), each member of which was elected by voters within the District to serve alternating four-year terms. Commencing with the election to be held in November 2016, members of the District Board will be elected by residents of their respective trustee area rather than at-large throughout the District. The District Board consists of five voting members. The voting members are elected to four-year terms in alternate slates of two and three and elections are held every two years. Each December the District Board elects a President, Vice President and Clerk to serve one year terms. Current voting members of the District Board, together with their office and the date their term expires, are listed below.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)**

Board of Education

Name	Office	Term Expires
Shelly Yarbrough	President	December 2018
Suzanne Stotlar	Vice President	December 2016
Julio Gonzalez	Clerk	December 2018
Marla Kirkland	Member	December 2016
Michael M. Vargas	Member	December 2018

Superintendent and Financial and Fiscal Administrative Personnel

The Superintendent of the District is appointed by the District Board and reports to the District Board. The Superintendent is responsible for management of the District’s day-to-day operations and supervises the work of other key District administrators. Mr. Michael McCormick was board-appointed as Superintendent in March 2015. Mr. R. Darrin Waters is the Deputy Superintendent, Business Services, and reports to the Superintendent.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District’s operating income consists primarily of two components: a State portion funded from the State’s general fund in accordance with the Local Control Funding Formula (see “– Allocation of State Funding to School Districts; Local Control Funding Formula” herein) and a local portion derived from the District’s share of the 1% local *ad valorem* tax authorized by the State Constitution (see “– Local Sources of Education Funding” herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District budgeted to receive approximately 73.4% of its general fund revenues from State funds (not including the local portion derived from the District’s share of the local *ad valorem* tax), budgeted at approximately \$178.3 million in fiscal year 2016-17. Such amount includes both the State funding provided under the LCFF (as defined herein) as well as other State revenues (see “–Allocation of State Funding to School Districts; Local Control Funding Formula – Attendance and LCFF” and “–Other District Revenues – Other State Revenues” below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District’s revenues and operations.

Under Proposition 98, a constitutional and statutory amendment adopted by the State’s voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State’s general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented a new funding formula for school finance system called the Local Control Funding Formula (the “Local Control Funding Formula” or “LCFF”). Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See “– Allocation of State Funding to School Districts; Local Control Funding Formula” herein for more information.

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State’s voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also applies to trailer bills that appropriate funds and are identified by the State Legislature “as related to the budget in the budget bill.” The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2016-17 State budget on June 27, 2016.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district’s State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White v. Davis* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State’s share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year’s budget, from the Governor’s initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to

as “settle-up.” If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as “maintenance factor.”

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State’s response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers’ unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years’ Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution’s definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Refunding Bonds, and the District takes no responsibility for informing owners of the Refunding Bonds as to actions the State Legislature or Governor may take affecting the current year’s budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Rainy Day Fund; SB 858. In connection with the 2014-15 State Budget, the Governor proposed certain constitutional amendments (“Proposition 2”) to the rainy day fund (the “Rainy Day Fund”) for the November 2014 Statewide election. Senate Bill 858 (2014) (“SB 858”) amended the Education Code to, among other things, limit the amount of reserves that may be maintained by a school district subject to certain State budget matters. Upon the approval of Proposition 2, SB 858 became operational. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2” herein.

AB 1469. As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 (“AB 1469”) which implemented a new funding strategy for the California State Teachers’ Retirement System (“CalSTRS”), increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll and authorized additional increases to the employer contribution rate in subsequent fiscal years. See “– Retirement Benefits – CalSTRS” herein for more information about CalSTRS and AB 1469.

2015-16 State Budget. The Governor signed the fiscal year 2015-16 State budget (the “2015-16 State Budget”) on June 24, 2015. The 2015-16 State Budget represents a multiyear plan that is balanced and that continues to focus on paying down budgetary debt from prior years and setting aside reserves. The 2015-16 State Budget increases spending on education, health care, in-home supportive services, workforce development, drought assistance and the judiciary. The 2015-16 State Budget projects \$115 billion in revenues and transfers, a 3% increase over fiscal year 2014-15. By the end of fiscal year 2015-16, the State’s Rainy Day Fund is expected to have a balance of approximately \$3.5 billion. Under the 2015-16 State Budget, the State is expected to repay the remaining \$1 billion in deferrals to schools and community colleges, make the final payment on the \$15 billion in Economic Recovery Bonds used to cover budget deficits since 2002, and reduce outstanding mandate liabilities owed to schools and community colleges by \$3.8 billion.

As it relates to K-12 education, the 2015-16 State Budget provides total funding of \$83.2 billion (\$49.7 billion in general funds and \$33.5 billion in other funds). The 2015-16 State Budget provides Proposition 98 funding for all K-14 education of \$68.4 billion, an increase of \$7.6 billion over fiscal year 2014-15. Since fiscal year 2011 12, Proposition 98 funding for K 12 education has grown by more than \$18.6 billion, representing an increase of more than \$3,000 per student.

Certain budget adjustments for K-12 programs include the following:

- **Local Control Funding Formula.** An increase of \$6 billion in Proposition 98 general funds to continue the State’s transition to the Local Control Funding Formula. This formula commits most new funding to districts serving English language learners, students from low-income families and youth in foster care. This increase will close the remaining funding implementation gap by more than 51%.
- **Career Technical Education.** The 2015-16 State Budget establishes the Career Technical Education (“CTE”) Incentive Grant Program and provides \$400 million, \$300 million and \$200 million Proposition 98 general funds in fiscal years 2015-16, 2016-17, and 2017-18, respectively, for local education agencies to establish new or expand high quality CTE programs.
- **Educator Support.** An increase of \$500 million in one-time Proposition 98 general funds for educator support. Of this amount, \$490 million is for activities that promote educator quality and effectiveness, including beginning teacher and administrator support and mentoring, support for teachers who have been identified as needing improvement, and professional development aligned to the State academic content standards. These funds will be allocated to school districts, county offices of education, charter schools, and the State special schools in an equal amount per certificated staff and are available for expenditure over the next three years.
- **Special Education.** The 2015-16 State Budget includes \$60.1 million in Proposition 98 general funds (\$50.1 million ongoing and \$10 million one time) to implement selected program changes recommended by the task force, making targeted investments that

improve service delivery and outcomes for all disabled students, with a particular emphasis on early education.

- K-12 High-Speed Internet Access. An increase of \$50 million in one-time Proposition 98 funds to support additional investments in internet connectivity and infrastructure, building on the \$26.7 million in one time Proposition 98 funding that was provided in fiscal year 2014-15. This second installment of funding will further upgrade internet infrastructure to reflect the increasing role that technology plays in classroom operations to support teaching and learning.
- K-12 Mandates. An increase of \$3.2 billion in one time Proposition 98 general funds to reimburse K 12 local educational agencies for the costs of State mandated programs. These funds are expected to provide a significant down payment on outstanding mandate debt, while providing school districts, county offices of education and charter schools with discretionary resources to support critical investments such as Common Core implementation.
- K-12 Deferrals. The 2015-16 State Budget provides \$897 million Proposition 98 in general funds to eliminate deferrals consistent with the revenue trigger included in the fiscal year 2014-15 State budget.

The complete 2015-16 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

2016-17 State Budget. The Governor signed the fiscal year 2016-17 State budget (the “2016-17 State Budget”) on June 27, 2016. The 2016-17 State Budget sets forth a balanced budget for Fiscal Year 2016-17 and allocates funds from Proposition 2 to pay down outstanding budgetary borrowing and retirement liabilities of the State and University of California. The 2016-17 State Budget estimates that total resources available in fiscal year 2015-16 totaled approximately \$120.45 billion (including a prior year balance of \$3.4 billion) and total expenditures in fiscal year 2015-16 totaled approximately \$115.57 billion. The 2016-17 State Budget projects total resources available for fiscal year 2016-17 of \$125.18 billion, inclusive of revenues and transfers of \$120.31 billion and a prior year balance of \$4.87 billion. The 2016-17 State Budget projects total expenditures of \$122.47 billion, inclusive of non-Proposition 98 expenditures of \$71.42 billion and Proposition 98 expenditures of \$51.05 billion. The 2016 17 State Budget proposes to allocate \$966 million of the General Fund’s projected fund balance to the Reserve for Liquidation of Encumbrances and \$1.75 billion of such fund balance to the State’s Special Fund for Economic Uncertainties. In addition, the 2016-17 State Budget estimates the Rainy Day Fund will have a fund balance of \$6.71 billion.

Certain budgeted adjustments for K-12 education set forth in the 2016-17 State Budget include the following:

- School District Local Control Funding Formula. The 2016-17 State Budget includes an increase of more than \$2.9 billion to continue the implementation of the Local Control Funding Formula. The 2016-17 State Budget proposes to commit most new funding to Supplemental Grants and Concentration Grants. The Governor estimates that the budgeted increase will bring the total Local Control Funding Formula implementation to 96%.

- Proposition 98 Minimum Guarantee. The 2016-17 State Budget includes Proposition 98 funding of \$71.9 billion, inclusive of State and local funds, for fiscal year 2016-17. Such amount is expected to satisfy the Proposition 98 minimum guarantee for fiscal year 2016-17.
- Mandate Claims. The 2016-17 State Budget proposes to allocate approximately \$1.3 billion in one-time moneys to reduce outstanding mandate claims by K-12 local education agencies. The State expects such funds to be used for activities including, among others, deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology and the implementation of new educational standards.
- College Readiness Block Grant. The 2016-17 State Budget includes a one-time increase of \$200 million to the Proposition 98 General Fund for grants to school districts and charter schools that serve high school students. The State will direct grant recipients to such funds be used to support access to higher education and transition to higher education.
- Integrated Teacher Preparation Grant Program. The 2016-17 State Budget includes a one-time allocation of \$10 million from the Proposition 98 portion of the General Fund to the Integrated Teacher Preparation Grant Program, which provides competitive grants to colleges and universities to develop or improve teacher credential programs.
- Classified School Employees Credentialing Program. The 2016-17 State Budget includes a one-time allocation of \$20 million from the Proposition 98 portion of the General Fund to establish a credentialing program that recruits non-certified school employees and prepares them to become certificated classroom teachers.
- California Center on Teacher Careers. The 2016-17 State Budget includes a one-time increase of \$5 million of Proposition 98 General Fund to establish a multi-year competitive grant, which will be awarded to a local education agency to establish and operate the California Center on Teaching Careers. The California Center on Teaching Careers, once established, will recruit individuals to the teaching profession, host a referral database for teachers seeking employment, develop and distribute recruitment publications, conduct outreach activities to high school and college students, provide statewide public service announcements related to teacher recruitment, and provide prospective teachers information on credential requirements, financial aid and loan assistance programs.
- California Collaborative for Educational Excellence. The 2016-17 State Budget provides a one-time increase of \$24 million to the Proposition 98 portion of the General Fund for the California Collaborative for Educational Excellence to, among other things, support statewide professional development training relating to evaluation methods and metrics and implement a pilot program related to advising and assisting local education agencies on improving pupil outcomes.
- Safe Drinking Water in Schools. The 2016-17 State Budget includes an increase of \$9.5 million of one-time Proposition 98 General Fund to create a grant program to improve access to safe drinking water for schools located in isolated areas and economically disadvantaged areas. The program will be developed and administered by the State Water Resources Control Board in consultation with the California Department of Education.

- Charter School Startup Grants. The 2016-17 State Budget allocates an increase of \$20 million of one-time Proposition 98 General Fund resources to support operational startup costs for new charter schools in 2016 and 2017. Such allocation is expected to partially offset the loss of federal funding previously available for such purpose.
- Multi-Tiered Systems of Support. The 2016-17 State Budget allocates an increase of \$20 million of one-time Proposition 98 General Fund resources to build upon the \$10 million investment included in the 2015-16 State Budget for an increased number of local educational agencies to provide academic and behavioral supports in a coordinated and systematic way. The State expects such funds to, among other things, assist local education agencies as they provide services that support academic, behavioral, social and emotional needs and improve outcomes for students.
- Proposition 47. Proposition 47 (2014) requires a portion of any State savings which have resulted from the State's reduced penalties for certain non-serious and non-violent property and drug offenses, to be allocated to K-12 truancy and dropout prevention, victim services, and mental health and drug treatment. The 2016-17 State Budget includes an increase of \$18 million on a one-time basis to the Proposition 98 portion of the General Fund allocated to a grant program for truancy and dropout prevention.

The complete 2016-17 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Changes in State Budget. The District cannot predict the impact that the 2016-17 State Budget, or subsequent budgets, will have on its finances and operations. The 2016-17 State Budget may be affected by national and State economic conditions and other factors which the District cannot predict.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and community college districts through a local Educational Revenue Augmentation Fund ("ERAF") in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset

State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see “–Dissolution of Redevelopment Agencies” below). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State’s authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State’s general fund.

Dissolution of Redevelopment Agencies. The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) (“AB1X 26”) and Assembly Bill No. 27 (First Extraordinary Session) (“AB1X 27”), which the Governor signed on June 29, 2011. AB1X 26 suspended most redevelopment agency activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB1X 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of AB1X 26 are described further below.

In July 2011, various parties filed an action before the Supreme Court of the State of California (the “Court”) challenging the validity of AB1X 26 and AB1X 27 on various grounds (*California Redevelopment Association v. Matosantos*). On December 29, 2011, the Court rendered its decision in *Matosantos* upholding virtually all of AB1X 26 and invalidating AB1X 27. In its decision, the Court also modified various deadlines for the implementation of AB1X 26. The deadlines for implementation of AB1X 26 below take into account the modifications made by the Court in *Matosantos*.

On February 1, 2012, and pursuant to *Matosantos*, AB1X 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

AB1X 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its “enforceable obligations.” For this purpose, AB1X 26 defines “enforceable obligations” to include “bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency” and “any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy.” AB1X 26 specifies that only payments included on an “enforceable obligation payment schedule” adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution. However, until a successor agency adopts a “recognized obligation payment schedule” the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under AB1X 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a

“redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in AB1X 26. AB1X 26 generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 (now each January 2 and June 1 pursuant to AB 1484, as described below) thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;
- To the former redevelopment agency’s successor agency for payments listed on the successor agency’s recognized obligation payment schedule for the ensuing six-month period;
- To the former redevelopment agency’s successor agency for payment of administrative costs; and
- Any remaining balance to school entities and local taxing agencies.

It is possible that there will be additional legislation proposed and/or enacted to “clean up” various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a “tax claw back” provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This “tax claw back” provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

Future Budgets and Budgetary Actions. The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or 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 beyond the District’s ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State’s ability to fund schools during future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District.

Allocation of State Funding to School Districts; Local Control Funding Formula

Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a

target funding level: a “base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State’s contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as “basic aid districts,” which are now referred to as “community funded districts.” School districts that received some equalization aid were commonly referred to as “revenue limit districts,” which are now referred to as “LCFF districts.” The District is an LCFF district.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant (“Base Grant”) per unit of average daily attendance (“A.D.A.”) with additional supplemental funding (the “Supplemental Grant”) allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF has an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The LCFF includes the following components:

- A Base Grant for each local education agency. The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2016-17, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$7,820 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,189 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$7,403 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$8,801 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.
- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a local education agency’s Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the local education agency that comprise more than 55% of enrollment.
- An Economic Recovery Target (the “ERT”) that is intended to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, local education agencies would receive the greater of the Base Grant or the ERT.

Under the new formula, for community funded districts, local property tax revenues would be used to offset up to the entire allocation under the new formula. However, community funded districts would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

Local Control Accountability Plans. A feature of the LCFF is a system of support and intervention for local educational agencies. School districts, county offices of education and charter schools are required to develop, implement and annually update a three-year local control and accountability plan (“LCAP”). Each LCAP must be developed with input from teachers, parents and the community, and should describe local goals as they pertain to eight areas identified as state priorities, including student achievement, parent engagement and school climate, as well as detail a course of action to attain those goals. Moreover, the LCAPs must be designed to align with the district’s budget to ensure adequate funding is allocated for the planned actions.

Each school district must submit its LCAP annually on or before July 1 for approval by its county superintendent. The county superintendent then has until August 15 to seek clarification regarding the contents of the LCAP, and the school district must respond in writing. The county superintendent can submit recommendations for amending the LCAP, and such recommendations must be considered, but are not mandatory. A school district’s LCAP must be approved by its county superintendent by October 8 of each year if such superintendent finds (i) the LCAP adheres to the State template, and (ii) the district’s budgeted expenditures are sufficient to implement the strategies outlined in the LCAP.

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the “Collaborative”), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency’s LCAP.

Attendance and Base Revenue Limit. The following table sets forth the District’s actual A.D.A., enrollment and base revenue limit per unit of A.D.A. for fiscal years 2011-12 and 2012-13 for grades kindergarten through grade 12 (“K-12”), including special education.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Average Daily Attendance, Enrollment and Base Revenue Limit
Fiscal Years 2011-12 through 2012-13**

Fiscal Year	Average Daily Attendance ⁽¹⁾	Enrollment ⁽²⁾	Base Revenue Limit Per Unit of Average Daily Attendance
2011-12 ⁽³⁾	18,816	19,613	\$6,836
2012-13 ⁽⁴⁾	18,965	19,832	7,048

⁽¹⁾ A.D.A. for the second period of attendance, typically in mid-April of each school year.

⁽²⁾ Reflects enrollment as of October report submitted to the California Basic Educational Data System (“CBEDS”) in each school year.

⁽³⁾ The District had a 20.602% base revenue limit deficit factor and a 2.24% cost of living adjustment in fiscal year 2011-12, which resulted in a funded base revenue limit of \$5,428, per unit of A.D.A.

⁽⁴⁾ The District had a 22.272% base revenue limit deficit factor and a 3.243% cost of living adjustment in fiscal year 2012-13, which resulted in a funded base revenue limit of \$5,478, per unit of A.D.A.

Source: Val Verde Unified School District.

Attendance and LCFF. The following table sets forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”)), and targeted Base Grant per unit of A.D.A. for fiscal years 2013-14 through 2016-17, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education.

**VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Average Daily Attendance, Enrollment And Targeted Base Grant
Fiscal Years 2013-14 through 2016-17**

Fiscal Year		A.D.A./Base Grant				Enrollment ⁽⁷⁾		
		K-3	4-6	7-8	9-12	Total A.D.A.	Total Enrollment	Unduplicated Percentage of EL/LI Students
2013-14	A.D.A. ⁽²⁾ :	5,925	4,369	2,993	5,728	19,015	19,796	84.41%
	Targeted Base Grant ⁽³⁾ :	\$7,676	\$7,056	\$7,266	\$8,638	--	--	--
2014-15	A.D.A. ⁽²⁾ :	5,849	4,435	2,949	5,671	18,904	19,841	82.43%
	Targeted Base Grant ⁽³⁾⁽⁴⁾ :	\$7,740	\$7,116	\$7,328	\$8,712	--	--	--
2015-16	A.D.A. ⁽²⁾ :	5,676	4,567	2,994	5,767	19,005	19,862	82.8%
	Targeted Base Grant ⁽³⁾⁽⁵⁾ :	\$7,820	\$7,189	\$7,403	\$8,801	--	--	--
2016-17 ⁽¹⁾	A.D.A. ⁽²⁾ :	5,600	4,561	2,957	5,980	19,098	19,965	82.04%
	Targeted Base Grant ⁽³⁾⁽⁶⁾ :	\$7,820	\$7,189	\$7,403	\$8,801	--	--	--

⁽¹⁾ Figures are projections.

⁽²⁾ A.D.A. for the second period of attendance, typically in mid-April of each school year.

⁽³⁾ Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and do not include any supplemental and concentration grants under the LCFF. Such amounts are not expected to be fully funded in fiscal years 2013-14 and 2014-15.

⁽⁴⁾ Targeted fiscal year 2014-15 Base Grant amounts reflect a 0.85% cost of living adjustment from targeted fiscal year 2013-14 Base Grant amounts.

⁽⁵⁾ Targeted fiscal year 2015-16 Base Grant amounts reflect a 1.02% cost of living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

⁽⁶⁾ Targeted fiscal year 2016-17 Base Grant amounts reflect a 0.00% cost of living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

⁽⁷⁾ Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and CALPADS for the 2015-16 school year. For purposes of calculating Supplemental and Concentration Grants, a school district’s fiscal year 2013-14 percentage of unduplicated EL/LI Students will be expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment will be based on the two-year average of EL/LI Students enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI Students will be based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Val Verde Unified School District.

The District received approximately \$172.88 million (estimated) in aggregate revenues reported under LCFF sources in fiscal year 2015-16, and has budgeted to receive approximately \$185.75 million in aggregate revenues under the LCFF in fiscal year 2016-17 (or approximately 76.45% of its general fund revenues in fiscal year 2016-17). Such amount includes supplemental grants and concentration grants budgeted to be approximately \$38.9 million, collectively, in fiscal year 2016-17.

Effect of Changes in Enrollment. Changes in local property tax income and A.D.A. affect LCFF districts and community funded districts differently. The District is an LCFF district.

In an LCFF district, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid, as described above. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts." School districts that received some State aid were commonly referred to as "revenue limit districts." The District was a revenue limit district and is now referred to as an LCFF district.

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. See "—Allocation of State Funding to School Districts: Local Control Funding Formula" herein for more information.

Local property tax revenues are budgeted to be approximately 13.95% of the District's aggregate revenues reported under LCFF sources, and are budgeted to be approximately \$25.94 million, or 10.7% of total general fund revenues in fiscal year 2016-17.

Beginning in fiscal year 2011-12, local property tax dollars applicable to the District's revenue limit funding were used to backfill certain cities and counties. Riverside County is one of two counties which have negative Educational Revenue Augmentation Fund (ERAF) property tax adjustments that reduce the amount of local property taxes paid to school districts that were formerly known as revenue limit districts prior to the implementation of the LCFF in order to fund the State's economic recovery bond program (commonly known as the "Triple Flip") and vehicle license fees. Such negative ERAF is repaid to school districts, like the District, with State aid dollars and, therefore, is not applicable to basic aid districts. In the absence of such negative ERAF, the District would have received approximately \$2.8

million in local property tax revenue, or appropriately 1.5% of its aggregate revenues allocated under the LCFF. Such reduction and repayment of local property taxes is limited to the District's 1% general fund apportionment and does not affect the ad valorem taxes levied to repay the District's general obligation bonds, including the Series 2016C Bonds and, after the Crossover Date, the Series 2016 Refunding Bonds.

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 5.17% (or approximately \$12.56 million) of the District's general fund budgeted revenues for fiscal year 2016-17.

Other State Revenues. In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues which comprise approximately 7.58% (or approximately \$18.41 million) of the District's general fund budgeted revenues for fiscal year 2016-17. A significant portion of such other State revenues are amounts the District expects to receive from State lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is budgeted at approximately \$3.57 million for fiscal year 2016-17.

Other Local Revenues. In addition to *ad valorem* property taxes, the District receives additional local revenues from items, such as interest earnings and other local sources. Other local revenues comprise approximately 10.80% (or approximately \$26.24 million) of the District's general fund budgeted revenues for fiscal year 2016-17.

Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2015, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's independent auditor, Vavrinek, Trine, Day & Co., LLP, for fiscal years 2011-12 through 2014-15.

Vavrinek, Trine, Day & Co., LLP has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has not audited nor reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The following table sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2011-12 through 2014-15.

VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2011-12 through 2014-15

	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15
REVENUES				
Revenue limit/LCFF sources ⁽¹⁾	\$103,817,284	\$105,200,350	\$125,188,130	\$146,448,573
Federal sources	11,801,070	9,153,415	10,149,443	10,735,085
Other State sources	20,792,494	22,518,293	16,277,893	12,650,693
Other local sources	22,827,909	24,451,832	22,936,055	25,657,856
Total Revenues	159,238,757	161,323,890	174,551,521	195,492,207
EXPENDITURES				
Current				
Instruction	103,266,451	101,565,308	110,996,736	115,798,043
Instruction-related activities:				
Supervision of instruction	5,158,817	5,807,398	6,470,286	7,620,192
Instructional library, media, and technology	1,288,298	1,391,048	1,466,713	1,569,825
School site administration	9,317,474	10,705,169	11,690,946	12,533,967
Pupil services:				
Home-to-school transportation	1,927,556	2,122,318	2,308,782	2,158,304
Food services	160,891	19,603	81,790	-
All other pupil services	9,639,544	10,419,005	11,730,098	13,501,842
Administration:				
Data processing	2,261,211	2,021,903	2,117,253	2,172,637
All other administration	7,736,982	6,291,418	7,253,881	7,453,095
Plant services	15,252,363	16,138,568	17,981,332	19,693,297
Facility acquisition and construction	3,374,826	1,655,346	2,938,886	1,411,098
Ancillary services	859,805	913,145	974,640	1,327,788
Other outgo	(7,775)	6,398	508,760	391,603
Debt service				
Principal	112,010	27,382	-	70,636
Interest and other	51,670	357,348	481,082	33,384
Total Expenditures	160,400,123	159,441,357	177,001,185	185,735,711
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,161,366)	1,882,533	(2,449,664)	9,756,496
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,143,055	42,980	-
Other sources	149,476	-	-	101,964
Transfers out	(5,562,184)	(4,317,042)	(6,363,602)	(2,419,497)
Net Financing Sources (Uses)	(5,412,708)	(3,173,987)	(6,320,622)	(2,317,533)
NET CHANGE IN FUND BALANCES	(6,574,074)	(1,291,454)	(8,770,286)	7,438,963
Fund Balances – Beginning	41,869,529	35,295,455	34,004,001	25,233,715
Fund Balances - Ending	\$35,295,455	\$34,004,001	\$25,233,715	\$32,672,678

⁽¹⁾ The LCFF was implemented beginning in fiscal year 2013-14.

Source: Val Verde Unified School District Audited Financial Reports for fiscal years 2011-12 through 2014-15.

The following table sets forth the general fund balance sheet of the District for fiscal years 2011-12 through 2014-15.

VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2011-12 through 2014-15

	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15
ASSETS				
Deposits and investments	\$22,353,607	\$33,531,997	\$20,711,722	\$32,680,463
Receivables	43,545,540	26,439,883	25,818,783	8,004,068
Due from other funds	1,809,078	2,767,616	3,519,675	1,942,838
Stores inventories	46,644	49,438	42,991	73,279
Total Assets	\$67,754,869	\$62,788,934	\$50,093,171	\$42,700,648
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$6,444,942	\$4,437,023	\$6,177,869	\$8,045,379
Due to other funds	2,508,658	897,471	2,283,940	1,941,394
Current loan	23,300,000	22,800,000	15,740,000	-
[Deferred/unearned] revenue	205,814	650,439	657,647	41,197
Total Liabilities	32,459,414	28,784,933	24,859,456	10,027,970
Fund Balances:				
Nonspendable	71,644	74,438	67,991	98,729
Restricted	4,112,579	4,956,342	7,114,674	5,698,449
Assigned	1,729,649	11,647,285	861,579	-
Unassigned	29,381,583	17,325,936	17,189,471	26,875,500
Total Fund Balances	35,295,455	34,004,001	25,233,715	32,672,678
Total Liabilities and Fund Balances	\$67,754,869	\$62,788,934	\$50,093,171	\$42,700,648

Source: Val Verde Unified School District Audited Financial Reports for fiscal years 2011-12 through 2014-15.

District Budget Process and County Review

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than August 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file it with the county superintendent no later than September 8. Pursuant to State law, the county superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the county superintendent in that fiscal year or in the next succeeding year.

For school districts under fiscal distress, the county superintendent of schools is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from ad valorem taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent of schools, receive an emergency appropriation from the State, the acceptance of which constitutes an agreement to submit to management of the school district by a Superintendent appointed administrator.

In the event the State elects to provide an emergency appropriation to a school district, such appropriation may be accomplished through the issuance of "State School Fund Apportionment Lease Revenue Bonds" to be issued by the California Infrastructure and Economic Development Bank, on behalf of the school district. State law provides that so long as such bonds are outstanding, the recipient school district (via its State-appointed administrator) cannot file for bankruptcy. In the last five years, the District has not received a qualified or negative certification in connection with its first interim reports or second interim reports.

[In the last five years, the District received a qualified certification in connection with its first interim report and second interim report for fiscal year 2012-13.]

The following table summarizes the District's adopted general fund budgets for fiscal years 2013-14 through 2016-17, unaudited actuals for fiscal years 2013-14 and 2014-15 and estimated actuals for fiscal year 2015-16.

VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
General Fund Budgets for Fiscal Years 2013-14 through 2016-17,
Unaudited Actuals for Fiscal Years 2013-14 and 2014-15
and Estimated Actuals for Fiscal Year 2015-16

	2013-14 Original Adopted Budget	2013-14 Unaudited Actuals ⁽¹⁾	2014-15 Original Adopted Budget	2014-15 Unaudited Actuals	2015-16 Original Adopted Budget	2015-16 Estimated Actuals	2016-17 Original Adopted Budget
REVENUES							
Revenue Limit/LCFF Sources ⁽²⁾	\$110,526,483.00	\$125,188,131.31	\$145,175,047.00	\$146,448,573.45	\$172,781,333.00	\$172,884,964.00	\$185,754,601.00
Federal Revenue	10,819,189.00	10,149,442.34	11,124,955.00	10,735,085.68	11,537,964.00	12,094,092.00	12,562,899.00
Other State Revenue	18,873,251.00	12,620,562.84	9,797,001.00	12,650,693.31	18,874,635.00	24,812,152.00	18,412,736.00
Other Local Revenue	20,297,819.00	22,911,396.24	21,048,224.00	25,630,899.07	24,020,415.00	26,263,687.00	26,240,489.00
TOTAL REVENUES	160,516,742.00	170,869,532.73	187,145,227.00	195,465,251.51	227,214,347.00	236,054,895.00	242,970,725.00
EXPENDITURES							
Certificated Salaries	74,298,498.00	79,726,680.07	81,423,843.00	80,491,666.35	85,216,265.00	89,607,182.00	95,525,017.00
Classified Salaries	24,684,048.00	26,307,158.42	27,024,468.00	27,104,597.80	28,745,485.00	28,792,594.00	33,036,371.99
Employee Benefits	26,641,346.00	27,367,919.22	31,732,630.00	35,504,341.85	36,217,860.00	42,134,177.00	49,138,070.00
Books and Supplies	7,091,129.00	8,095,502.29	12,427,039.00	11,703,984.78	32,231,836.00	15,513,983.00	21,642,236.00
Services, Other Operating Expenses	27,191,401.00	28,676,454.67	31,322,507.00	29,312,580.34	33,737,997.00	32,849,407.00	35,661,154.00
Capital Outlay	539,283.00	3,340,167.85	2,432,113.00	1,936,522.39	1,816,770.00	8,095,951.00	7,926,323.00
Other Outgo (excluding Direct Support/Indirect Costs)	6,112,935.00	5,471,239.14	3,891,358.00	2,502,628.68	5,048,455.00	4,913,613.00	5,932,670.00
Other Outgo - Transfers of Indirect Costs	(699,914.00)	(684,724.24)	(694,312.00)	(743,430.47)	(659,309.00)	(667,936.00)	(671,970.00)
TOTAL EXPENDITURES	165,858,726.00	178,300,397.42	189,559,646.00	187,812,891.72	222,355,359.00	221,238,971.00	248,189,871.00
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,341,984.00)	(7,430,864.69)	(2,414,419.00)	(7,652,359.79)	4,858,988.00	14,815,924.00	(5,219,146.00)
OTHER FINANCING SOURCES (USES)							
Inter-fund Transfers In	-	42,980.13	-	-	-	3,600,000.00	-
Inter-fund Transfers Out	(942,712.00)	(1,407,059.47)	(1,256,521.00)	342,318.18	(300,147.00)	349,885.00	(474,010.00)
Other Sources (Uses)	-	-	-	101,964.39	-	-	-
Contributions	-	-	-	-	-	-	-
TOTAL, OTHER FINANCING SOURCES (USES)	(942,712.00)	(1,364,079.34)	(1,256,521.00)	(240,353.79)	(300,147.00)	3,250,115.00	(474,010.00)
NET INCREASE (DECREASE) IN FUND BALANCE	(6,284,696.00)	(8,794,944.03)	(3,670,940.00)	7,412,006.00	4,558,841.00	18,066,039.00	(5,693,156.00)
BEGINNING BALANCE, as of July 1	23,929,145.00	26,620,316.98	17,126,414.00	17,825,372.95	19,167,215.00	25,237,379.00	43,303,418.00
ENDING BALANCE	\$17,644,449.00	\$17,825,372.95	\$13,455,474.00	\$25,237,378.95	\$23,726,056.00	\$43,303,418.00	\$37,610,262.00
Unrestricted Balance	\$13,908,674.00	\$10,680,698.80	\$8,959,304.00	\$19,538,929.08	\$19,179,392.00	\$36,208,616.00	34,734,542.00
Restricted Balance	\$3,735,775.00	\$7,144,674.15	\$4,496,170.00	\$5,698,449.87	\$4,546,664.00	\$7,094,802.00	2,875,720.00

⁽¹⁾ Total revenues and total expenditures do not match the District's audited financial statements because the District does not include contributions to the State Teacher's Retirement System made by the State on behalf of the District in its internal financial reports, which amounts are included in the actual revenues and expenditures in the District's audited financial statements. Such on behalf of payments amounted to \$3,657,331 and \$4,087,216 for fiscal years 2013-14 and 2014-15, respectively. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes in the general fund, additional revenues and expenditures pertaining to this other fund is included in the revenues and expenditures in the District's audited financial statements, but is not included in the District's internal financial reports.

⁽²⁾ The LCFF was implemented beginning in fiscal year 2013-14.

Source: Val Verde Unified School District Adopted general fund budgets for fiscal years 2013-14 through 2016-17; unaudited actuals for fiscal years 2013-14 and 2014-15 and estimated actuals for fiscal year 2015-16.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District's long-term obligations for the year ended June 30, 2015, consisted of the following:

Long-Term Debt	Beginning Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due Within One Year
General Obligation Bonds ⁽¹⁾					
2008 Series A	\$24,475,000	\$ -	\$ -	\$24,475,000	\$ -
2010 Series B	9,044,768	119,581	1,470,000	7,694,349	1,600,000
2013 Series A	39,140,00	-	165,000	38,975,000	645,000
2015 Series B	-	39,095,713	-	39,095,713	-
Premium on issuance	3,470,675	3,244,860	240,418	6,475,117	-
Bond Anticipation Notes	28,770,000	-	28,770,000	-	-
Certificates of Participation					
2005 Series B Refunding	36,805,000	-	36,805,000	-	-
2009 Series A	42,560,00	-	1,205,000	41,355,000	1,240,000
2015 Series A	-	30,090,000	-	30,090,000	-
Premium on Issuance	-	4,264,435	193,838	4,070,597	-
Discount on Issuance	(312,770)	-	(14,217)	(298,553)	-
Capital Leases	69,315	101,964	70,366	100,643	16,718
Supplemental Early Retirement Program	44,368	162,625	44,368	162,625	35,525
Net OPEB Asset	(163,541)	1,121,933	1,166,978	(208,586)	-
	\$183,902,815	\$78,201,111	\$70,117,021	\$191,986,905	\$3,534,243

⁽¹⁾ Does not include the Series 2016C Bonds, the Series 2016 Refunding Bonds, but includes the Prior Bonds to be refunded.
Source: Val Verde Unified School District Audited Financial Report for fiscal year 2014-15.

General Obligation Bonds. Without regard to the issuance of each series of the Series 2016 Bonds, the District has outstanding four additional series of general obligation bonds, each of which is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series 2016 Bonds.

See "THE SERIES 2016 BONDS – Outstanding Bonds" and "– Aggregate Debt Service" in the front portion of this Official Statement for more information about such outstanding bonds.

Bond Anticipation Notes. In October 2013, the District issued its 2013 General Obligation Bond Anticipation Notes (the "Notes") in the aggregate principal amount of \$28,770,000. The Notes were issued to finance capital improvements specified in the project list approved with the bonds that were authorized at the June 5, 2012 election. On March 4, 2015, the County, on behalf of the District, issued the Series 2015B Bonds to defease the Notes and finance the construction and improvement of certain school facilities of the District.

Certificates of Participation. In July 2005, the District executed and delivered its Certificates of Participation (Refunding and School Construction Project), 2005 Series B in the aggregate principal amount of \$65,630,000 (the "2005 Series B COPs") for the purpose of prepaying, on an advance basis, the District's prior Variable Rate Demand Certificates of Participation (Land Bank Program) 2004 Series A, Variable Rate Demand Certificates of Participation (Land Bank Program) 2004 Series B and Refunding Certificates of Participation (Centralized Support Services and District Office Facilities Project) 2005 Series A. The District applied a portion of the net proceeds of the sale of the 2005 Series B COPs to fund costs of construction of public school facilities of the District and also refund certain outstanding lease-purchase obligations of the District. At June 30, 2014, the principal balance outstanding was \$36,805,000.

In September 2009, the District executed and delivered its Certificates of Participation (Refunding Project), 2009 Series A in the aggregate principal amount of \$43,920,000 (the “2009 Series A COPs”) for the purpose of prepaying the District’s Variable Rate Demand Refunding Certificates of Participation, 2008 Series A (the “2008 Series A COPs”). The 2009 Series A COPs mature on March 1, 2036, with interest rates ranging from 2.00% to 5.125%. The District applied a portion of the net proceeds of sale of the 2009 Series A COPs to affect the refunding of the outstanding balances of the 2008 Series A COPs and provided funding for capital improvement projects planned by the District. At June 30, 2015, the principal balance outstanding was \$41,355,000 and unamortized discount was \$298,553.

The 2009 Series A COPs mature as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2016	1,240,000	\$1,984,318	\$3,244,318
2017	1,280,000	1,944,178	3,224,178
2018	1,320,000	1,899,218	3,219,218
2019	1,370,000	1,849,718	3,219,718
2020	1,425,000	1,794,918	3,219,918
2021-2025	8,115,000	7,987,928	16,102,928
2026-2030	10,325,000	5,784,938	16,109,938
2031-2035	13,220,000	2,884,350	16,104,350
2036	3,060,000	156,825	3,216,825
Total	\$41,355,000	\$26,286,391	\$67,641,391

Source: Val Verde Unified School District Audited Financial Report for fiscal year 2014-15.

On February 4, 2015, the District executed and delivered its 2015 Certificates of Participation, Series A in the aggregate principal amount of \$30,090,000 (the “2015 Series A COPs”) for the purpose of prepaying the District’s Certificates of Participation (Refunding and School Construction Project), 2005 Series B (the “2005 Series B COPs”). The 2015 Series A COPs mature on August 1, 2035, with interest rates ranging from 2.00% to 5.00%. The District applied a portion of the net proceeds of sale of the 2015 Series A COPs to affect the refunding of the outstanding balances of the 2005 Series B COPs and provided funding for capital improvement projects planned by the District. At June 30, 2015, the principal balance outstanding was \$30,090,000 and unamortized premium was \$4,070,597.

The 2015 Series A COPs mature as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2016	-	\$660,013	\$660,013
2017	\$1,015,000	1,342,400	2,357,400
2018	1,030,000	1,322,100	2,352,100
2019	1,060,000	1,291,200	2,351,200
2020	1,095,000	1,256,900	2,351,900
2021-2025	6,215,000	5,518,350	11,733,350
2026-2030	7,850,000	3,821,000	11,671,000
2031-2035	9,620,000	2,000,750	11,620,740
2036	2,205,000	110,250	2,315,250
Total	\$30,090,000	\$17,322,963	\$47,412,963

Source: Val Verde Unified School District Audited Financial Report for fiscal year 2014-15.

Capital Leases. The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchase (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2014	\$74,895
Additions	129,686
Payments	77,057
Balance, July 30, 2015	<u>\$127,524</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2016	\$25,937
2017	25,937
2018	25,937
2019	25,937
2020	23,776
Total	<u>127,524</u>
Less: Amount Representing Interest	<u>26,881</u>
Present Value of Minimum Lease Payments	<u>\$100,643</u>

Source: Val Verde Unified School District Audited Financial Report for fiscal year 2014-15.

Supplemental Early Retirement Program (SERP). The District offered an early retirement incentive to its employees. As a result of this early retirement incentive program, the District expects to incur \$162,625 in additional costs that will be repaid through fiscal year 2019-20.

Year Ending June 30,	
2016	\$32,525
2017	32,525
2018	32,525
2019	32,525
2020	32,525
Total	<u>\$162,625</u>

Source: Val Verde Unified School District Audited Financial Report for fiscal year 2014-15.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with CalSTRS and CalPERS (see “– Retirement Benefits” below), the District provides certain post-retirement healthcare benefits, in accordance with District employment contracts. For a description of the District's program, which is a single-employer defined benefit healthcare plan that provides health insurance benefits, see Notes 9 and 12 to the District's financial statements attached hereto as APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2015.” At June 30, 2015, membership in such plan consisted of 69 retirees and beneficiaries receiving benefits and 1,629 active plan members who could be eligible to receive benefits in the future.

The Governmental Accounting Standards Board (“GASB”) released its Statement Number 45 (“Statement Number 45”), which requires municipalities to account for other post-employment benefits (meaning other than pension benefits) (“OPEB”) liabilities much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public

sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. Statement Number 45 was phased in over a three-year period based upon the entity's revenues. Statement Number 45 became effective for the District beginning in fiscal year 2008-09.

The contribution requirement of plan members and the District are established under a funding policy approved by the District's Board of Education, and may be amended by the District from time to time. The District's current funding policy is to contribute an amount sufficient to pay the current year's annual required contribution (ARC) determined under Statement Number 45 to an irrevocable trust (the "Retiree Benefits Trust"). The District contributions for these benefits for fiscal years 2011-12, 2012-13 and 2013-14 and 2014-15 were \$346,573, \$1,143,233, \$1,278,494 and \$1,158,801, respectively. Of the amount contributed in 2014-15, \$355,801 was used for current premiums and \$803,000 was deposited into the Retiree Benefit Trust. As of January 1, 2015, the Retiree Benefits Trust had a balance of approximately \$4.06 million.

Total Compensation Systems, Inc. has prepared an actuarial valuation (the "Actuarial Valuation") covering the District's retiree health benefits and reports that, as of January 1, 2015, the District had 54 eligible retirees as well as approximately 1,282 eligible active plan members. The Actuarial Valuation reports that, as of January 1, 2015, the District had an actuarial accrued liability of \$8,987,811. The Actuarial Valuation provides that the remaining unamortized balance of the initial unfunded actuarially accrued liability is \$3,697,394, leaving a residual actuarial accrued liability of \$5,290,417. For the year beginning January 1, 2015, the annual required contribution is estimated to be \$1,143,140 and the pay-as-you-go requirement is \$1,143,140 under the Actuarial Valuation. The Actuarial Valuation assumes, among other things, 2.75% inflation per year, 5% discount rate per year and 2.75% payroll increase per year.

Tax and Revenue Anticipation Notes. On May 1, 2014, the District issued \$15,740,000 of tax and revenue anticipation notes (the "2014 TRANS"). The 2014 TRANS were issued to supplement cash flows. Interest and principal were due and payable, and were paid, on September 1, 2014. The District may issue tax and revenue anticipation notes in future years when necessary to supplement cash flow.

Community Facilities District (CFD) Special Tax Bonds. The bonds issued by certain community facilities districts ("CFDs") established by the District (the "CFD Bonds") are not obligations of the District. The CFD Bonds, the interest thereon, and any premiums on the redemption of any of the CFD Bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the general taxing power of the CFD, the District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the CFD Bonds, which are payable from the proceeds of an annual special tax levied on and collected from property within the respective CFDs according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Board of Education of the District. The CFD Bonds are secured only by a first pledge of all revenues derived from the net special taxes and the moneys deposited in certain funds held under their respective fiscal agent agreements.

For more information about outstanding CFD Bonds, see Note 10 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

Employment

As of July 1, 2016, the District budgeted 912.0 full-time equivalent certificated (non-management) employees, 577 full-time equivalent classified (non-management) employees and 101.0 full-time equivalent management, supervisor and confidential employees. In addition, the District employed _____ part-time faculty and staff. For fiscal year 2015-16, the total certificated and classified payrolls for all funds were approximately \$89.6 million (certificated) and \$28.8 million (classified), respectively, and are budgeted to be approximately \$95.5 million and \$33.0 million, respectively, in fiscal year 2016-17. These employees, except management and some part-time employees, are represented by the bargaining units as noted below:

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
Val Verde Teachers Association	865	June 30, 2018
California School Employees Association, Chapter 567	765	June 30, 2017

Source: Val Verde Unified School District.

Retirement Benefits

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

CalSTRS. Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, teachers contributed 8% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to systemwide unfunded liability resulting from recent benefit enhancements.

As of June 30, 2015, an actuarial valuation (the “2015 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$76.20 billion, an increase of approximately \$3.48 million from the June 30, 2015, June 30, 2014 and June 30, 2013 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2015, June 30, 2014 and June 30, 2013, based on the actuarial assumptions, were approximately 68.5%, 68.5% and 66.9%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2015 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” 7.50% investment rate of return, 4.50% interest on member accounts, 3.75% projected wage growth, and 3.00% projected inflation. The 2015 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See “—Governor’s Pension Reform” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability

may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

As indicated above, there was no required contribution from teachers, schools districts or the State to fund the unfunded actuarial liability for the CalSTRS defined benefit program and only the State legislature can change contribution rates. The 2015 CalSTRS Actuarial Valuation noted that, as of June 30, 2015, the contribution rate, inclusive of contributions from the teachers, the school districts and the State, was equivalent to 33.439% over the next 30 years.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implements a new funding strategy for CalSTRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate would increase by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. Teacher contributions have increased from 8.00% to a total of 10.25% of pay (9.21% for employees commencing employment with the District on and after July 1, 2013), over the last three years. The State's total contribution has increased from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

Pursuant to Assembly Bill 1469, school district's contribution rates will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	18.13
2020	19.10

Source: Assembly Bill 1469.

The following table sets forth the District's total employer contributions to CalSTRS for fiscal years 2012-13 through 2015-16 and the budgeted contribution for fiscal year 2016-17.

VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Contributions to CalSTRS for Fiscal Years 2012-13 through 2016-17⁽³⁾

Fiscal Year	Contribution ⁽¹⁾
2012-13	\$5,937,759
2013-14	6,470,206
2014-15	7,103,043
2015-16	9,391,407 ⁽²⁾
2016-17	11,970,944 ⁽³⁾

⁽¹⁾ Excludes payments by the State to CalSTRS on behalf of the District.

⁽²⁾ Estimated actuals for fiscal year 2015-16.

⁽³⁾ Adopted general fund budget for fiscal year 2016-17.

Source: Val Verde Unified School District.

The District's total employer contributions to CalSTRS for fiscal years 2011-12 through 2014-15 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years. The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

CalPERS. All qualifying classified employees of K-12 districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Accordingly, the District cannot provide any assurances that the District's required contributions to CalPERS in future years will not significantly vary from any current projected levels of contributions to CalPERS.

According to the CalPERS Schools Actuarial Valuation as of June 30, 2014, the CalPERS Schools plan had a funded ratio of 86.6% on a market value of assets basis. The funded ratio, on a market value basis, as of June 30, 2014, June 30, 2013, June 30, 2012, June 30, 2011 and June 30, 2010 was 86.6%, 80.5%, 75.5%, 78.7% and 69.5%, respectively. In April 2013, the CalPERS Board of Administration approved changes to the CalPERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. Beginning with the June 30, 2013 actuarial valuation, CalPERS employed a new amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period (as compared to the current policy of spreading investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period). Such changes, the implementation of which are delayed until fiscal year 2015-16 for the State, schools and all public agencies, are expected to increase contribution rates in the near term but lower contribution rates in the long term. In November 2015, the CalPERS Board of Administration approved a proposal pursuant to which the discount rate would be reduced by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the current discount rate of 7.5% by at least four percentage points.

In April 2016, CalPERS approved an increase to the contribution rate for school districts from 11.847% during fiscal year 2015-16 to 13.888% during fiscal year 2016-17. In addition, the CalPERS Finance and Administration Committee has reported that the Schools Actuarial Valuation as of June 30, 2015, which is expected to be released in summer 2016, will indicate that the funded ratio as of June 30, 2015 is approximately 77.5% on a market value of assets basis.

In February 2014, the CalPERS Board of Administration adopted actuarial demographic assumptions that take into account public employees living longer. Such assumptions are expected to increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. These new assumptions will apply beginning with the June 30, 2015 valuation for the schools pool, setting employer contribution rates for fiscal year 2016-17. CalPERS estimates that the new demographic assumptions could cost public agency employers up to 9% of payroll for safety employees and up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that future experiences differ from CalPERS' current assumptions, the required employer contributions may vary.

The following table sets forth the District's total employer contributions to CalPERS for fiscal years 2012-13 through 2015-16 and the budgeted contribution for fiscal year 2016-17.

VAL VERDE UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Contributions to CalPERS for Fiscal Years 2012-13 through 2016-17

Fiscal Year	Contribution
2012-13	\$2,769,573
2013-14	4,805,136
2014-15	3,337,367
2015-16	3,394,048 ⁽¹⁾
2016-17	4,568,028 ⁽²⁾

⁽¹⁾ Estimated actuals for fiscal year 2015-16.
⁽²⁾ Adopted general fund budget for fiscal year 2016-17.
Source: Val Verde Unified School District.

The District's total employer contributions to CalPERS for fiscal years 2012-13 through 2015-16 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see "Governor's Pension Reform" below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

Governor's Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB

340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$110,100 for 2012, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note N to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements); (ii) full pension costs would be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Statement Number 67 became effective in fiscal year 2012-13, and Statement Number 68 became effective beginning fiscal year 2013-14.

Joint Ventures

The District participates in four joint ventures under joint powers agreements ("JPAs"): Riverside Schools' Risk Management Authority (RSRMA), Riverside County Employer/Employee Partnership for Benefits (REEP), Self-Insured Schools of California (SISC), and the Riverside Schools Insurance Authority (RSIA) for property liability, workers' compensation and health coverage. The

relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs arrange for and provide coverage for their members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA. See APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2015, Note 16.”

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is

automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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

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

Article XIII B of the California Constitution

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

The District annually budgets appropriations from "proceeds of taxes" (sometimes referred to as the "Gann limit") for the 2014-15 fiscal year are equal to the allowable limit of approximately \$119.9 million (estimated) and has budgeted an appropriations limit for the 2015-16 fiscal year of approximately \$124.7 million. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIII C and Article XIII D of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its

maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C 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 XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

Statutory Limitations

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

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

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9%, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the

State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

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

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

Proposition 30

On November 6, 2012, voters approved Proposition 30, also referred to as the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment. Proposition 30 temporarily (a) increased the personal income tax on certain of the State's income taxpayers by one to three percent for a period of seven years beginning with the 2012 tax year and ending with the 2019 tax year, and (b) increased the sales and use tax by one-quarter percent for a period of four

years beginning on January 1, 2013 and ending with the 2016 tax year. The revenues generated from such tax increases are included in the calculation of the Proposition 98 minimum funding guarantee (see “– Proposition 98 and Proposition 111” above). The revenues generated from such temporary tax increases are deposited into a State account created pursuant to Proposition 30 (the Education Protection Account), and 89% of the amounts therein are allocated to school districts and 11% of the amounts therein are allocated to community college districts.

The Proposition 30 tax increases are temporary and expire at the end of the 2016 and 2019 tax years. The District cannot predict the effect the loss of the revenues generated from such temporary tax increases will have on total State revenues and the effect on the Proposition 98 formula for funding schools.

Voters in the State will consider the California Tax Extension to Fund Education and Healthcare Initiative (“Proposition 55”) at the statewide election to be held in November 2016. If approved, Proposition 55 would extend by twelve years the temporary personal income tax increases enacted by Proposition 30 and allocation tax revenues to school districts and community colleges in the State.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “DISTRICT FINANCIAL MATTERS — State Funding of Education; State Budget Process.”

Proposition 2

Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

Rainy Day Fund. The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues (and the 2014-15 State Budget notes that capital gains revenues are expected to account for approximately 9.8% of general fund revenues in fiscal year 2014-15); (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year’s deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year’s deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the Public School System Stabilization Account) to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

SB 858. Senate Bill 858 (“SB 858”) became effective upon the passage of Proposition 2. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Under SB 858, in any fiscal year immediately following a fiscal year in which

the State has made a transfer into the Public School System Stabilization Account, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 3% of its general fund expenditures and other financing uses. The District does not expect SB 858 to adversely affect its ability to pay the principal of and interest on the Series 2016 Bonds as and when due.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 2, 30, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

APPENDIX B
FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

APPENDIX C

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

Upon issuance and delivery of the Series 2016 Bonds, Nossaman LLP, Bond Counsel to the District, proposes to render its final approving opinions with respect to each series of the Series 2016 Bonds in substantially the following forms:

APPENDIX D
FORMS OF CONTINUING DISCLOSURE CERTIFICATES

APPENDIX E

COUNTY OF RIVERSIDE POOLED INVESTMENT FUND AND INVESTMENT POLICY

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

The County Treasurer maintains one Pooled Investment Fund (the "PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of June 30, 2016, the portfolio assets comprising the PIF had a market value of \$6,514,396,169.33.

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, 2015, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of "mandatory" vs. "discretionary" depositors. The County Auditor-Controller reports that collectively, these mandatory deposits constituted approximately 73.99% of the funds on deposit in the County Treasury, while approximately 26.01% 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 2015 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 Treasurer to sell portfolio securities prior to maturity at a principal loss.

The investments in the Treasurer's Pooled Investment Fund as of June 30, 2016 were as follows:

U.S. Treasury Securities	\$425,197,675.22	6.54%
Federal Agency Securities	4,586,885,792.39	70.52
Cash Equivalent & Money Market Funds	597,000,000.00	9.18
Commercial Paper	573,304,416.63	8.81
Medium Term Notes	-	-
Municipal Notes	321,951,009.13	4.95
Certificates of Deposit	-	-
Repurchase Agreements	-	-
Local Agency Obligations ⁽¹⁾	300,000.00	0.005
	\$6,504,638,893.37	100.00%
Book Yield	0.69%	
Weighted Average Maturity(years)	1.145%	

⁽¹⁾ Represents County Obligations issued by the Riverside District Court Financing Corporation.

As of June 30, 2016, the market value of the PIF was 100.15% 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. As of September 29, 2004, the State no longer required the County to have a local oversight committee; however, the County has elected to maintain the committee. The committee is utilized by the County to 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.

Neither the District nor the Underwriter has made an independent investigation of the investments in the PIF and neither has made an assessment of the current County investment policy, a copy of which is attached hereto. The value of the various investments in the PIF will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, with the approval of the IOC and the County Board of Supervisors, may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the PIF will not vary significantly from the values described herein.

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2016 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2016 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2016 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

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

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

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

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

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

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

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

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