

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2007 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 Bonds. See "TAX MATTERS" herein.*

**NEW ISSUE  
FULL BOOK-ENTRY**

**RATINGS: (See "RATINGS" herein)**

**\$34,783,991  
POWAY UNIFIED SCHOOL DISTRICT  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE BONDS, SERIES 2007  
Initial Mode: Capital Appreciation Mode**

**Dated: Date of Delivery**

**Due: December 1, as described herein**

**This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. Capitalized terms used in this cover page shall have the meanings given such terms herein.**

The Poway Unified School District Public Financing Authority Lease Revenue Bonds, Series 2007 (the "Series 2007 Bonds") are payable solely from Lease Revenues and the other assets pledged therefor under the Indenture, dated as of August 1, 2007 (the "Indenture"), by and among the Poway Unified School District Public Financing Authority (the "Authority"), the Poway Unified School District (the "District") and Zions First National Bank, as trustee (the "Trustee"). Lease Revenues consist primarily of Base Rental Payments (which include principal components, accreted interest components and interest components) to be made by the District for the use of certain real property (the "Property") pursuant to a Lease Agreement, dated as of August 1, 2007 (the "Lease Agreement"), by and between the District, as lessee, and the Authority, as lessor. The proceeds of the Series 2007 Bonds, together with other available funds, will be used to (i) finance a portion of the costs of the acquisition, construction and installation of certain school district facilities, (ii) repay an advance made to the District by Poway Unified School District Community Facilities District No. 6 (4S Ranch), (iii) fund a reserve fund for the Series 2007 Bonds, and (iv) pay the costs incurred in connection with the issuance of the Series 2007 Bonds. The District has covenanted under the Lease Agreement to make all Base Rental Payments and Additional Rental Payments (collectively, the "Rental Payments") provided for therein, to include all such Rental Payments as a separate line item in its annual budgets, and to make the necessary annual appropriations for all such Rental Payments. The District's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property. See "RISK FACTORS — Abatement."

The Series 2007 Bonds shall initially be in the Capital Appreciation Mode and shall remain in the Capital Appreciation Mode until the day prior to June 1, 2010 (the "Capital Appreciation Conversion Date"); thereafter, the Series 2007 Bonds shall be in the Weekly Rate Mode and shall remain in the Weekly Rate Mode until converted to another Mode as provided in the Indenture. During the Capital Appreciation Period, accreted interest on the Series 2007 Bonds shall be compounded semiannually at the accretion rate set forth in the table on the inside cover hereof on each June 1 and December 1, commencing December 1, 2007 (each a "Compounding Date"), calculated on the basis of a 360-day year consisting of twelve 30-day months, and shall be paid as a portion of the Principal Amount of the Series 2007 Bonds on maturity or earlier redemption thereof. From and after the Capital Appreciation Conversion Date, the Series 2007 Bonds shall bear interest on the Principal Amount of the Series 2007 Bonds as of the Capital Appreciation Conversion Date, at the rates determined as provided in the Indenture. After conversion to the Weekly Rate Mode on the Capital Appreciation Conversion Date, the Series 2007 Bonds may bear interest at a Weekly Rate, an Extended Rate (each, an "Adjustable Rate") or a Fixed Rate. The District may elect from time to time to convert all or a portion of the Series 2007 Bonds in an Adjustable Rate Mode from one Adjustable Rate Mode to another Adjustable Rate Mode, or to convert all or a portion of the Series 2007 Bonds permanently to the Fixed Rate Mode, in accordance with the Indenture. Each Weekly Rate, Extended Rate and Fixed Rate will be determined by Stone & Youngberg LLC (the "Remarketing Agent") or its successor as Remarketing Agent. The Series 2007 Bonds will be subject to mandatory tender for purchase on the Capital Appreciation Conversion Date and on the effective date (the "Conversion Date") of each new Mode elected by the District thereafter. During any period in which the Series 2007 Bonds are in the Weekly Rate Mode or the Extended Rate Mode, such Series 2007 Bonds will be subject to purchase at the option of the owner upon terms and conditions set forth in the Indenture. See "THE SERIES 2007 BONDS" herein.

**The Series 2007 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES 2007 BONDS — Redemption." The Series 2007 Bonds are also subject to mandatory and optional tender for purchase prior to maturity as described herein. See "THE SERIES 2007 BONDS — Optional and Mandatory Tender and Purchase of Series 2007 Bonds."**

The Series 2007 Bonds will be initially delivered only in book-entry form, registered to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository of the Series 2007 Bonds. Interest, accreted interest and principal on the Series 2007 Bonds are payable by the Trustee to DTC, which remits such payments to its Participants for subsequent distribution to the beneficial owners of the Series 2007 Bonds. See "THE SERIES 2007 BONDS — Book Entry Only System" and " — General."

The obligation of the District to pay the Base Rental Payments does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series 2007 Bonds.

The scheduled payment of Accreted Value of and interest on the Series 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by FINANCIAL SECURITY ASSURANCE INC.



In addition, payment of the purchase price of each Series 2007 Bond subject to mandatory or optional tender for purchase is supported by amounts available pursuant to a Standby Purchase Agreement, dated as of August 1, 2007 (the "Standby Purchase Agreement"), by and between the District and Dexia Credit Local, New York Branch (the "Bank"). Under the Standby Purchase Agreement, the Bank agrees to purchase any Series 2007 Bonds that are subject to mandatory or optional purchase and that are not remarketed on or before the required purchase date. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE BANK TO PURCHASE SERIES 2007 BONDS TENDERED OR DEEMED TENDERED FOR PURCHASE MAY BE TERMINATED OR SUSPENDED, AND, IN SOME CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SERIES 2007 BOND OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH SERIES 2007 BONDS. See "LIQUIDITY FACILITY" herein.



*The Series 2007 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the District and the Authority by Best Best & Krieger LLP, San Diego, California; for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California; for the Bank by Sidley Austin LLP, Los Angeles, California; and for the Insurer by its Associate General Counsel. It is anticipated that the Series 2007 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about August 29, 2007.*

**STONE & YOUNGBERG**

Dated: August 9, 2007

**MANDATORY REDEMPTION SCHEDULE**

**TERM SERIES 2007 BOND DUE DECEMBER 1, 2039**

**\$34,783,991 Initial Principal Amount**

**\$38,900,000 Accreted Value at Capital Appreciation Conversion Date (June 1, 2010)**

**Accretion Rate: 4.100%**

<b>MANDATORY REDEMPTION DATE (December 1)</b>	<b>ACCREDITED VALUE TO BE REDEEMED</b>
2010	\$ 300,000
2011	400,000
2012	400,000
2013	500,000
2014	500,000
2015	600,000
2016	600,000
2017	700,000
2018	700,000
2019	800,000
2020	800,000
2021	900,000
2022	1,000,000
2023	1,000,000
2024	1,100,000
2025	1,200,000
2026	1,200,000
2027	1,300,000
2028	1,400,000
2029	1,500,000
2030	1,600,000
2031	1,700,000
2032	1,800,000
2033	1,900,000
2034	2,000,000
2035	2,200,000
2036	2,400,000
2037	2,600,000
2038	2,800,000
2039 <sup>†</sup>	3,000,000

<sup>†</sup> Final Maturity

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 2007 Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2007 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been obtained from the Authority and the District and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2007 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority and the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Other than with respect to information concerning Financial Security Assurance Inc. (the "Insurer") contained under the caption "BOND INSURANCE" and in APPENDIX D - "FORM OF MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2007 Bonds; or (iii) the tax-exempt status of the interest on the Series 2007 Bonds.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

# **POWAY UNIFIED SCHOOL DISTRICT**

## **BOARD OF EDUCATION**

Jeff Mangum, President  
Linda Vanderveen, Vice President  
Andy Patapow, Clerk  
Todd Gutschow, Member  
Penny Ranftle, Member

# **POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY**

## **BOARD OF DIRECTORS**

Jeff Mangum, Chairperson  
Linda Vanderveen, Vice Chairperson  
Andy Patapow, Secretary  
Todd Gutschow, Member  
Penny Ranftle, Member

## **DISTRICT AND AUTHORITY ADMINISTRATION**

Donald A. Phillips, Ed.D., District Superintendent/Authority Executive Director  
John Collins, District Deputy Superintendent/Authority Auditor and Treasurer

## **SPECIAL SERVICES**

*Bond Counsel and Disclosure Counsel*  
Orrick, Herrington & Sutcliffe LLP

*Financial Consultant*  
Dolinka Group, Inc.  
Newport Beach, California

*Program Manager*  
California Financial Services  
Mission Viejo, California

*Trustee*  
Zions First National Bank  
Los Angeles, California

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## OFFICIAL STATEMENT

**\$34,783,991**

**POWAY UNIFIED SCHOOL DISTRICT  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE BONDS, SERIES 2007**

### INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) (this “Official Statement”), provides certain information concerning the sale and delivery of Poway Unified School District Public Financing Authority Lease Revenue Bonds, Series 2007 in the aggregate initial principal amount of \$34,783,991 (the “Series 2007 Bonds”). The Series 2007 Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Section 6584 *et seq.* of the California Government Code and the Indenture, dated as of August 1, 2007 (the “Indenture”), by and among the Poway Unified School District Public Financing Authority (the “Authority”), the Poway Unified School District (the “District”) and Zions First National Bank, as trustee (the “Trustee”). Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. See Appendix A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The Series 2007 Bonds are payable solely from the Lease Revenues (as defined herein) and the other assets pledged therefor under the Indenture as described herein. The Lease Revenues consist primarily of certain base rental payments (the “Base Rental Payments”) to be made by the District for the use of the real property, as more fully described herein (the “Property”), that will be leased by the District from the Authority pursuant to a Lease Agreement, dated as of August 1, 2007 (the “Lease Agreement”), by and between the District and the Authority.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Series 2007 Bonds to potential investors is made only by means of this Official Statement.

#### **The District**

The District is located north of the City of San Diego. The District was originally formed in 1962. The District currently covers approximately 99.1 square miles in the central portion of San Diego County, California (the “County”) and includes the City of Poway and portions of the City of San Diego and unincorporated areas of the County, including the communities of Black Mountain Ranch, Del Sur, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The District currently operates twenty-three elementary schools, six middle schools, four high schools, one continuation high school and one adult school. The District estimates that it had approximately 32,873 students enrolled during Fiscal Year 2006-07. The District is under the authority of the San Diego County Office of Education.

For more complete information concerning the District, including certain financial information, see “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION.” The District’s audited financial statements for the Fiscal Year ended June 30, 2006 are included as Appendix B, and should be read in their entirety.

## **Security and Sources of Payment for the Series 2007 Bonds**

The Series 2007 Bonds are special obligations of the Authority payable solely from the Lease Revenues, including the Base Rental Payments to be made by the District under the Lease Agreement for the use of the Property, and the other assets pledged therefor under the Indenture as described herein. The Indenture provides that, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Lease Revenues and all amounts on deposit from time to time in the funds and accounts established under Indenture (other than the Rebate Fund and the accounts provided for under the Indenture to hold proceeds of the remarketing of tendered Bonds and moneys received under the Standby Purchase Agreement to pay the Purchase Price with regard to Bonds for which remarketing proceeds have not be paid to the Trustee) are pledged to the payment of the principal and Accreted Value of and interest on the Bonds as provided in the Indenture, and that the Lease Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding. The Indenture provides that said pledge shall constitute a first lien on such assets.

The District will enter into a Ground Lease, dated as of August 1, 2007 (the "Ground Lease") pursuant to which the District will lease the Property to the Authority. The Authority will then sublease the Property back to the District pursuant to the Lease Agreement. The Lease Agreement will obligate the District to make Base Rental Payments.

In order to secure the pledge of the Lease Revenues under the Indenture, the Authority, in the Indenture, sells, assigns and transfers to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the Owners, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, the right to receive Base Rental Payments and the right to exercise any remedies provided in the Lease Agreement in the event of a default by the District thereunder; provided that the Authority retains the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement.

The District covenants under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee, fees and expenses of the Bank, insurance premiums and other amounts payable under the Lease Agreement or the Indenture), due under the Lease Agreement in its annual budgets and to make the necessary annual appropriations therefor.

Base Rental Payments are subject to complete or partial abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property. See "RISK FACTORS." Abatement of Base Rental Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth below, would result in all Series 2007 Bond Owners receiving less than the full amount of principal or Accreted Value of and interest on the Series 2007 Bonds. To the extent proceeds of insurance are available or there are moneys in the Reserve Fund or other funds established under the Indenture (as described below), Base Rental Payments (or a portion thereof) may be made during periods of abatement.

**THE OBLIGATION OF THE DISTRICT TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA (THE "STATE") OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED**

TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

For more complete and detailed information, see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS.” For a discussion of certain risks associated with the District’s ability to make Base Rental Payments for the Property, see “RISK FACTORS.”

### **Bond Insurance**

Concurrently with the issuance of the Series 2007 Bonds, the District has arranged for Financial Security Assurance Inc., a New York stock insurance company (the “Insurer”), to deliver to the Trustee a municipal bond insurance policy (the “Insurance Policy”). The Insurance Policy will guarantee the scheduled payment when due of the Accreted Value of and interest on the Series 2007 Bonds (but not the Purchase Price). See “BOND INSURANCE.”

### **Liquidity Facility**

Payment of the purchase price of Series 2007 Bonds (the “Purchase Price”) subject to mandatory or optional tender for purchase will be supported by amounts available pursuant to a Standby Bond Purchase Agreement, dated as of August 1, 2007 (the “Standby Purchase Agreement”), by and between the District and Dexia Credit Local, New York Branch (the “Bank”). UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE BANK TO PURCHASE SERIES 2007 BONDS TENDERED OR DEEMED TENDERED FOR PURCHASE MAY BE TERMINATED OR SUSPENDED, AND, IN SOME CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SERIES 2007 BOND OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH SERIES 2007 BONDS. See “LIQUIDITY FACILITY.”

### **Purpose of the Series 2007 Bonds**

The proceeds of the Series 2007 Bonds, together with other available funds, will be used to (i) finance a portion of the costs of the acquisition, construction and installation of certain school district facilities, (ii) repay an advance made to the District by Poway Unified School District Community Facilities District No. 6 (4S Ranch), (iii) fund a reserve fund for the Series 2007 Bonds, and (iv) pay the costs incurred in connection with the issuance of the Series 2007 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

### **Description of the Series 2007 Bonds**

The Series 2007 Bonds are being issued as convertible capital appreciation Series 2007 Bonds. The Series 2007 Bonds shall initially be in the Capital Appreciation Mode and shall remain in the Capital Appreciation Mode until the day prior to June 1, 2010 (the “Capital Appreciation Conversion Date”); thereafter, the Series 2007 Bonds shall be in the Weekly Rate Mode and shall remain in the Weekly Rate Mode until converted to another Mode or until becoming Bank Bonds (at which time they will bear interest at the lesser of the Bank Bond Rate or the Maximum Rate until such time as they are no longer Bank Bonds). During the Capital Appreciation Period, accreted interest on the Series 2007 Bonds shall be compounded semiannually at the accretion rate set forth in the table on the inside cover hereof on each June 1 and December 1, commencing December 1, 2007 (each a “Compounding Date”), calculated on the basis of a 360-day year consisting of twelve 30-day months, and shall be paid as a portion of the accreted value (as more fully defined in the Indenture, the “Accreted Value”) on the Series 2007 Bonds on maturity or earlier redemption thereof. From and after the Capital Appreciation Conversion Date, the

Series 2007 Bonds shall bear interest on the Accreted Value of the Series 2007 Bonds as of the Capital Appreciation Conversion Date, at the rates determined as provided in the Indenture.

After conversion to the Weekly Rate Mode on the Capital Appreciation Conversion Date, the Series 2007 Bonds may bear interest at a Weekly Rate, an Extended Rate (each, an “Adjustable Rate”) or a Fixed Rate. The District may elect from time to time to have all or a portion of the Series 2007 Bonds in an Adjustable Rate Mode bear interest at: (i) an Extended Rate for a period of at least six months, except with respect to the preliminary Extended Rate in effect after the conversion date relating thereto (the “Extended Rate Mode”); (ii) a Fixed Rate through the stated Principal Payment Date of such Series 2007 Bonds (the “Fixed Rate Mode”); or (iii) a Weekly Rate (the “Weekly Rate Mode”). Each Extended Rate, Weekly Rate and Fixed Rate will be determined by Stone & Youngberg LLC (the “Remarketing Agent”) or its successor as Remarketing Agent in accordance with the Indenture and a Remarketing Agreement, dated as of August 1, 2007 (the “Remarketing Agreement”).

Each Series 2007 Bond will be subject to mandatory tender for purchase on the Capital Appreciation Conversion Date and the effective date (each a “Conversion Date”) of each new Mode elected by the District thereafter. During any period in which the Series 2007 Bonds are in the Weekly Rate Mode or the Extended Rate Mode, such Series 2007 Bonds will be subject to tender for purchase at the option of the Owner thereof.

**Redemption.** The Series 2007 Bonds are subject to optional and mandatory redemption as described herein. See “THE SERIES 2007 BONDS — Redemption.”

**Mandatory and Optional Tender.** The Series 2007 Bonds are subject to mandatory and optional tender for purchase prior to maturity as described herein. See “THE SERIES 2007 BONDS — Optional and Mandatory Tender and Purchase of Series 2007 Bonds.” The Purchase Price of tendered Bonds is payable solely from proceeds of the remarketing of such Bonds and amounts made available under the Standby Purchase Agreement. If such sources are inadequate for the purchase of all Bonds which are to be purchased on any Purchase Date, including on the Capital Appreciation Conversion Date, each Bond subject to such purchase will continue in the same Mode as in effect with respect thereto on the day prior to the Purchase Date to the date on which the earliest of the following occurs: (i) the date of conversion of such Bond to the Fixed Rate Mode, (ii) the date on which any default by the Bank under the terms of the Facility has been cured, or (iii) the date on which a Substitute Facility meeting the requirements of the Indenture hereof has been obtained. Neither the Authority, the District or the Insurer has any obligation to make payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase. See “THE SERIES 2007 BONDS — Optional and Mandatory Tender and Purchase of Series 2007 Bonds — Purchase of Tendered Bonds” and “— Insufficient Funds for Purchases.”

**Authorized Denominations.** The Series 2007 Bonds are initially being issued in the Capital Appreciation Mode in denominations of \$5,000 of Accreted Value on the Capital Appreciation Conversion Date and whole multiples thereof. Series 2007 Bonds in the Weekly Rate Mode will be in denominations of \$100,000 Principal Amount and whole multiples thereof, except that one Series 2007 Bond of each maturity may be in a denomination of \$100,000 Principal Amount and a whole multiple of \$5,000 in excess thereof and Series 2007 Bonds in the Extended Rate Mode or the Fixed Rate Mode will be in denominations of \$5,000 Principal Amount and whole multiples thereof.

**Registration, Transfers and Exchanges.** The Series 2007 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), or such other name as may be requested by an authorized representative of DTC and will be available to actual purchasers of the Series 2007 Bonds (the “Beneficial Owners”) in the denominations set forth above, under the book-entry system maintained by DTC, only through

brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2007 Bonds. See “THE SERIES 2007 BONDS — Book-Entry Only System.” In the event that the book-entry system described below is no longer used with respect to the Series 2007 Bonds, the Series 2007 Bonds will be registered and transferred in accordance with the Indenture. See “THE SERIES 2007 BONDS — Book-Entry Only System — Discontinuance of DTC Service.”

**Payments.** Principal and Accreted Value of, premium, if any, and interest on the Series 2007 Bonds are payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry system is no longer used with respect to the Series 2007 Bonds, the Beneficial Owners will become the registered owners of the Series 2007 Bonds and will be paid principal or Accreted Value of, premium, if any, and interest by the Trustee, all as described herein. See “THE SERIES 2007 BONDS — Book-Entry Only System.”

For a more complete description of the Series 2007 Bonds and the basic documentation pursuant to which they are being issued, see “THE SERIES 2007 BONDS” and Appendix A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The summaries and descriptions in the Official Statement of the Indenture, the Lease Agreement, the Ground Lease, the Insurance Policy, the Standby Purchase Agreement and other agreements relating to the Series 2007 Bonds are qualified in their entirety by the form thereof and the information with respect thereto included in such documents. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the Lease Agreement shall have the same meanings assigned to such terms as set forth therein. See Appendix A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Definitions.”

## **Tax Matters**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2007 Bonds is not a specific preference item for purposes of calculating the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Series 2007 Bonds. See “TAX MATTERS” herein.

## **Professionals Involved in the Offering**

Zions First National Bank will act as Trustee with respect to the Series 2007 Bonds. Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, will deliver its legal opinion in substantially the form set forth in Appendix C hereto. Certain legal matters will be passed on for the District and the Authority by Best Best & Krieger LLP, San Diego, California, as Counsel to the District and the Authority; for the Insurer by its Associate General Counsel; for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California; and for the Bank by Sidley Austin LLP, Los Angeles, California. Dolinka Group, Inc., Newport Beach, California, serves as the District’s Financial Consultant. California Financial Services, Mission Viejo, California, serves as the District’s Program Manager.

## **Offering and Delivery of the Series 2007 Bonds**

The Series 2007 Bonds will be offered when, as and if issued and received by the Underwriter, subject to subject to the approval as to their validity by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that the Series 2007 Bonds will be available in book-entry form for delivery through DTC in New York, New York, on or about August 29, 2007.

## **Bond Owners' Risks**

Certain events could affect the ability of the District to make the Base Rental Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2007 Bonds.

## **Continuing Disclosure**

Pursuant to the Continuing Disclosure Agreement, dated as of August 1, 2007 (the "Continuing Disclosure Agreement"), by and between the District and the Trustee, the District will covenant for the benefit of holders and beneficial owners of the Series 2007 Bonds to provide certain financial information and operating data relating to the District by not later than eight months following the end of the District's fiscal year (which currently would be March 1) commencing with the report for the 2006-07 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the Trustee on behalf of the District with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in Appendix E — "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Remarketing Agent in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

## **Other Information**

This Official Statement is current only as of its date, and the information contained herein is subject to change. Copies of the Lease Agreement, the Ground Lease, the Indenture, the Standby Purchase Agreement and the Continuing Disclosure Agreement are available for inspection at the District and, following delivery of the Series 2007 Bonds, will be on file at the offices of the Trustee in Los Angeles, California.

## **THE SERIES 2007 BONDS**

### **General**

The Series 2007 Bonds will be dated the date of original delivery thereof and will be issued in denominations of (i) \$5,000 of Accreted Value on the Capital Appreciation Conversion Date and whole multiples thereof, while in a Capital Appreciation Mode, (ii) \$100,000 Principal Amount and whole multiples thereof, except that one Series 2007 Bond in each maturity may be in the amount of \$100,000 and a whole multiple of \$5,000 in excess thereof, while in a Weekly Rate Mode, and (ii) \$5,000 Principal Amount and whole multiples thereof while in an Extended Rate Mode or the Fixed Rate Mode.

The Series 2007 Bonds are being issued as convertible capital appreciation Series 2007 Bonds. The Series 2007 Bonds shall initially be in the Capital Appreciation Mode and shall remain in the Capital

Appreciation Mode until the day prior to June 1, 2010 (the “Capital Appreciation Conversion Date”); thereafter, the Series 2007 Bonds shall be in the Weekly Rate Mode and shall remain in the Weekly Rate Mode until converted to another Mode or until becoming Bank Bonds (at which time they will bear interest at the lesser of the Bank Bond Rate or the Maximum Rate until such time as they are no longer Bank Bonds). During the Capital Appreciation Period, accreted interest on the Series 2007 Bonds shall be compounded semiannually at the accretion rate set forth in the table on the inside cover hereof on each June 1 and December 1, commencing December 1, 2007 (each a “Compounding Date”), calculated on the basis of a 360-day year consisting of twelve 30-day months, and shall be paid as a portion of the Accreted Value on the Series 2007 Bonds on maturity or earlier redemption thereof. From and after the Capital Appreciation Conversion Date, the Series 2007 Bonds shall bear interest on the Accreted Value of the Series 2007 Bonds as of the Capital Appreciation Conversion Date, at the rates determined as provided in the Indenture. The Series 2007 Bonds will be subject to mandatory tender for purchase at the Accreted Value thereof on the Capital Appreciation Conversion Date.

After conversion to the Weekly Rate Mode on the Capital Appreciation Conversion Date, the District may elect from time to time to have all or a portion of the Series 2007 Bonds in an Adjustable Rate Mode converted to the Weekly Rate Mode, the Extended Rate Mode or the Fixed Rate Mode. While in the Weekly Rate Mode interest on the Series 2007 Bonds will be payable on the first Business Day of each calendar month. Interest on each Series 2007 Bond in the Weekly Rate Mode will be computed on the basis of the actual days elapsed and a 365 or 366 day year, as appropriate, and interest on the Series 2007 Bonds in the Extended Rate Mode or the Fixed Rate Mode will be computed on the basis of a 360 day year consisting of twelve 30 day months. Each Extended Rate, Weekly Rate and Fixed Rate will be determined by the Remarketing Agent or its successor as Remarketing Agent. Each Series 2007 Bond will be subject to mandatory tender for purchase on the Capital Appreciation Conversion Date and the effective date (each a “Conversion Date”) of each new Mode elected by the District thereafter. During any period in which the Series 2007 Bonds are in the Weekly Rate Mode or the Extended Rate Mode, such Series 2007 Bonds will be subject to tender for purchase at the option of the Owner thereof. See “THE SERIES 2007 BONDS — Optional and Mandatory Tender and Purchase of Series 2007 Bonds.”

### **Interest Rate Modes**

The Series 2007 Bonds shall initially be in the Capital Appreciation Mode and shall remain in the Capital Appreciation Mode until the day prior to the Capital Appreciation Conversion Date; thereafter, the Series 2007 Bonds shall be in the Weekly Rate Mode and shall remain in the Weekly Rate Mode until converted to another Mode as provided in the Indenture or until becoming Bank Bonds (at which time they shall bear interest at the lesser of the Bank Bond Rate or the Maximum Rate until such time as they are no longer Bank Bonds). All or a portion of the Series 2007 Bonds in an Adjustable Rate Mode may be converted to another Mode to bear interest at a Weekly Rate, Extended Rate or a Fixed Rate, determined as described below.

***Capital Appreciation Mode.*** During the Capital Appreciation Period, interest accruing on the Series 2007 Bonds shall be compounded semiannually at the interest rate set forth in the table on the inside cover hereof on each Compounding Date, calculated on the basis of a 360-day year consisting of twelve 30-day months, and shall be paid as a portion of the Accreted Value of the Series 2007 Bonds on maturity or earlier redemption thereof. The Accreted Value of the Series 2007 Bonds as of each Compounding Date is set forth in the Accreted Value Table attached hereto as Appendix G. The Series 2007 Bonds will be subject to mandatory tender for purchase at the Accreted Value thereof on the Capital Appreciation Conversion Date. From and after the Capital Appreciation Conversion Date, the Series 2007 Bonds shall bear interest on the Accreted Value thereof as of the Capital Appreciation Conversion Date, at the rates determined as provided in the Indenture.

***Adjustable Rate Modes.*** Adjustable Rate Modes consist of the Weekly Rate Mode and the Extended Rate Mode, and the Adjustable Rates consist of the Weekly Rate and the Extended Rate. The Remarketing Agent will, in accordance with the provisions of the Indenture, determine the Weekly Rates, the Extended Rate Periods, the preliminary Extended Rates and the Extended Rates, as applicable, for Bonds that are, or are proposed to be, in an Adjustable Rate Mode to which such Weekly Rates, Extended Rate Periods, preliminary Extended Rates or Extended Rates apply. The Weekly Rate so to be determined for Bonds in the Weekly Rate Mode shall be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause such Bonds to produce as nearly as practicable a bid equal to the Principal Amount thereof, plus accrued interest thereon, under prevailing market conditions as of the date of determination of such Weekly Rate. The preliminary Extended Rate and the Extended Rate so to be determined for each Extended Rate Period for Bonds in the Extended Rate Mode shall be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause such Bonds with such Extended Rate Period to produce as nearly as practicable a bid equal to the Principal Amount thereof, plus accrued interest thereon, under prevailing market conditions as of the date of determination of such preliminary Extended Rate or such Extended Rate. The preliminary Extended Rate for each Extended Rate Period is intended to serve only as an indication of the lowest interest rate that would cause Bonds with such Extended Rate Period to produce as nearly as practicable a bid equal to the Principal Amount thereof, plus accrued interest thereon, under market conditions on the date on which such preliminary Extended Rate is determined. The Extended Rate determined after the preliminary Extended Rate is determined may be higher, lower or the same as such preliminary Extended Rate. Notwithstanding the foregoing, in no event shall any preliminary Extended Rate or any Adjustable Rate exceed the Maximum Rate.

Weekly Rate Periods will be from Thursday of each week to but excluding Thursday of the following week, except that (i) in the case of a conversion of the Bonds to a Weekly Rate Mode from a Capital Appreciation Mode, the initial Weekly Rate Period for such Bonds will be from the Capital Appreciation Conversion Date to Thursday of the following week, (ii) in the case of a conversion of Bonds to the Weekly Rate Mode from the Extended Rate Mode, the initial Weekly Rate Period for such Bonds shall be from the Conversion Date to Thursday of the following week, (iii) in the case of a conversion of Bonds to the Extended Rate Mode from the Weekly Rate Mode, the last Weekly Rate Period shall end on the Conversion Date, and (iv) in case the Weekly Rate Mode is in effect as of the maturity date of a Bond, the last Weekly Rate Period therefor shall end on such maturity date. The Weekly Rate for each Weekly Rate Period shall be determined not later than 4:00 p.m. New York City time on the last Business Day which is immediately prior to the commencement date of the Weekly Rate Period to which such Weekly Rate relates.

Extended Rate Periods shall commence initially on the applicable Conversion Date and, subsequently, on the June 1 or December 1 next following the last day of the prior Extended Rate Period, shall extend for a period of at least six months and shall end on a day which is the last day preceding a June 1 or December 1. Notwithstanding the foregoing, if a Bond in the Extended Rate Mode is converted, in accordance with the provisions of the Indenture, to another Mode prior to the end of the then current Extended Rate Period for such Bond, the Extended Rate Period for such Bond shall end on the date prior to the date that such Bond is converted to such other Mode. Different Extended Rate Periods may be established for different Bonds, or portions thereof, in the Extended Rate Mode. The Remarketing Agent shall determine the Extended Rate Period or Extended Rate Periods for Bonds that are, or are proposed to be, in the Extended Rate Mode not later than 4:00 p.m. New York City time on the last Business Day which is at least 25 days preceding the commencement date of the Extended Rate Period. The Extended Rate for each Extended Rate Period shall be determined as follows: (i) a preliminary Extended Rate for each Extended Rate Period shall be determined not later than 4:00 p.m. New York City time on the last Business Day which is at least 25 days preceding the commencement date of such Extended Rate Period; and (ii) the actual Extended Rate for each Extended Rate Period shall be determined not later than 4:00



p.m. New York City time on the Business Day immediately preceding the commencement date of such Extended Rate Period.

No Weekly Rate Period or Extended Rate Period may extend beyond the expiration date of the Standby Purchase Agreement or any substitute therefor. No Weekly Rate Period or Extended Rate Period for any Bond may extend beyond the maturity date of such Bond.

Notice of Weekly Rates, Extended Rate Periods, preliminary Extended Rates and Extended Rates shall be given by the Remarketing Agent to the Trustee by telephone (followed by notice in writing by an authorized officer of the Remarketing Agent) not later than 5:00 p.m. New York City time on the date of determination. The Trustee shall inform the Owners of the Bonds in the Weekly Rate Mode, the Authority, the District, the Insurer and the Bank of each Weekly Rate upon request. Notice of Extended Rate Periods, preliminary Extended Rates and Extended Rates shall be given by the Trustee by sending notice in writing to the Owners to which such Extended Rate Periods, preliminary Extended Rates and Extended Rates apply not later than 5:00 p.m. New York City time on the third Business Day following the date of determination. Copies of such notices shall be sent by the Trustee to the Authority, the District, the Insurer and the Bank at the time such notices are sent to the Owners.

All determinations of Weekly Rates, Extended Rate Periods, preliminary Extended Rates and the Extended Rates pursuant to the Indenture shall be conclusive and binding upon the Authority, the District, the Trustee, the Bank, the Insurer and the Owners. The Authority, the District, the Trustee, the Bank, the Insurer and the Remarketing Agent shall not be liable to the Owner of any Bond for the failure to give any notice required above or for the failure of the Owner of any Bond to receive any such notice.

***Automatic Conversion of Series 2007 Bonds on Capital Appreciation Conversion Date.*** During the Capital Appreciation Period, the Series 2007 Bonds may not be converted to any other Mode. On the Capital Appreciation Conversion Date, all Series 2007 Bonds shall automatically convert to the Weekly Rate Mode.

Not less than 21 days prior to the Capital Appreciation Conversion Date, the Trustee shall mail a written notice of the conversion to all of the Owners of the Series 2007 Bonds. Such notice shall state (i) the Capital Appreciation Conversion Date, (ii) that the Series 2007 Bonds are subject to mandatory tender for purchase (without the right to retain) on the Capital Appreciation Conversion Date at a Purchase Price equal to the Principal Amount thereof, (iii) that the Series 2007 Bonds are required to be surrendered for purchase at the Office of the Trustee at or before 11:30 a.m. New York City time on the Capital Appreciation Conversion Date, and (iv) any Series 2007 Bond not so surrendered shall be deemed purchased on the Capital Appreciation Conversion Date, and the Owner thereof shall have no further rights with respect thereto except to receive such Purchase Price therefor upon presentation and surrender of said Series 2007 Bond to the Trustee.

The Weekly Rate for the Weekly Rate Period commencing on the Capital Appreciation Conversion Date shall be determined by the Remarketing Agent in the manner and on the date provided in the Indenture. If the Remarketing Agent fails to determine a Weekly Rate, the Weekly Rate shall be the per annum rate of interest determined on each Thursday (or if such day is not a Business Day, the immediately preceding Business Day) by the Trustee which is 80% of the current bond equivalent yield for 91 day United States Treasury Bills sold at the last United States Treasury auction occurring prior to such day, which yield shall be calculated in accordance with standard practices in the banking industry on the basis of the discount rates at which such bills were sold, but such rate shall not exceed the Maximum Rate.

The District shall cause to be delivered no later than 9:00 a.m. New York City time on the Capital Appreciation Conversion Date an Opinion of Counsel to the effect that such conversion will not, in and of itself, adversely affect the exclusion from gross income of interest on the Series 2007 Bonds for federal income tax purposes. If the Trustee does not receive such Opinion of Counsel by 9:00 a.m. New York City time on the Capital Appreciation Conversion Date, the Trustee shall no later than 9:30 a.m. New York City time notify the Authority, the District, the Bank, the Insurer and the Remarketing Agent by telephone (promptly confirming in writing, telegram, telecopy, telex, or other similar means of communication) of the failure to receive the Opinion of Counsel. In the event that such Opinion of Counsel is not received by the Trustee as required by the Indenture, the conversion of the Series 2007 Bonds shall nevertheless take effect and the mandatory tender for purchase of the Series 2007 Bonds shall nevertheless be carried out.

***Optional Conversion Between Adjustable Rate Modes.*** Subject to the conditions described below, at the option of the District, all or a portion of the Bonds in an Adjustable Rate Mode may be converted from such Adjustable Rate Mode to another Adjustable Rate Mode; provided, however, that the aggregate Principal Amount of Bonds of each maturity to be so converted must be an Authorized Denomination for the Adjustable Rate Mode into which such Bonds are being converted and the aggregate Principal Amount of Bonds of each maturity that will remain in the then current Adjustable Rate Mode must be an Authorized Denomination for the then current Adjustable Rate Mode.

In the case of conversion from the Weekly Rate Mode to the Extended Rate Mode, the Conversion Date must be an Interest Payment Date for the Weekly Rate Mode. In the case of a conversion from the Extended Rate Mode to the Weekly Rate Mode, the Conversion Date must be the first Business Day of a calendar month or the day following the last day of the Extended Rate Period for the Bonds being so converted.

Not less than 30 days prior to the date on which the District proposes that Bonds be converted from one Adjustable Rate Mode to the other Adjustable Rate Mode, the District will give written notice to the Authority, the Trustee, the Remarketing Agent, the Bank and the Insurer specifying (i) the proposed Conversion Date, (ii) the Mode to which the conversion will be made, (iii) the aggregate Principal Amount of Bonds of each maturity to be converted to such Mode, and (iv) if such conversion is from the Extended Rate Mode to the Weekly Rate Mode and more than one Extended Rate Period is applicable to the Bonds in the Extended Rate Mode, the aggregate Principal Amount of Bonds to which each such Extended Rate Period is applicable to be converted to the Weekly Rate Mode.

If less than all of the Bonds of a maturity are to be converted from one Adjustable Rate Mode to another Adjustable Rate Mode, the Trustee shall select by lot the Bonds of such maturity to be so converted. If such conversion is from the Extended Rate Mode to the Weekly Rate Mode and less than all of the Bonds to which a particular Extended Rate Period is applicable are to be converted, the Trustee shall select by lot the Bonds to which such Extended Rate Period is applicable to be so converted. The Trustee shall mail a notice of the proposed conversion to all of the Owners of Bonds to be so converted. A copy of such notice shall be sent to the Authority, the District, the Bank and the Insurer. Such notice shall be mailed not less than 21 days prior to the proposed Conversion Date. Such notice shall state (i) the proposed Conversion Date, (ii) that the Bonds to be converted are subject to mandatory tender for purchase (without the right to retain) on the Conversion Date at a Purchase Price equal to the Principal Amount thereof plus accrued interest thereon, (iii) that such Bonds are required to be surrendered for purchase at the Office of the Trustee at or before 11:30 a.m. New York City time on the Conversion Date, and (iv) any such Bond not so surrendered shall be deemed purchased on the Conversion Date, and the Owner thereof shall have no further rights with respect thereto except to receive such Purchase Price therefor upon presentation and surrender of said Bond to the Trustee.

The Weekly Rates, the Extended Rate Periods, the preliminary Extended Rates and the Extended Rates, as applicable, pertaining to the Bonds to be so converted will be determined by the Remarketing Agent in the manner and on the date provided in the Indenture. If such conversion is from the Weekly Rate Mode to the Extended Rate Period, in addition to determining the Extended Rate, the Remarketing Agent will determine a Weekly Rate at the time specified in the Indenture, and give notice thereof to the Trustee, the Bank and the Insurer, which Weekly Rate will take effect, if required, pursuant to the Indenture.

Notwithstanding the delivery of notice of the conversion to the Trustee, the Bank and the Insurer, the conversion to a new Adjustable Rate Mode will not take effect if: (i) the Remarketing Agent fails to determine an Adjustable Rate or Adjustable Rates for the new Adjustable Rate Mode to which the conversion is to be made, (ii) any notice required to be given pursuant to the Indenture is not given when required, (iii) there is not delivered to the Authority, the District and the Trustee an Opinion of Counsel to the effect that such conversion will not, in and of itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, (iv) in the case of conversion to an Extended Rate Mode, the Trustee has not received a written notice from each rating agency then maintaining a rating on the Bonds that the conversion to such Extended Rate Mode will not result in a suspension, withdrawal or downgrade of such rating agency's then current rating of the Bonds, or (v) such notice of conversion is rescinded by the District not later than the last Business Day that is five days prior to the Conversion Date. In the case of any of such events, the Bonds which were to be converted will automatically be converted to the Weekly Rate Mode, which will commence on the date such conversion was to be made, provided that the mandatory tender for purchase pursuant to the Indenture will nevertheless be carried out if notice of the conversion from one Adjustable Rate Mode to the other Adjustable Rate Mode has been given to the Owners of the Bonds.

Withdrawal of a conversion notice will be given by the District to the Authority, the Trustee, the Remarketing Agent, the Bank and the Insurer, by telephone, promptly confirmed in writing. If the Bonds are converted to the Weekly Rate Mode, and the Remarketing Agent fails to determine a Weekly Rate, the Weekly Rate will be the per annum rate of interest determined on each Thursday (or if such day is not a Business Day, the immediately preceding Business Day) by the Trustee which is 80% of the current bond equivalent yield for 91 day United State Treasury Bills sold at the last United States Treasury auction occurring prior to such day, which yield will be calculated in accordance with standard practices in the banking industry on the basis of the discount rate at which such bills were sold, but shall not exceed the Maximum Rate.

***Conversion to the Fixed Rate Mode.*** Subject to the conditions described below, at the option of the District, all or a portion of the Bonds may be converted from the then current Adjustable Rate Mode to the Fixed Rate Mode as provided in the Indenture; provided, however, that the aggregate Principal Amount of Bonds of each maturity to be so converted must be an Authorized Denomination for the Fixed Rate Mode and the aggregate Principal Amount of Bonds of each maturity that will remain in the then current Adjustable Rate Mode must be an Authorized Denomination for the then current Adjustable Rate Mode. Unless the Insurer shall direct otherwise, the District shall cause the Bonds to be converted to the Fixed Rate Mode (i) upon the failure of the Bank to purchase Bonds tendered for purchase pursuant to the Indenture, (ii) upon expiration or termination of the Facility with no substitution therefor, (iii) if Bonds are held as Bank Bonds for 45 days or more, or there are two failed remarketings of Bonds, in any Bond Year, (iv) if Bank Bonds bear interest at the Maximum Rate, or (v) if the District fails to replace the Facility when required under the Indenture. The Conversion Date for any conversion of Bonds to the Fixed Rate Mode will be the first Business Day of a calendar month or the day following the last day of an Extended Rate Period for such Bonds.

Not less than 30 days prior to the date on which the District proposes that Bonds be converted to the Fixed Rate Mode, the District will give written notice to the Authority, the Trustee, the Remarketing Agent, the Bank and the Insurer, setting forth (i) the election to convert Bonds to the Fixed Rate Mode, (ii) the proposed Conversion Date, (iii) the aggregate Principal Amount of Bonds of each maturity to be converted to the Fixed Rate Mode, and (iv) the aggregate Principal Amount of Bonds of each maturity to be converted from each Adjustable Rate Mode. As a condition of any such conversion, the Trustee, the Bank, the Insurer and the Remarketing Agent will receive concurrently with the notice, a letter from counsel that it expects to be able to deliver on the Conversion Date an Opinion of Counsel to the effect that such conversion will not, in and of itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

The Remarketing Agent will make a preliminary determination of the Fixed Rate for the Bonds of each maturity to be converted in the same manner as is provided for the final determination of rates as described below. Such preliminary determination will be made on a Business Day which is at least 25 days prior to the Conversion Date. On the date of the preliminary determination, the Remarketing Agent will notify the Trustee, and the Trustee will notify the District, the Bank and the Insurer, by telephone (promptly confirmed in writing), telegram, teletype, telex or other similar means of communication of the preliminary Fixed Rates so determined.

If less than all of the Bonds of a maturity in a particular Adjustable Rate Mode are to be converted to the Fixed Rate Mode, the Trustee will select by lot the Bonds of such maturity in such Adjustable Rate Mode to be so converted. If Bonds in the Extended Rate Mode are being converted and less than all of the Bonds to which a particular Extended Rate Period is applicable are to be converted, the Trustee will select by lot the Bonds to which such Extended Rate Period is applicable to be so converted. The Trustee will mail a notice of the proposed conversion to all of the Owners of Bonds to be converted to the Fixed Rate Mode. A copy of such notice will be sent to the Authority, the District, the Bank and the Insurer. Such notice will be mailed not less than 21 days prior to the proposed Conversion Date. Such notice will state (i) the proposed Conversion Date, (ii) that the Bonds to be converted are subject to mandatory tender for purchase (without the right to retain) on the Conversion Date at a Purchase Price equal to the Principal Amount thereof plus accrued interest thereon, (iii) that such Bonds are required to be surrendered for purchase at the Office of the Trustee at or before 11:30 a.m. New York City time on the Conversion Date, and (iv) any such Bond not so surrendered will be deemed purchased on the Conversion Date, and the Owner thereof will have no further rights with respect thereto except to receive such Purchase Price therefor upon presentation and surrender of said Bond to the Trustee.

The Remarketing Agent will determine the Fixed Rate for the Bonds of each maturity by not later than 3:30 p.m. New York City time on the last Business Day that is at least five days prior to the Conversion Date. The Fixed Rate for the Bonds of each maturity will be the lowest rate (not in excess of the Maximum Rate) which, in the judgment of the Remarketing Agent as of the date of determination and under prevailing market conditions, would cause such Bonds to produce as nearly as practicable a bid equal to the Principal Amount thereof, plus accrued interest thereon. Not later than 4:00 p.m. New York City time on the date of determination of the Fixed Rates, the Remarketing Agent will notify the Trustee by telephone (promptly confirmed in writing) of the Fixed Rate applicable to each Bond to be converted. Such determinations will be conclusive and binding upon the Authority, the District, the Trustee, the Bank, the Insurer and the Owners of the Bonds. The Trustee will notify the Authority, the District, the Bank and the Insurer by telephone (promptly confirmed in writing), telegram, teletype, telex or other similar means of communication of the Fixed Rates so determined.

The Remarketing Agent will offer for sale at par and use its best efforts to find purchasers for the Bonds required to be tendered in the manner described above. The terms of any sale by the Remarketing Agent of such Bonds will provide for the sale thereof at par and the payment of the Purchase Price by the

Remarketing Agent to the Trustee in immediately available funds against the delivery of the remarketed Bonds to the Trustee at or before 11:30 a.m. New York City time on the Purchase Date.

Notwithstanding the delivery of notice of conversion in the manner described above, conversion to the Fixed Rate Mode will not take effect if: (i) the District withdraws such notice of conversion not later than the Business Day preceding the date on which the Fixed Rates are to be determined; (ii) the Remarketing Agent fails to determine the Fixed Rates; (iii) any notice required to be given pursuant to the Indenture is not given when required; (iv) there is not delivered to the Authority, the District and the Trustee an Opinion of Counsel, dated as of the Conversion Date, to the effect that such conversion will not, in and of itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes; (v) upon such conversion, any Bonds in the Fixed Rate Mode would be Bank Bonds, unless the Bank consents; or (vi) upon the conversion, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities, would not be at least equal to the Reserve Requirement.

In the case of any of such events, the Bonds which were to be converted to the Fixed Rate Mode will automatically be converted to the Weekly Rate Mode, which shall commence on the date such conversion was to be made, provided that the mandatory tender for purchase required under the Indenture in connection with such a conversion will nevertheless be carried out if notice of the conversion to the Fixed Rate Mode has been given to the Owners of the Bonds. Withdrawal of a conversion notice will be given by the District to the Authority, the Trustee, the Remarketing Agent, the Bank and the Insurer, by telephone, promptly confirmed in writing. No cancellation of a conversion to the Fixed Rate Mode pursuant to the terms of the Indenture will constitute an Event of Default thereunder. If the Bonds are converted to the Weekly Rate Mode, and the Remarketing Agent fails to determine a Weekly Rate, the Weekly Rate will be the per annum rate of interest determined on each Thursday (or if such day is not a Business Day, the immediately preceding Business Day) by the Trustee which is 80% of the current bond equivalent yield for 91 day United States Treasury Bills sold at the last United States Treasury auction occurring prior to such day, which yield will be calculated in accordance with standard practices in the banking industry on the basis of the discount rate at which such bills were sold, but will not exceed the Maximum Rate.

Once the District has effectively exercised its option to convert a Bond to the Fixed Rate Mode pursuant to the provisions of the Indenture, the District will have no further option to convert such Bond to any other Mode, and such Bond will no longer be subject to tender for purchase.

## **Redemption**

***Redemption from Condemnation Award or Insurance Proceeds.*** The Series 2007 Bonds (including Bank Bonds) shall be subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any insurance proceeds or condemnation award in excess of \$50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in collection thereof (“Net Proceeds”) and deposited by the Trustee in the Redemption Fund in accordance with the provisions of the Indenture, at a redemption price equal to the Principal Amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS — Insurance.”

***Optional Redemption During Adjustable Rate Modes.*** The Series 2007 Bonds are subject to redemption prior to their stated Principal Payment Dates at the option of the District as follows:

- (i) Series 2007 Bonds in the Weekly Rate Mode shall be subject to optional redemption, in whole or in part, on any Interest Payment Date, in Authorized Denominations,

from any source of available funds, at a redemption price equal to the Principal Amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

(ii) Series 2007 Bonds in the Extended Rate Mode shall be subject to optional redemption, in whole or in part, on the first Business Day of any month, in Authorized Denominations, from any source of available funds, at a redemption price equal to the Principal Amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

**Optional Redemption During Fixed Rate Mode.** Series 2007 Bonds in the Fixed Rate Mode shall be subject to optional redemption, in whole or in part, on any date during the periods indicated in the following table, in Authorized Denominations, from any source of available funds (other than State Reimbursement Funds, General Obligation Bond Proceeds or Community Facilities District Bond Proceeds), at the following redemption prices (expressed as a percentage of the Principal Amount of such Series 2007 Bonds to be redeemed) applicable for the periods indicated, plus accrued interest thereon to the date fixed for redemption:

<b>Original Time from Fixed Rate Conversion Date to Maturity Date</b>	<b>Commencement of Redemption Period</b>	<b>Redemption Price as a Percentage of Principal Amount</b>
More than 10 Years	8th anniversary of commencement of Fixed Rate	102% declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter 100%
More than 8 years but not more than 10 years	6th anniversary of commencement of Fixed Rate	101% until the first anniversary of the first day of the redemption period and 100% from said first anniversary and thereafter
More than 5 years but not more than 8 years	4th anniversary of commencement of Fixed Rate	100%
5 years or less	No redemption	

Series 2007 Bonds in the Fixed Rate Mode shall be subject to optional redemption, in whole or in part, on any date during the periods indicated in the following table, in Authorized Denominations, from State Reimbursement Funds, General Obligation Bond Proceeds or Community Facilities District Bond Proceeds, at the following redemption prices (expressed as a percentage of the Principal Amount of such Series 2007 Bonds to be redeemed) applicable for the periods indicated, plus accrued interest thereon to the date fixed for redemption:

<b>Redemption Date</b>	<b>Redemption Price as a Percentage of Principal Amount</b>
Fixed Rate Conversion Date through third Interest Payment Date after Fixed Rate Conversion Date	102%
Day following third Interest Payment Date after Fixed Rate Conversion Date through fifth Interest Payment Date after Fixed Rate Conversion Date	101
Day following fifth Interest Payment Date after Fixed Rate Conversion Date and thereafter	100

***No Optional Redemption during Capital Appreciation Mode.*** Series 2007 Bonds in the Capital Appreciation Mode shall not be subject to optional redemption.

***Mandatory Sinking Fund Redemption.*** The Series 2007 Bonds maturing on December 1, 2039 will be subject to mandatory sinking fund redemption, in part, on December 1 in each year, commencing December 1, 2010, at a redemption price equal to the Principal Amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, in the aggregate respective Principal Amounts in the respective years set forth in the table on the inside cover page of this Official Statement. If some but not all of the Series 2007 Bonds maturing on December 1, 2039 are redeemed pursuant to the mandatory redemption from condemnation award or insurance proceeds provisions of the Indenture, the Principal Amount of the Series 2007 Bonds with a stated Principal Payment Date of December 1, 2039 to be redeemed pursuant to the mandatory sinking account redemption provisions of the Indenture on any subsequent December 1 shall be reduced by the aggregate Principal Amount of the Series 2007 Bonds with a stated Principal Payment Date of December 1, 2039 so redeemed pursuant to the mandatory redemption from condemnation award or insurance proceeds provisions of the Indenture, such reduction to be allocated among redemption dates as nearly as practicable on a *pro rata* basis, in amounts equal to Authorized Denominations, as determined by the Trustee, notice of which determination shall be given by the Trustee to the Authority and the District. If some but not all of the Principal Amount of the Series 2007 Bonds with a stated Principal Payment Date of December 1, 2039 is redeemed pursuant to the optional redemption provisions of the Indenture, the Principal Amount of the Series 2007 Bonds with a stated Principal Payment Date of December 1, 2039 to be redeemed pursuant to the mandatory sinking account redemption provisions of the Indenture on any subsequent December 1 shall be reduced by the aggregate Principal Amount of the Series 2007 Bonds with a stated Principal Payment Date of December 1, 2039 so prepaid pursuant to the optional redemption provisions of the Indenture, such reduction to be allocated among redemption dates in Authorized Denominations, as designated by the District in a Written Certificate of the District.

Upon the conversion of a portion of the Series 2007 Bonds of a maturity to a different Mode, such Series 2007 Bonds will be allocated a proportionate share of the mandatory sinking fund redemption for Series 2007 Bonds of such maturity; provided, however, that the District may, pursuant to a Written Request of the District delivered to the Trustee prior to the date notice of such conversion is sent to the Owners of Series 2007 Bonds, direct that Series 2007 Bonds of a particular maturity in the new Mode shall have disproportionately higher mandatory sinking fund redemptions on one or more mandatory sinking fund redemption dates and that Series 2007 Bonds of such maturity remaining in the then current Mode shall have correspondingly lower mandatory sinking fund redemptions. A revised mandatory sinking fund redemption schedule for Series 2007 Bonds of each maturity in each Mode will accompany each such Written Request of the District.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption (i) with respect to any extraordinary redemption of Bonds from Net Proceeds, among maturities of all Series of Bonds on a *pro rata* basis as nearly as practicable, and (ii) with respect to any optional redemption of Bonds, as directed in a Written Certificate of the District, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion deems appropriate and fair. Notwithstanding the foregoing, all Bank Bonds of a maturity will be redeemed prior to the redemption of any other Bonds of the same maturity. The Trustee will promptly notify the Authority and the District in writing of the numbers of the Bonds so selected for redemption on such date. For purposes of such selection, any Bond may be redeemed in part in Authorized Denominations.

**Notice of Redemption.** When redemption of the Series 2007 Bonds is authorized pursuant to the Indenture, the Trustee will give notice, at the expense of the District, of the redemption of the Series 2007 Bonds.

While the Series 2007 Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the Letter of Representations between the District and DTC, and the Trustee will not be required to give any such notice of redemption to any other person or entity other than certain securities depositories and information repositories as identified in the Indenture. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the Series 2007 Bonds to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Series 2007 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption described below under "Effect of Redemption."

During any period in which the Series 2007 Bonds are not subject to the book-entry system, notice of redemption of any Series 2007 Bonds to be redeemed will be given to the respective Owners of Series 2007 Bonds designated for redemption by first-class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee, at least 30 but not more than 60 days prior to the redemption date. Such notice must also be given to each of certain specified securities depositories and to certain other specified information services.

**Effect of Redemption.** If notice of redemption has been duly given as provided in the Indenture and moneys for the redemption price of all the Bonds to be redeemed, together with interest to said date, is held by the Trustee so as to be available therefore on such date, and, if notice of redemption thereof has been mailed as required by the Indenture and not canceled in accordance therewith, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of the Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed. Bonds may not be purchased in lieu of redemption.

### **Optional and Mandatory Tender and Purchase of Series 2007 Bonds**

**Optional Tenders by Owners of Bonds in Adjustable Rate Modes.** Owners of Bonds in an Adjustable Rate Mode (other than Bank Bonds) may elect to have their Bonds (or portions thereof in Authorized Denominations) purchased at the Purchase Price, on the following Purchase Dates and upon the giving of the following telephonic or written notices meeting the further requirements as described below:

(i) Bonds in the Weekly Rate Mode may be tendered for purchase on any Business Day upon delivery of a written notice of tender to the Trustee not later than 5:00 p.m. New York City time on a Business Day which is not less than seven days prior to the Purchase Date; and

(ii) Bonds in the Extended Rate Mode may be tendered for purchase on the commencement date of any Extended Rate Period (other than the date of conversion to the Extended Rate Mode) upon delivery of a written notice of tender to the Trustee not later than 5:00 p.m. New York City time on a Business Day which is not less than seven days prior to the Purchase Date.



Each notice of tender: (i) must be delivered to the Trustee at the Office of the Trustee and to the Remarketing Agent at its principal office and be in form satisfactory to the Trustee and the Remarketing Agent; (ii) must state (A) the Principal Amount of the Bond or portion of the Bond to be purchased and the CUSIP number thereof, (B) that the Owner irrevocably demands purchase of such Bond or portion thereof, (C) the date on which such Bond or portion thereof is to be purchased, (D) payment instructions, and (E) if such tender is through a Participant, the DTC participant number for such Participant and the name, telephone number and teletype number of a contact person at such Participant; and (iii) will automatically constitute (A) an irrevocable offer to sell the Bond or portion thereof to which the notice relates on the Purchase Date to any purchaser selected by the Remarketing Agent, at the Purchase Price, (B) an irrevocable authorization and instruction to the Trustee to effect transfer of such Bond or portion thereof upon payment of such Purchase Price to the Trustee on the Purchase Date, (C) an irrevocable authorization and instruction to the Trustee to effect the exchange of the Bond to be purchased in whole or in part for other Bonds of the same maturity in an equal aggregate Principal Amount so as to facilitate the sale of such Bond or portion thereof, and (D) an acknowledgment that such Owner will have no further rights with respect to such Bond or portion thereof upon payment of the Purchase Price by the Trustee on the Purchase Date, except for the right of such Owner to receive such Purchase Price upon surrender of such Bond to the Trustee. The determination of the Trustee as to whether a notice of tender has been properly delivered pursuant to the foregoing will be conclusive and binding upon the Owner.

Not later than 4:30 p.m. New York City time on the Business Day immediately following the date of receipt of any notice of tender, the Trustee will notify the Remarketing Agent and the Bank of the Principal Amount of Bonds or portions thereof to be tendered and remarketed and the date on which such Bonds or portions thereof are to be tendered and remarketed. Such notices will be given by telephone, telegram, teletype, telex or other similar communication and will be promptly confirmed in writing. The Remarketing Agent will offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof properly tendered. The terms of any sale by the Remarketing Agent of tendered Bonds will provide for the purchase of the remarketed Bonds at the Purchase Price and the payment of such Purchase Price to the Trustee by the Remarketing Agent in immediately available funds against delivery of the remarketed Bonds to the Trustee at or before 11:30 a.m. New York City time on the Purchase Date. Notwithstanding the foregoing, the Remarketing Agent will not offer for sale any Bond if (i) notice of any optional or mandatory redemption or any conversion from one Adjustable Rate Mode to another Adjustable Rate Mode or to the Fixed Rate Mode has been given to the Owner of such Bond pursuant to the provisions of the Indenture, or (ii) any defeasance of such Bond in accordance with the provisions of the Indenture has occurred, unless the Remarketing Agent has in writing advised the Person to whom the offer is made of such occurrence and the effect of the same on the rights of the Owner of such Bond, including, but not limited to, the rights of such Owner to tender such Bond, as described in the conversion notice from the Trustee to the Owner of such Bond.

***Mandatory Tenders Upon Conversion from Capital Appreciation Mode.*** Series 2007 Bonds being converted from the Capital Appreciation Mode to the Weekly Rate Mode will be subject to mandatory tender for purchase at the Purchase Price on the Capital Appreciation Conversion Date, and the Owners will not be entitled to retain such Series 2007 Bonds. Notice of such conversion will be given to the Owners in the manner provided in the Indenture.

***Mandatory Tenders Upon Conversion from and to Adjustable Rate Modes.*** Bonds being converted from one Adjustable Rate Mode to the other Adjustable Rate Mode will be subject to mandatory tender for purchase at the Purchase Price on the Conversion Date, and the Owners will not be entitled to retain such Bonds. Notice of such conversion will be given to the Owners in the manner provided in the Indenture.

***Mandatory Tenders Upon Conversion to Fixed Rate Mode.*** Bonds being converted to the Fixed Rate Mode shall be subject to mandatory tender for purchase at the Purchase Price on the Conversion Date, and the Owners shall not be entitled to retain such Bonds. Notice of such conversion to the Fixed Rate Mode will be given to the Owners in the manner provided in the Indenture.

***Remarketing.*** The Remarketing Agent will offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof subject to mandatory tender for purchase pursuant to the provisions of the Indenture. The terms of any sale by the Remarketing Agent of tendered Bonds will provide for the purchase of the remarketed Bonds at the Purchase Price and the payment of such Purchase Price to the Trustee by the Remarketing Agent in immediately available funds against delivery of the remarketed Bonds to the Trustee at or before 11:30 a.m. New York City time on the Purchase Date.

***Mandatory Tenders Upon Expiration or Substitution of Facility or Event of Default with Respect Thereto.*** Prior to conversion of a Bond to the Fixed Rate Mode, such Bond will be subject to mandatory tender for purchase at the Purchase Price: (i) on a Business Day which is at least five days prior to expiration of the Facility; (ii) on the fifth Business Day following the Trustee's receipt of a Notice of Mandatory Tender from the Bank; and (iii) if such Bond is in the Weekly Rate Mode, on a Business Day which is at least five days prior to the substitution of a Substitute Facility for the Facility pursuant to the provisions of the Indenture. The Owners may not elect to retain their Bonds in the event of mandatory tender required by the provisions referred to above as clauses (i), (ii) and (iii).

Notice of mandatory tender of Bonds, stating the date on which and time at which Bonds are required to be tendered for purchase, will be given by first class mail, postage prepaid by the Trustee to the Owners of Bonds required to be so tendered not less than five Business Days prior to the date on which such Bonds are to be purchased pursuant to clause (i) or clause (iii) of the preceding paragraph, or as soon as practicable, but in no event later than three Business Days, after the Trustee's receipt of a Notice of Mandatory Tender from the Bank, with respect to a purchase pursuant to the provision of the Indenture referred to in clause (ii) in the preceding paragraph. A copy of such notice will be sent to the Authority, the District, the Remarketing Agent and the Bank. Notice having been so given, such mandatory tender will occur on the date provided in such notice whether or not a Substitute Facility is provided after such initial notice has been given.

On the Business Day on which the notice is mailed pursuant to the provisions of the Indenture, the Trustee will notify the Remarketing Agent and the Bank by telephone, telegram, telecopy, telex or other similar communication of the aggregate Principal Amount of Bonds to be tendered for purchase on the mandatory tender date.

The Remarketing Agent will offer for sale and use its best efforts to find purchasers for the Bonds to be tendered pursuant to the provisions of the Indenture and will inform prospective purchasers whether the Facility will be replaced. In the case of replacement of the Facility, the Remarketing Agent will inform prospective purchasers of the identity of the Bank issuing such replacement Facility and of the ratings to be in effect on the Bonds following such replacement. The terms of any sale by the Remarketing Agent of tendered Bonds will provide for the purchase of the remarketed Bonds at the Purchase Price and the payment of such Purchase Price to the Trustee by the Remarketing Agent in immediately available funds against the delivery of the remarketed Bonds to the Trustee at or before 11:30 a.m. New York City time on the Purchase Date. Notwithstanding the foregoing, the Bonds will not be offered for sale unless the Facility or a Substitute Facility is in place at the time of the remarketing.

***Purchase of Tendered Bonds.*** At or before 3:30 p.m. New York City time on the Business Day immediately preceding each Purchase Date, the Remarketing Agent will notify by telephone, telegram, telecopy, telex or other similar communication to the Trustee and the Bank of the Principal Amount of

tendered Bonds which have been remarketed and the names, addresses and taxpayer identification numbers of the purchasers and the denominations of remarketed Bonds to be delivered to each purchaser. On the Purchase Date, the Trustee will make a request for purchase in accordance with the terms of the Facility at the times and to the extent necessary to timely pay the Purchase Price with regard to the Bonds for which remarketing proceeds have not been paid to the Trustee, and the Trustee will hold the moneys received pursuant to such request under the Facility in trust in a separate segregated account for the benefit of the Owners of such tendered Bonds. See “LIQUIDITY FACILITY — Summary of Standby Purchase Agreement.”

**The Purchase Price of tendered Bonds is payable solely from proceeds of the remarketing of such Bonds and amounts made available under the Standby Purchase Agreement. If such sources are inadequate for the purchase of all Bonds which are to be purchased on any Purchase Date, including on the Capital Appreciation Conversion Date, each Bond subject to such purchase will continue in the same Mode as in effect with respect thereto on the day prior to the Purchase Date to the date on which the earliest of the following occurs: (i) the date of conversion of such Bond to the Fixed Rate Mode, (ii) the date on which any default by the Bank under the terms of the Facility has been cured, or (iii) the date on which a Substitute Facility meeting the requirements of the Indenture hereof has been obtained. Neither the Authority, the District or the Insurer has any obligation to make payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase. See “— Insufficient Funds for Purchases” below.**

The Remarketing Agent will pay to the Trustee, on the Purchase Date, all amounts representing proceeds of the remarketing of tendered Bonds, as specified in the Indenture. All such proceeds will be held by the Trustee in trust in a separate segregated account for the benefit of the Person which has delivered such proceeds until the Bonds purchased with such moneys have been delivered to such Person. Neither the Authority nor the District will have any right, title or interest in or to remarketing proceeds held by the Remarketing Agent or the Trustee or proceeds of a draw on the Facility. The Bank has agreed under the Facility to pay, on or before 2:00 p.m. New York City time on the Purchase Date (so long as the request for purchase thereunder is made prior to 12:00 noon New York City time), the Purchase Price to the Trustee of such Bonds that have not been remarketed.

Before 4:00 p.m. New York City time on the Purchase Date and upon receipt by the Trustee of 100% of the aggregate Purchase Price of tendered Bonds, the Trustee will pay the Purchase Price of such Bonds to the Owners thereof at the Office of the Trustee or by bank wire transfer. Such payments will be made in immediately available funds. Payments of such Purchase Price are to be made from the following sources in the order of priority indicated:

- (i) the proceeds of the sale of the Bonds which have been remarketed by the Remarketing Agent; and
- (ii) moneys paid pursuant to requests for purchase under the Facility.

On the Purchase Date, the Trustee will register and deliver (or hold) all Bonds purchased on any Purchase Date as follows: (i) Bonds purchased or remarketed by the Remarketing Agent will be registered in accordance with the instructions of the Remarketing Agent and made available for delivery to the Remarketing Agent against payment of the Purchase Price for such Bonds by 11:30 a.m. New York City time; and (ii) Bonds purchased with funds received under the Facility will become Bank Bonds, will be registered in the name of the Bank or its nominee and shall be delivered to or held by DTC, or such other entity as may be specified by the Bank in a written instrument delivered to the Trustee, for the benefit of the Bank.

All Bonds to be purchased on any date will be required to be delivered to the Office of the Trustee at or before 11:30 a.m. New York City time on the Purchase Date, except that Bonds in the Extended Rate Mode being tendered for purchase at the election of the Owner will be delivered to the Office of the Trustee with the notice of tender. If the Owner of any Bond or portion thereof that is subject to purchase pursuant to the Indenture fails to surrender such Bond to the Trustee for purchase on the Purchase Date, and if the Trustee is in receipt of the Purchase Price therefor, such Bond or portion thereof will nevertheless be deemed purchased on the Purchase Date and ownership of such Bond or portion thereof will be transferred to the purchaser thereof as provided in the Indenture. Any Owner who fails to deliver a Bond for purchase as required by the provisions of the Indenture will have no further rights with respect thereto except the right to receive the Purchase Price therefor upon presentation and surrender of said Bond to the Trustee.

All money held by the Trustee for the payment of the Purchase Price of the Bonds will be held in separate segregated accounts and will be held uninvested.

***Bonds Purchased Under Facility.*** In the event that any Bonds become Bank Bonds pursuant to the Indenture, the Remarketing Agent will continue to offer for sale and use its best efforts to sell such Bank Bonds at the Purchase Price prior to selling any other Bonds until such Bank Bonds are sold or until the Remarketing Agent, the Insurer and the District determine that such Bank Bonds cannot be sold at such price; provided, however, that upon the occurrence and during the continuance of certain events of default under the Standby Purchase Agreement, as described herein in paragraphs (a), (b), (m), (o), (p), (q) and (s) under “LIQUIDITY FACILITY — Summary of Standby Purchase Agreement,” the Remarketing Agent will not, without the consent of the Bank, remarket any Bank Bonds that, upon such remarketing, would be in an Adjustable Rate Mode. The Trustee will deliver such Bank Bonds to the Bank or its designee (including DTC) which will hold the same pending such remarketing. Upon the remarketing of any Bank Bond, and receipt of the proceeds of such remarketing, such Bank Bond shall cease to be a Bank Bond (unless and until it again becomes a Bank Bond pursuant to the Indenture). While the Facility is effective and prior to the release of any Bank Bond, upon receipt of the proceeds of the remarketing of Bank Bonds, the Trustee will deliver to the Bank the notices required pursuant to the Facility in order to reinstate the Facility to an amount equal to the Principal Amount of and interest on the Outstanding Bonds in accordance with its terms. The Trustee will deliver a copy of such notices to the Remarketing Agent. The Trustee will not release any remarketed Bank Bonds that, upon such remarketing, would be in an Adjustable Rate Mode unless and until the Trustee receives written notice from the Bank pursuant to the Standby Purchase Agreement that the Available Commitment has been reinstated as provided therein. Notwithstanding anything to the contrary contained in the Indenture, Bank Bonds will not be purchased with funds received under the Facility.

***Insufficient Funds for Purchases.*** The Purchase Price of tendered Bonds is payable solely from proceeds of the remarketing of such Bonds and amounts made available under the Standby Purchase Agreement. If the moneys available for purchase of Bonds pursuant to the Indenture are inadequate for the purchase of all Bonds which are to be purchased on any Purchase Date, each Bond subject to such purchase will continue in the same Mode as in effect with respect thereto on the day prior to the Purchase Date to the date on which the earliest of the following occurs:

- (i) the date of conversion of such Bond to the Fixed Rate Mode;
- (ii) the date on which any default by the Bank under the terms of the Facility has been cured; or
- (iii) the date on which a Substitute Facility meeting the requirements of the Indenture hereof has been obtained.

Upon the occurrence of an event listed above, (i) the Trustee will immediately (but no later than the end of the next succeeding Business Day) return all tendered Bonds to the Owners thereof and notify all Owners of Bonds in writing of the Mode to be effective with respect thereto pursuant to the provisions of the Indenture, and (ii) the Trustee will return all moneys received for the purchase of such Bonds to the Persons who provided such moneys.

**Neither the Authority, the District or the Insurer has any obligation to make payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase.**

***Book-Entry Tenders.*** WHILE THE SERIES 2007 BONDS ARE SUBJECT TO DTC'S BOOK-ENTRY SYSTEM, ALL TENDERS FOR PURCHASE WILL BE SUBJECT TO THE TERMS AND CONDITIONS SET FORTH IN THE LETTER OF REPRESENTATIONS BETWEEN THE DISTRICT AND DTC AND ANY NOTICES AND REGULATIONS PROMULGATED BY DTC. THE SERIES 2007 BONDS MAY BE TENDERED BY MEANS OF A BOOK-ENTRY CREDIT OF SUCH SERIES 2007 BONDS TO THE ACCOUNT OF THE REMARKETING AGENT; PROVIDED, HOWEVER, THAT UNDER CERTAIN CIRCUMSTANCES NOTICE OF TENDER WILL BE GIVEN BY A DIRECT PARTICIPANT (AS DEFINED BELOW) ON BEHALF OF THE BENEFICIAL OWNER OF SUCH SERIES 2007 BONDS.

### **Book-Entry Only System**

DTC will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2007 Bond will be issued for each stated Principal Payment Date of the Series 2007 Bonds, each in the aggregate amount of the Principal Amount of by Series 2007 Bonds with such stated Principal Payment Date, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market investments 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2007 Bond documents. For example, Beneficial Owners of Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2007 Bonds with a particular stated Principal Payment Date are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2007 Bonds to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC 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 Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal or Accreted Value of, premium, if any, interest and other payments on the Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the District, subject to

any statutory or regulatory requirements as may be in effect from time to time. Payments of principal or Accreted Value of, premium, if any, interest and other payments on the Series 2007 Bonds 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 Trustee, 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.

A Beneficial Owner shall give notice to elect to have its Series 2007 Bonds purchased or tendered, through its Participant, to the Trustee and the Remarketing Agent, and shall effect delivery of such Series 2007 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2007 Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Series 2007 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2007 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2007 Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2007 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2007 Bonds will be printed and delivered to DTC.

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

THE DISTRICT CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS ON THE SERIES 2007 BONDS RECEIVED BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR ANY REDEMPTION OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

THE DISTRICT, THE CORPORATION AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO PARTICIPANTS, OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OR ACCRETED VALUE OF, AND INTEREST OR ANY PREMIUM ON THE SERIES 2007 BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR ANY REDEMPTION OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE DISTRICT, THE CORPORATION AND THE TRUSTEE ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANTS TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE SERIES 2007 BONDS OR ANY ERROR OR DELAY RELATING THERETO.

THE FOREGOING DESCRIPTION OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2007 BONDS, PAYMENT OF PRINCIPAL OR ACCRETED VALUE OF, INTEREST AND OTHER PAYMENTS ON THE SERIES 2007 BONDS TO PARTICIPANTS OR BENEFICIAL OWNERS, CONFIRMATION

AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN SUCH SERIES 2007 BONDS AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE PARTICIPANTS AND THE BENEFICIAL OWNERS IS BASED ON INFORMATION PROVIDED BY DTC. ACCORDINGLY, THE DISTRICT TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

***Discontinuance of DTC Service.*** In the event that (a) DTC determines not to continue to act as securities depository for the Series 2007 Bonds or (b) the District determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Series 2007 Bonds and use of the book-entry system will be discontinued. If the District fails to select a qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Series 2007 Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Series 2007 Bonds are registered will become the registered Owners of the Series 2007 Bonds for all purposes.

The following provisions regarding the exchange and transfer of the Series 2007 Bonds apply only during any period in which the Series 2007 Bonds are not subject to DTC's book-entry system. While the Series 2007 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

All Series 2007 Bonds are transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the principal corporate trust office of the Trustee on the registration books maintained by the Trustee pursuant to the provisions of the Indenture, upon surrender of such Series 2007 Bonds for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. The Trustee may treat the Owner of any Series 2007 Bond as the absolute owner of such Series 2007 Bond for all purposes, whether or not the principal or Accreted Value of or interest on such Series 2007 Bond is overdue, and the Trustee will not be affected by any knowledge or notice to the contrary; and payment of the interest, Accreted Value of and principal on such Series 2007 Bond will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge the liability on such Series 2007 Bond to the extent of the sum or sums so paid.

Whenever any Series 2007 Bond or Series 2007 Bonds shall be surrendered for transfer, the Trustee will execute and deliver a new Series 2007 Bond or Series 2007 Bonds evidencing Accreted Value in the same aggregate amount and having the same stated Principal Payment Date. The Trustee will require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Series 2007 Bonds may be exchanged at the principal corporate trust office of the Trustee for Series 2007 Bonds evidencing Accreted Value in a like aggregate amount having the same stated Principal Payment Date in such Authorized Denominations as the Owner may request. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be required to transfer or exchange any Series 2007 Bond during the period commencing five days before the date of selection of the Series 2007 Bonds for redemption and ending on the date of mailing notice of such redemption, nor will the Trustee be required to transfer or exchange any Series 2007 Bond or portion thereof selected for redemption from and after the date of mailing the notice of redemption thereof.



## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS**

### **Special Obligations; Pledge of Lease Revenues**

The Series 2007 Bonds are special obligations of the Authority payable solely from the Lease Revenues, including the Base Rental Payments to be made by the District under the Lease Agreement for the use of the Property, and the other assets pledged therefor under the Indenture as described herein. The term “Lease Revenues” is defined in the Indenture to mean all Base Rental Payments payable by the District pursuant to the Lease Agreement, including any prepayments thereof, any Net Proceeds and any amounts received by the Trustee from, as a result of or in connection with the Trustee’s pursuit of remedies under the Lease Agreement upon a Lease Default Event. The term “Net Proceeds” is defined in the Lease Agreement to mean any insurance proceeds or condemnation award paid with respect to any of the Property, which proceeds or award, after payment therefrom of all reasonable expenses incurred in the collection thereof, are in an amount greater than \$50,000.

The Indenture provides that, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Lease Revenues and all amounts on deposit from time to time in the funds and accounts established under Indenture (other than the Rebate Fund and the accounts provided for under the Indenture to hold proceeds of the remarketing of tendered Bonds and moneys received under the Standby Purchase Agreement to pay the Purchase Price with regard to Bonds for which remarketing proceeds have not be paid to the Trustee) are pledged to the payment of the principal and Accreted Value of and interest on the Bonds as provided in the Indenture, and that the Lease Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding. The Indenture provides that said pledge shall constitute a first lien on such assets.

In order to secure the pledge of the Lease Revenues under the Indenture, the Authority, in the Indenture, sells, assigns and transfers to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the Owners, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, the right to receive Base Rental Payments and the right to exercise any remedies provided in the Lease Agreement in the event of a default by the District thereunder; provided that the Authority retains the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. See “Base Rental Payments” below.

### **Covenant to Appropriate Funds**

The District covenants under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee, fees and expenses of the Bank, insurance premiums and other amounts payable under the Lease Agreement or the Indenture), due under the Lease Agreement in its annual budgets and to make the necessary annual appropriations therefor.

### **The Insurance Policy**

The scheduled payment of the principal or Accreted Value of and interest on the Series 2007 Bonds, but not the Purchase Price thereof, will be guaranteed by the Insurance Policy to be issued by the Insurer on the date of delivery of and payment for the Series 2007 Bonds. For a more detailed description of the Insurance Policy and the Insurer, see “BOND INSURANCE” and Appendix D — “FORM OF MUNICIPAL BOND INSURANCE POLICY.”

In the event that the Insurer makes payment of any principal or Accreted Value of or interest on any Series 2007 Bond, the Insurer will become the Owner of such Series 2007 Bond to the extent of such payment and of the right to receive payment of such principal or Accreted Value and interest and will be fully subrogated to all of the Series 2007 Bond Owner's rights under such Series 2007 Bond to the extent of such payment.

For a description of the special rights conferred upon the Insurer under the Indenture, including the rights of the Insurer to act in lieu of the Owners of the Series 2007 Bonds, see Appendix A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE INDENTURE."

### **Source of Payment of Tendered Bonds**

The Purchase Price of tendered Bonds is payable solely from proceeds of the remarketing of such Bonds and amounts made available under the Standby Purchase Agreement. If such sources are inadequate for the purchase of all Bonds which are to be purchased on any Purchase Date, including on the Capital Appreciation Conversion Date, each Bond subject to such purchase will continue in the same Mode as in effect with respect thereto on the day prior to the Purchase Date to the date on which the earliest of the following occurs: (i) the date of conversion of such Bond to the Fixed Rate Mode, (ii) the date on which any default by the Bank under the terms of the Facility has been cured, or (iii) the date on which a Substitute Facility meeting the requirements of the Indenture hereof has been obtained. Neither the Authority, the District or the Insurer has any obligation to make payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase. See "THE SERIES 2007 BONDS — Optional and Mandatory Tender and Purchase of Series 2007 Bonds — Purchase of Tendered Bonds" and "— Insufficient Funds for Purchases."

### **Liquidity Facility**

Payment of the Purchase Price of each Series 2007 Bond subject to mandatory or optional tender for purchase as described herein is supported by amounts available pursuant to the Standby Purchase Agreement. Pursuant to the Standby Purchase Agreement, the Bank is obligated to pay when due the Purchase Price of any Series 2007 Bond subject to mandatory or optional tender for purchase as described herein if the proceeds of the remarketing of such tendered Series 2007 Bond are not sufficient to pay such Purchase Price.

UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE BANK TO PURCHASE SERIES 2007 BONDS TENDERED OR DEEMED TENDERED FOR PURCHASE MAY BE TERMINATED OR SUSPENDED, AND, IN SOME CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SERIES 2007 BOND OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH SERIES 2007 BONDS. For more information concerning the Bank and the Standby Purchase Agreement, see "LIQUIDITY FACILITY."

### **Abatement**

Base Rental Payments are paid by the District in each Rental Period for the District's right to use and occupy the Property for such Rental Period. The obligation of the District to pay Base Rental Payments will be abated proportionately during any period in which by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property. The amount of such abatement will be agreed upon by the District and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the

Property available for use and occupancy by the District during such Rental Period. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed, and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended more than ten years beyond the scheduled termination of the Lease Agreement; provided, however, that during abatement, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, instead, will be payable by the District as a special obligation payable solely from said funds and accounts. For information regarding rental interruption insurance, see “— Insurance” below.

The Trustee cannot terminate the Lease Agreement solely on the basis of such substantial interference. Abatement of Base Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. For a description of abatement resulting from condemnation of all or part of the Property, see Appendix A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE AGREEMENT — Rental Payments — Rental Abatement.”

### **Action on Default**

Should the District default under the Lease Agreement, the Trustee may (subject to the restrictions described below) terminate the Lease Agreement and recover certain damages from the District, or may retain the Lease Agreement and hold the District liable for all Base Rental Payments thereunder on an annual basis. Base Rental Payments may not be accelerated upon a default under the Lease Agreement. See “RISK FACTORS.”

The Lease Agreement provides that, so long as the Insurer is not in default under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Lease Agreement.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see Appendix A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE AGREEMENT — Events of Defaults and Remedies” and “THE INDENTURE — Events of Default and Remedies — Action on Default.”

### **Base Rental Payments**

For the use and possession of the Property, the Lease Agreement requires the District to make Base Rental Payments. After the Capital Appreciation Conversion Date, the interest components of the Base Rental Payments will be based upon the Interest Rate Mode applicable to the Series 2007 Bonds, and will be determined in accordance with the provisions of the Indenture. See “THE SERIES 2007 BONDS - Interest Rate Modes.”

THE OBLIGATION OF THE DISTRICT TO PAY THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

## **Additional Rental Payments**

The Lease Agreement requires the District to pay, as Additional Rental Payments thereunder in addition to the Base Rental Payments, such amounts as shall be required for the payment of all taxes, assessments of any type or nature charged to the Authority or the District or affecting the Property or the respective interests or estates of the Authority or the District in the Property, all reasonable administrative costs of the Authority relating to the Property, the Bonds or the Indenture, including without limitation all expenses, compensation and indemnification of the Trustee payable by the District under the Indenture, fees and expenses of the Bank payable under the Standby Purchase Agreement, insurance premiums payable under the Lease Agreement, any amounts with respect to the Bonds required to be rebated to the federal government, and all other payments required to be paid by the District under the Lease Agreement or the Indenture.

## **Insurance**

The Lease Agreement requires the District to cause to be maintained casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood), subject to a \$100,000 loss deductible provision (unless some other deductible is acceptable to the Insurer), in an amount equal to the full insurable value of the Property. The casualty insurance required by the Lease Agreement may be maintained in the form of self insurance by the District, in compliance with the terms of the Lease Agreement.

The Lease Agreement requires the District to cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments caused by perils covered by the casualty insurance described above, in an amount equal to the lesser of (i) an amount equal to two times Maximum Annual Debt Service, or (ii) such lesser amount as may be agreed to by the Insurer in writing; provided, however, that for purposes of calculating Maximum Annual Debt Service, interest on Bonds in an Adjustable Rate Mode shall be deemed to accrue at a rate per annum of 12% per annum. The District may not self-insure for rental interruption insurance.

The District is also required to obtain certain public liability and property damage insurance coverage in protection of the Authority and the District and workers' compensation insurance as described under Appendix A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE AGREEMENT — Insurance — Public Liability and Property Damage Insurance; Workers' Compensation Insurance."

The District is required under the Lease Agreement to obtain title insurance on the Property, in an aggregate amount of not less than the initial aggregate principal amount of the Series 2007 Bonds, subject only to Permitted Encumbrances, as defined in the Lease Agreement.

## **Reserve Fund**

A reserve fund (the "Reserve Fund") is established by the Indenture and is required to be funded initially from proceeds of the Series 2007 Bonds in the amount equal to, as of the date of calculation, the least of (i) 10% of the original aggregate Principal Amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (ii) Maximum Annual Debt Service, and (iii) 125% of Average Annual Debt Service (the "Reserve Requirement"); provided, that so long as the interest rate borne by Bonds is in an Adjustable Rate Mode, the interest rate applicable to calculations performed with respect to amounts required to be on deposit in the Reserve Fund will be 12% per annum.

Subject to the requirements and restrictions contained in the Indenture, the District may substitute a line of credit, letter of credit, an insurance policy, surety bond or any other comparable credit facility or combination thereof, for all or a part of the moneys on deposit in the Reserve Fund, as provided in the Indenture. Amounts in the Reserve Fund are to be used to make delinquent Base Rental Payments to the extent that the moneys available in the Interest Account and Principal Account do not equal the amount of the principal, Accreted Value and interest on the Bonds then coming due. In addition, moneys, if any, on deposit in the Reserve Fund will be withdrawn and applied by the Trustee for the final payments of principal and Accreted Value of and interest on the Bonds.

If at any time the balance in the Reserve Fund is reduced below the Reserve Requirement, the first Base Rental Payments thereafter received from the District under the Lease Agreement and not needed to pay the principal and Accreted Value of and interest on the Bonds will be used, first, to reinstate the amounts available under any Reserve Facilities that have been drawn upon and, second, to increase the amount on deposit in the Reserve Fund, so that the amount available under all available Reserve Facilities, when added to the amount on deposit in the Reserve Fund, is equal to the Reserve Requirement.

### **Additional Bonds**

In addition to the Series 2007 Bonds described in this Official Statement, the District, the Authority and the Trustee may by execution of a supplemental Indenture, without the consent of the Owners, but with the prior written consent of the Insurer, provide for the issuance of Additional Bonds payable from Lease Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture. The proceeds of such Additional Bonds may be applied to any lawful purposes of the District, subject to certain conditions precedent to the issuance of such Additional Bonds as set forth in the Indenture, including the condition that upon issuance of such Additional Bonds, there will be on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities, an amount at least equal to the Reserve Requirement (calculated with respect to all outstanding Bonds and Additional Bonds).

Each Owner of any Additional Bond will have the same rights upon an event of default as the Owner of any other Bonds issued under the Indenture, except as otherwise provided in the supplemental Indenture under which such Additional Bonds are issued. See Appendix A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE INDENTURE — Terms and Conditions of Bonds — Conditions for the Issuance of Additional Bonds.” See also “RISK FACTORS — General Considerations.”

### **BOND INSURANCE**

*Set forth below is a brief summary of certain information concerning the Insurer and the terms of the Insurance Policy. The information relating to the Insurer and the Insurance Policy contained below has been supplied to the District by the Insurer. No representation is made by the District as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Insurer subsequent to the date of this Official Statement.*

### **The Insurance Policy**

Concurrently with the issuance of the Series 2007 Bonds, the Insurer will issue its Insurance Policy. The Insurance Policy guarantees the scheduled payment of Accreted Value of and interest on the Series 2007 Bonds when due as set forth in the form of the Insurance Policy included as an appendix to this Official Statement. See Appendix D — “FORM OF MUNICIPAL BOND INSURANCE POLICY.”

The Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **The Insurer**

The Insurer is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Insurer is liable for the obligations of the Insurer.

At March 31, 2007, the Insurer’s combined policyholders' surplus and contingency reserves were approximately \$2,601,527,000 and its total net unearned premium reserve was approximately \$2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, the Insurer’s consolidated shareholders’ equity was approximately \$2,753,483,000 and its total net unearned premium reserve was approximately \$1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of the Insurer included in, or as exhibits to the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of the Insurer included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the issuance of the Series 2007 Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to the Insurer: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Insurance Policy does not protect investors against changes in market value of the Series 2007 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Insurer makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds. The Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Insurer has provided to the District the information presented under this caption for inclusion in the Official Statement.

### **LIQUIDITY FACILITY**

*The following information has been prepared by the Bank. Neither the District nor the Underwriter makes any representation or warranty with respect to the accuracy or completeness of such information. Payment of the Purchase Price of each Series 2007 Bond subject to mandatory or optional tender for purchase as described herein is secured by amounts available pursuant to the Standby Purchase Agreement. The information relating to the Bank and the Liquidity Facility contained below has been furnished by the Bank. No representation is made by the District as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Bank subsequent to the date of this Official Statement.*

### **The Bank**

Dexia Credit Local (“Dexia”) is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border

mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 24 billion euros as of December 31, 2006, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In executing and delivering the Standby Purchase Agreement, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2006 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2006, total funding raised by Dexia and Dexia Municipal Agency was 15.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2006, Dexia had total consolidated assets of 304 billion euros, outstanding medium and long-term loans to customers of 241 billion euros and shareholders' equity of over 7.98 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 1.082 billion euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2006, the exchange rate was 1.0000 euro equals 1.317 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa1 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

### **Summary of Standby Purchase Agreement**

Certain provisions of the Standby Purchase Agreement are summarized below, and such summary is qualified in its entirety by reference to the Standby Purchase Agreement.

The District has requested that in order to provide liquidity for the Series 2007 Bonds, the Bank establish, for the benefit of the Owners from time to time of the Series 2007 Bonds, the standby purchase facility (the "Liquidity Facility") pursuant to the Standby Purchase Agreement which provides for the purchase by the Bank of Series 2007 Bonds on the Capital Appreciation Conversion Date and of Series 2007 Bonds bearing interest at a Weekly Rate or an Extended Rate at a purchase price of up to

\$38,900,000 Accreted Value of the Series 2007 Bonds as of the Capital Appreciation Conversion Date and \$1,384,192 accrued interest.

Subject to the terms and conditions of the Standby Purchase Agreement and provided no Termination Event (as defined below) has occurred, the Bank will purchase Series 2007 Bonds which are either optionally tendered for purchase or subject to mandatory purchase, in the event that remarketing proceeds are not sufficient to pay the Purchase Price thereof. The Liquidity Facility will expire on the earliest to occur of (i) August 29, 2013, or if such day is not a Business Day, the next following day which is a Business Day; (ii) the tenth day after the date the District reduces the Available Commitment to zero pursuant to the Standby Purchase Agreement, but only after the Bank has purchased any Series 2007 Bonds required to be purchased on such Purchase Date related thereto as a result of such reduction; (iii) the final date upon which Series 2007 Bonds are converted to a Fixed Rate (but only after the Bank has purchased any Series 2007 Bonds required to be purchased on such date); (iv) the date the Bank delivers a Notice of Non-Reinstatement, provided the Bank is then the registered owner of all the Series 2007 Bonds Outstanding on such date; and (v) the occurrence of a Termination Event (as defined below).

“Events of Default” under the Standby Purchase Agreement include, among other things, the following events:

- (a) Bond Payments. Any Accreted Value or interest borne by the Series 2007 Bonds is not paid when due and the Insurer has defaulted in its obligation to provide payment in respect of such Accreted Value or interest when, as, and in the amounts required to be paid pursuant to the terms of the Insurance Policy.
- (b) Payment of Other Amounts. Nonpayment of any facility fee, commitment fee, purchase fee or substitution fee when due under the Standby Purchase Agreement, if such failure to pay when due continues for five Business Days, and nonpayment of any other fees, or other amounts, when due under the Standby Purchase Agreement, if such failure to pay when due continues for 30 days, after written notice thereof to the District and the Insurer by the Bank.
- (c) Representations Untrue. Any representation, warranty, certification or statement made by the District or the Authority in or pursuant to the Standby Purchase Agreement or any Basic Document (as defined below) or in any certificate, financial statement or other document delivered pursuant to the Standby Purchase Agreement or any Basic Document (in any such case) has been incorrect or untrue in any materially adverse respect when made or deemed to have been made.
- (d) Certain Covenant Defaults. (i) The District defaults in the due performance or observance of the covenants contained in the Standby Purchase Agreement regarding maintenance of existence or use of proceeds or (ii) the District defaults in the due performance or observance of the negative covenants contained in the Standby Purchase Agreement.
- (e) Other Covenant Defaults. The District defaults in the due performance or observance of any term, covenant or agreement contained in the Standby Purchase Agreement (other than those covered by clause (b) or (d) above, clause (q)(ii) or (s) below, or those constituting a Termination Event) and such default, if capable of being remedied, remains unremedied for 30 days after written notice thereof has been given to the District and the Insurer by the Bank; provided that if any such term, covenant or agreement cannot be remedied within such 30-day period and so long as the District is proceeding with due diligence to remedy any default in the due performance or observance of such covenant which, if begun and prosecuted with due diligence, cannot be completed within a period of 30 days, then such 30-day period will be extended to the extent



necessary to enable the District to begin and complete the remedying of such default through the exercise of due diligence.

- (f) Invalidity. The Standby Purchase Agreement or any Basic Document (other than as contemplated in clause (o) below) or any material provision thereof, for any reason, ceases to be valid and binding on the District or the Authority, as the case may be, or in full force and effect or be declared to be null and void by a final non-appealable judgment of a court of competent jurisdiction, or the validity or enforceability of any such document or provision is contested by the District or the Authority, or the District or the Authority, as the case may be, denies that it has any or further liability or obligation under the Standby Purchase Agreement or any Basic Document.
- (g) Insolvency, Etc. The District or the Authority becomes insolvent or admits in writing its inability to pay its Debts (as such term is defined in the Standby Purchase Agreement) as they mature or declares a moratorium on the payment of its Debts or applies for, consents to or acquiesces in the appointment of a trustee, custodian, liquidator or receiver for itself or any substantial part of its property, or takes any action to authorize or effect any of the foregoing; or in the absence of any such application, consent or acquiescence, a trustee, custodian, liquidator or receiver is appointed for it or for a substantial part of its property or revenues and is not discharged within a period of 60 days; or the State or any other governmental authority having jurisdiction over the District or the Authority imposes a moratorium, debt restructuring, or comparable restriction on payment or repayment when due and payable of any lease obligation or the principal of or interest on any Debt of the Authority or the District, or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law or any dissolution or liquidation proceeding is instituted by or against the District or the Authority (or any action is taken to authorize or effect the institution by it of any of the foregoing) and if instituted against it, will be consented to or acquiesced in by it, or will not be dismissed within a period of 60 days.
- (h) Pledge, Etc. Any pledge or security interest created by the Indenture to secure the Lease Revenues fails to be fully enforceable with the priority required under the Indenture by reason of the enactment of or the repeal or amendment of any law applicable to the District or by reason of a final, non-appealable judgment of a court of competent jurisdiction.
- (i) Basic Document Default. The District or the Authority defaults in the due performance or observance of any material term, covenant or agreement contained in any other Basic Document and the same has not have been cured within any applicable cure period.
- (j) Cross-Defaults. The District fails to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) or otherwise defaults under any lease obligation or Debt of the District in an amount in the aggregate in excess of \$100,000, and such failure continues beyond any applicable period of grace specified in any underlying indenture, contract or instrument providing for the creation of or concerning such lease obligation or Debt.
- (k) Certain Unsatisfied Judgments. A judgment or court order for the payment of money in an amount in excess of \$100,000 is rendered against the District or the Authority, and such judgment or court order continues unsatisfied and in effect for a period of 60 consecutive days without being vacated, discharged, satisfied, or stayed or bonded pending appeal.
- (l) Downgrade. S&P and Moody's assigned a rating to any long-term Debt or obligations of the District below "BBB-" or "Baa3," respectively, or to any short-term Debt or obligations of the District below "A-3," with respect to Fitch, or "MIG 3" or "Prime 3," with respect to Moody's.

- (m) Insurer Insolvency, Etc. The Insurer admits in writing its inability to pay its Debts as they mature or a proceeding has been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidity or dissolution in respect of the Insurer under Article 74 of the Insurance Law of the State of New York or any successor provision thereto or under any similar bankruptcy or insolvency law and such proceeding is not terminated for a period of 60 consecutive days or such court enters an order granting the relief sought in such proceeding.
- (n) Repudiation by Insurer. The Insurer claims that the Insurance Policy, with respect to the payment of Accreted Value or interest borne by the Series 2007 Bonds, is not valid and binding on the Insurer, or the Insurer repudiates the obligations of the Insurer under the Insurance Policy with respect to payment of Accreted Value or interest borne by the Series 2007 Bonds, or the Insurer initiates any legal proceedings to seek an adjudication that the Insurance Policy, with respect to the payment of Accreted Value or interest borne by the Series 2007 Bonds, is not valid and binding on the Insurer.
- (o) Invalidity of Insurance Policy. Any court or governmental authority with jurisdiction to rule on the validity thereof finds, rules, decrees or issues an executive order that the Insurance Policy, or any provision thereof affecting the obligation of the Insurer to pay thereunder, is not valid and binding on the Insurer.
- (p) Payment Default by Insurer. Any default by the Insurer in making payment of principal and interest when, as and in the amounts required to be made pursuant to the express terms and provisions of any other municipal bond insurance policy insuring publicly rated debt delivered by the Insurer and senior to or on parity with the Insurance Policy unless the obligation of the Insurer is being contested in good faith by appropriate proceedings.
- (q) Downgrade of Insurer. (i) S&P and Moody's withdraw or suspend the financial strength rating of the Insurer (in the case of S&P only, for credit related reasons) or reduce such rating, in the case of S&P, below "BBB-" (or the then current equivalent thereof), and in the case of Moody's, below "Baa3" (or the then current equivalent thereof). (ii) Moody's reduces such rating to below "Aa3" (or the then current equivalent thereof) or S&P reduces such rating to below "AA-" (or the then current equivalent thereof), and, within 180 days of such reduction, neither (A) additional municipal bond insurance for the Series 2007 Bonds has been purchased from an alternate insurance company rated "AAA" or its equivalent, or if no such insurance company exists, from the highest rated insurance company then offering municipal bond insurance, nor (B) the interest rate with respect to the Series 2007 Bonds has been converted to a Fixed Rate.
- (r) Negative Certification. The District delivers or receives a negative certification of ability to meet fiscal year obligations to or from the County of San Diego Superintendent of Schools or the State Superintendent of Public Instruction pursuant to Section 42131 or any successor provision of the State Education Code.
- (s) Writ of Attachment. Any of the funds or accounts established pursuant to the Indenture or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the District and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within fifteen (15) days after its issue or levy.

- (t) Use of Proceeds. The District fails to use the proceeds of the Series 2007 Bonds for the purposes set forth in the Indenture.
- (u) Default Under Additional Liquidity Facility. Any event of default occurs under any agreement with any Additional Bank pursuant to which an Additional Liquidity Facility has been issued or obtained for any Additional Bonds and such default continues unremedied for any period of grace provided in such agreement.

In the event that any Event of Default specified in clause (a), (m), (n), (o), (p) or (q)(i), above, has occurred, the Liquidity Facility will immediately terminate automatically. Each such event is a “Termination Event” under the Standby Purchase Agreement.

In the event that any Event of Default described in clause (b), (q)(ii) or (s) above has occurred and is continuing, the Bank may, by delivery to the District, the Trustee and the Insurer of a Notice of Mandatory Tender, require the Trustee to effect a mandatory tender of the Series 2007 Bonds pursuant to the Indenture.

In the case of any Event of Default, including any Events of Default specified in clause (a), (b), (m), (n), (o), (p), (q) or (s) above, the Bank may petition a court of competent jurisdiction to issue a mandamus order to the District or the Authority to compel specific performance of the covenants of the District or the Authority, as the case may be, contained in the Standby Purchase Agreement, the Indenture or the Lease Agreement, and may pursue any other rights or remedies that it is entitled to pursue under the Standby Purchase Agreement, the Basic Documents, applicable law or otherwise; provided, however, the Bank has no right to accelerate any Base Rental Payments due under the Lease Agreement or the maturity of any Series 2007 Bonds.

For purposes of this caption, “Basic Documents” means the Indenture, the Lease Agreement, the Series 2007 Bonds, the Insurance Policy, the Remarketing Agreement, the Continuing Disclosure Agreement, the Ground Lease, the Tender Agreement, the certified resolutions of the District and the Authority authorizing the execution of the above documents to which each is a party, the certificates of the District and the Authority delivered pursuant to the Standby Purchase Agreement, the Tax Certificate or similar certificate of the Authority, and the Bond Purchase Agreement.

### **Substitute Facility**

Upon compliance with certain conditions specified in the Indenture, the District may cause the Standby Purchase Agreement to be replaced by a Substitute Facility. Any such Substitute Facility is required to be an irrevocable purchase agreement, letter of credit, surety bond, insurance policy, guaranty or other irrevocable credit facility, or any combination thereof, issued by one or more commercial banks or savings and loan associations, insurance companies or other financial institutions, the terms of which shall in all respects material to the interests of the Owners be the same as the Standby Purchase Agreement, except that the expiration date of the Substitute Facility may be later than the expiration date for the Standby Purchase Agreement and such expiration date shall be no less than one year after the date of substitution; provided, however, that any Substitute Facility shall, during the Capital Appreciation Period, have a term that extends at least until the date 90 days after the Capital Appreciation Conversion Date. For more information concerning mandatory tenders upon substitution of the Standby Purchase Agreement, see “THE SERIES 2007 BONDS - Optional and Mandatory Tender and Purchase of Series 2007 Bonds - Mandatory Tender Upon Expiration or Substitution of Standby Purchase Agreement or Event of Default With Respect Thereto” herein.

## THE PROPERTY

### The Property

The Property consists of approximately 27.22 acres of raw land located in San Diego, California, within the western portion of the District, on which the District intends to construct a middle school. The Property is surrounded by an area of developing homes. The District estimates that the raw land has an approximate “best use” value of \$39.45 million. The “best use” value assumes a single-family development as an alternative use, although the Property is not currently zoned for residential use.

### Substitution or Release

The Lease Agreement provides that, upon prior written approval of the Insurer and compliance with the other conditions specified therein, the District may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. See APPENDIX A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE AGREEMENT — Substitution or Release of the Property.”

## THE PROJECT

The District will deposit approximately \$25 million of the proceeds of the Series 2007 Bonds into the Project Fund as a source of interim financing for the acquisition, construction, installation, improvement, and equipping of certain schools and support facilities and land necessary for certain of such facilities described below, that are needed in advance of the receipt of future State grants, general obligation bonds, and other long-term revenue/funding sources. The proceeds of the Series 2007 Bonds to be deposited into the Project Fund will be applied as follows:

1. Expansion to Existing School Facilities. To the expansion (including planning therefor) of school facilities, including classrooms, multi-purpose and administration and auxiliary space, at each school needed to serve, directly or indirectly, the needs of the student population to be generated as a result of the development of the property within community facilities districts of the District, and the furnishing and equipping of such facilities. The schools for which expansion projects exist are as follows:

Adobe Bluffs Elementary School	Westwood Elementary School
Creskide Elementary School	Bernardo Heights Middle School
Deer Canyon Elementary School	Black Mountain Middle School
Monterey Ridge Elementary School	Meadowbrook Middle School
Morning Creek Elementary School	Mesa Verde Middle School
Park Village Elementary School	Oak Valley Middle School
Stone Ranch Elementary School	Mt. Carmel High School
Sundance Elementary School	Rancho Bernardo High School
Sunset Hills Elementary School	Westview High School
Turtleback Elementary School	

2. Construction of New School Facilities. To the planning, construction, and/or financing of new school facilities, including classrooms, multi-purpose and administration and auxiliary space, at each school needed to serve, directly or indirectly, the needs of the student population to be generated as a result of the development of the property within community facilities districts of the District, the acquisition of land necessary for certain of such facilities, and the furnishing and equipping of such facilities. The new schools are as follows:

Del Sur Elementary School  
 Willow Grove Elementary School  
 Del Norte High School

3. Other Facilities. In addition to expanding existing school facilities and constructing new school facilities, the District may acquire, construct, equip and furnish central administrative and support facilities.

The Project is expected to be completed by 2011. Under the Lease Agreement, the District can also use the Series 2007 Bond proceeds to fund other capital facility projects it deems a priority.

In addition, the District desires to repay an advance (the "Improvement Area A Advance") made to the District from the Improvement Fund of Improvement Area A of Poway Unified School District Community Facilities District No. 6 (4S Ranch) pursuant to the School Impact Mitigation Agreement, dated as of February 1, 1998, by and between the District and each of 4S Kelwood General Partnership, 4S Ranch Company, a California Limited Partnership and 4S Ranch Company 600, L.P., as supplemented by the Supplement to 4S Ranch School Impact Mitigation Agreement, dated June 17, 2002, among the District, Poway Unified School District Community Facilities District No. 6 (4S Ranch) and 4S Kelwood General Partnership.

### ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2007 Bonds are shown below.

#### SOURCES

Principal Amount of Series 2007 Bonds	\$ 34,783,991.00
Less Underwriter's Discount	(382,623.90)
Total Sources	\$ 34,401,367.10

#### USES

Project Fund	\$ 25,000,000.00
Repayment of Improvement Area A Advance	4,785,074.00
Reserve Fund <sup>(1)</sup>	3,478,399.10
Costs of Issuance <sup>(2)</sup>	1,137,894.00
Total Uses	\$ 34,401,367.10

<sup>(1)</sup> Represents the Reserve Requirement.

<sup>(2)</sup> Includes legal, financial advisory, rating agency, printing, Insurance Policy and Liquidity Facility premiums and fees and other miscellaneous costs of issuance.

### RISK FACTORS

*The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2007 Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an*

*investment in the Series 2007 Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.*

### **General Considerations**

The obligation of the District to pay the Base Rental Payments does not constitute a debt of the District or of the State or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay the Base Rental Payments from any source of legally available funds and the District has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments in its annual budgets and to make necessary annual appropriations therefor. The District is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Base Rental Payments.

The District has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to make Base Rental Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement.

### **Abatement**

In the event of substantial interference with the District's right to use and occupy any portion of the Property by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, Base Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS — Abatement." In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from the Reserve Fund or other funds and accounts established under the Indenture (including proceeds of the Insurance Policy), or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or redemption of the Series 2007 Bonds, there could be insufficient funds to make payments to Owners of the Series 2007 Bonds in full.

### **Source of Payment of Tendered Bonds**

The Purchase Price of tendered Bonds is payable solely from proceeds of the remarketing of such Bonds and amounts made available under the Standby Purchase Agreement. If such sources are inadequate for the purchase of all Bonds which are to be purchased on any Purchase Date, including on the Capital Appreciation Conversion Date, each Bond subject to such purchase will continue in the same Mode as in effect with respect thereto on the day prior to the Purchase Date to the date on which the earliest of the following occurs: (i) the date of conversion of such Bond to the Fixed Rate Mode, (ii) the date on which any default by the Bank under the terms of the Facility has been cured, or (iii) the date on which a Substitute Facility meeting the requirements of the Indenture hereof has been obtained. Neither the Authority, the District or the Insurer has any obligation to make payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase. See "THE SERIES 2007 BONDS —

Optional and Mandatory Tender and Purchase of Series 2007 Bonds — Purchase of Tendered Bonds” and “— Insufficient Funds for Purchases.”

### **Automatic Termination of Liquidity Facility**

In the event of the insolvency or default of the Insurer (and upon the occurrence of certain other events relating to the Insurer as provided in the Standby Purchase Agreement), the Liquidity Facility will automatically terminate or be suspended, and, in some circumstances, the termination or suspension will be immediate and without notice to Owners of the Series 2007 Bonds. See “LIQUIDITY FACILITY — Summary of Standby Purchase Agreement.”

### **Absence of Earthquake and Flood Insurance**

The District is not required under the Lease Agreement to maintain earthquake or flood insurance on the Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS - Insurance.” The District does not currently insure against the risks of earthquake or flood with respect to the Property and does not anticipate obtaining such insurance in the future.

### **Limited Recourse on Default**

If the District defaults on its obligations to make Base Rental Payments, the Trustee, as assignee of the Authority, may (subject to the restrictions described below) retain the Lease Agreement and hold the District liable for all Base Rental Payments on an annual basis and will have the right to reenter and relet the Property. In the event such reletting occurs, the District would be liable for any resulting deficiency in Base Rental Payments. Alternatively, the Trustee may (subject to the restrictions described below) terminate the Lease Agreement with respect to the Property and proceed against the District to recover damages pursuant to the Lease Agreement. The Lease Agreement provides that, so long as the Insurer is not in default under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Lease Agreement.

Due to the specialized nature of the Property, no assurance can be given that the Trustee will be able to relet any portion of the Property so as to provide rental income sufficient to make payments of principal and interest on the Series 2007 Bonds in a timely manner, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2007 Bonds. In addition, due to the governmental function of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and reletting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such reletting will not adversely affect the exclusion of any interest on the Series 2007 Bonds from federal or state income taxation.

### **No Acceleration Upon Default**

In the event of a default, there is no available remedy of acceleration of the Base Rental Payments due over the term of the Lease Agreement. The District will only be liable for Base Rental Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year’s Base Rental Payments.

## **Bankruptcy and Limitations on Remedies**

In addition to the limitations on remedies contained in the Lease Agreement and the Indenture, the rights and remedies provided in the Ground Lease, the Lease Agreement, the Indenture and the Standby Purchase Agreement may be limited by and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. The various legal opinions to be delivered concurrently with the issuance of the Series 2007 Bonds (including Bond Counsel's approving opinion) will be limited as to the enforceability of the Series 2007 Bonds, the Ground Lease, the Lease Agreement, the Indenture and the Standby Purchase Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint powers authorities and school districts in the State of California. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners of the Series 2007 Bonds.

## **Substitution or Release of Property**

The Lease Agreement provides that, upon the consent of the Insurer and satisfaction of the other conditions specified therein, the District may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. The Lease Agreement does not require that the property which will comprise the Property after such release or substitution have an annual fair rental value equal to 100% of the annual fair rental value of the property comprising the Property at the time of substitution or release. Thus, a portion of the property comprising the Property could be replaced with less valuable property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2007 Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release.

## **Loss of Tax Exemption**

As discussed under the heading "TAX MATTERS," certain acts or omissions of the District in violation of its covenants in the Indenture and the Lease Agreement could result in the interest on the Series 2007 Bonds being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2007 Bonds. Should such an event of taxability occur, the Series 2007 Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until prepaid under the provisions contained in the Indenture.

## **Seismic Factors**

The District, like most regions in the State, is located in an area of seismic activity from movements along active fault zones and, therefore, could be subject to potentially destructive earthquakes. In particular, the Rose Canyon Fault is located in the Pacific Ocean approximately nine miles west of the District's boundaries. Additionally, numerous minor faults transect the area. Seismic hazards encompass both potential surface rupture and ground shaking. The occurrence of severe seismic activity in the area of the District could result in substantial damage and interference with the District's right to use and occupy all or a portion of the Property, which could result in the Base Rental Payments being subject to abatement. See "-Abatement" above. The District is not required by the Lease Agreement or otherwise to obtain or maintain earthquake insurance for the Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS — Insurance."



## **Economic Conditions in California**

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because much of the District's revenues derive from payments from the State, the District's revenues vary significantly from year to year, even in the absence of significant education policy changes. Decreases in the State's General Fund revenues may significantly affect appropriations made by the State to school districts, including the District. See "DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION — State Funding of Education; State Budget Process" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS — Proposition 98 and Proposition 111."

## **Terrorist Attacks and Hostilities**

On September 11, 2001, terrorist attacks occurred in New York City and Washington, D.C., causing significant damage and casualties. Subsequently, in an effort to counter terrorist activities, the United States has been engaged in ongoing hostilities. The District is unable to determine the future impact to the District resulting from these or similar events, if any, on, among other things, the local or State economy.

## **No Liability of Authority to the Owners**

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2007 Bonds with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

## **THE AUTHORITY**

The Authority is a joint powers authority established by the District and Community Facilities District No. 1 of the District ("CFD No. 1") and constitutes a public instrumentality of the State. The Authority was formed for the public purpose of assisting in financing public capital improvements for the District. The debts of the Authority are not an obligation of either the District or CFD No. 1. The Authority was formed pursuant to a Joint Powers Agreement, dated October 21, 2002, by and between the District and CFD No. 1. The Authority is governed by a five-member Board of Directors which consists of all members of the Board of Education of the District. The President of the Board of Directors has been appointed the President of the Authority. The District Superintendent acts as the Secretary of the Authority.

The Joint Exercise of Powers Act, Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code (the "Joint Powers Act"), provides for the issuance of revenue bonds of joint powers authorities, such as the Authority, to be repaid solely from the revenues of certain public obligations. The Authority has no taxing power. Pursuant to the Joint Powers Act, the Authority is authorized to issue its revenue bonds for the purpose of financing, among other things, public capital improvement projects or to refund outstanding obligations of local entities.

THE SERIES 2007 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE LEASE REVENUES, INCLUDING THE BASE RENTAL PAYMENTS TO BE MADE BY THE DISTRICT UNDER THE LEASE AGREEMENT FOR THE USE OF THE PROPERTY, AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE

INDENTURE AS DESCRIBED HEREIN. THE AUTHORITY IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS, EXCEPT FROM LEASE REVENUES RECEIVED BY THE AUTHORITY. THE OBLIGATION OF THE DISTRICT TO PAY THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Authority may issue obligations other than the Series 2007 Bonds, which other obligations are and will be secured by instruments and revenues separate and apart from the Indenture and the Series 2007 Bonds. The holders of such obligations of the Authority have no claim on the security of the Series 2007 Bonds and the owners of the Series 2007 Bonds will have no claim on the security of such other obligations issued by the Authority.

## **DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION**

### **History, Operation and Administration**

The District is located north of the City of San Diego (herein referred to as, the “City”). The District was originally formed in 1962. The District currently covers approximately 99.1 square miles in the central portion of the County and includes the City of Poway and portions of the City and the County, including the communities of Black Mountain Ranch, Del Sur, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The District currently operates twenty-three elementary schools, six middle schools, four high schools, one continuation high school and one adult school. The District estimates that it had approximately 32,873 students enrolled during Fiscal Year 2006-07.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial reports of the District may be obtained by contacting: Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3034, Attention: Deputy Superintendent.

The governing board of the District is the Board of Education of the Poway Unified School District (the “Board”). The Board consists of five members who are elected at large to overlapping four-year terms at elections held every two years. If a vacancy arises during any term, the vacancy is filled by an appointment by the majority vote of the remaining board members and if there is no majority by a special election. Each January, the Board elects a President and a Clerk to serve one-year terms.

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Jeff Mangum	President	November 2010
Linda Vanderveen	Vice President	November 2008
Andy Patapow	Clerk	November 2008
Todd Gutschow	Member	November 2010
Penny Ranfle	Member	November 2010

### **Superintendent and Administrative Personnel**

The superintendent of Schools of the District is appointed by the Board and reports to the Board. The superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and certain key administrative personnel is set forth below.

The following are brief biographical sketches of the District's key administrative personnel.

***Donald A. Phillips, Ed.D., Superintendent.*** A former social science teacher, Don Phillips holds a Masters Degree in Education and a Doctorate in Education, Administration, Planning, and Social Policy from Harvard. He was selected as superintendent of Poway Unified School District in September of 2001 and has a total of 27 years of experience in the field of education administration. He served as principal at both the middle and high school levels and has 17 years of experience as a school district superintendent.

Dr. Phillips is also an active member of many superintendent advisory groups, including the National College Board Superintendent's Advisory Committee, the American Association of School Administrators ("AASA") and the Suburban Schools Advisory Committee, and he was recently elected as a member of the AASA's Governing Board. His commitment to continuous learning is reflected in his numerous contributions to publications and workshops at both the state and national levels.

***John Collins, Deputy Superintendent.*** John Collins began his public education career at the District in September of 1989, and has served in the positions of Assistant Principal, Principal, Area Superintendent, Assistant Superintendent, Associate Superintendent and Interim Superintendent. He has served in his current position as the Deputy Superintendent for over 6 years. Prior to working at the District, Mr. Collins taught middle and high school in the San Diego Unified School District.

### **State Funding of Education; State Budget Process**

***General.*** As is true for all school districts in California, District operating income consists primarily of two components: a State portion funded from the State's general fund and a locally-generated portion derived from the District's share of the 1% local *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. In the Fiscal Years ended June 30, 2005 and June 30, 2006, the District received approximately 50.56% and 49.72%, respectively, of its general fund revenues from State funds. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. 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 2006-07 Budget Act on June 30, 2006. As of the date of this Official Statement, the State Legislature had not yet adopted a budget for Fiscal Year 2007-08.

On May 29, 2002, the State Court of Appeal held in *White v. Davis* (also referred to as *Jarvis v. Connell*) that the State Controller cannot disburse State funds after the beginning of the fiscal year until the adoption of the budget bill or an emergency appropriation, unless the expenditure is (i) authorized by a continuing appropriation found in statute, or (ii) mandated by the 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 court specifically held that the State Constitution does not mandate or otherwise provide for appropriations for school districts without an adopted budget. Nevertheless, the Controller believes that statutory implementation of the constitutional school funding formula provides for a continuing appropriation of State funding for schools, and has indicated that payment of such amounts would continue during a budget impasse. Special and categorical funds would not be appropriated until a budget or emergency appropriation is adopted. Should the Legislature fail to pass the 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* 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* decision to have any long-term effect on its operating budgets.

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. Brief descriptions of the adopted State budget for 2006-07 and the proposed State budget for 2007-08 are included below. However, the District cannot predict how State income tax and other receipts and State funding of education will vary over the entire term of the Series 2007 Bonds. 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](http://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](http://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](http://www.treasurer.ca.gov). The information contained in the websites referred to herein 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 such references.

***Aggregate State Education Funding.*** 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.

The guaranteed funding 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 the various factors change. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow. On average, about 40% of State general fund tax proceeds are currently spent on the State's share of Proposition 98 funding.

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 may be suspended for one year at a time by enactment of an urgency statute. In subsequent years in which State general fund revenues are growing faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount.

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. The State has also sought to avoid 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 permanently deferring year-end apportionments of Proposition 98 funds from June 30 to July 2, to reduce the ending fiscal year's base; and by suspending Proposition 98, as the State did in 2004-05.

Existing settle-up obligations are estimated by the Legislative Analyst to total \$4.3 billion, consisting of \$1.3 billion for 2005-06, \$1.6 billion for 2004-05, and \$1.4 billion for prior years. Under current law, the obligations for the prior years, 1995-96 through 2003-04, will be repaid to the education budget at \$150 million per year beginning in 2006-07. The California Teachers' Association filed a lawsuit against Governor Schwarzenegger in 2005 seeking to force the State to fund schools the full amount of the outstanding obligations. The parties have agreed to a settlement of this dispute through additional annual funding of approximately \$400 million for seven years, commencing in 2007-08. Settlement funds are dedicated to class-size reduction, professional development, hiring counselors, and other specific expenditures for participating low-achieving schools.

***Recent State Budget Difficulties and Initiative Responses.*** Since early 2001, structural imbalances in State revenues versus expenditures have created significant financial challenges for the State. The three main traditional sources of State tax revenues, personal income taxes, sales and use taxes, and corporate taxes, suffered disproportionately in the most recent economic downturn, revealing inherent weakness in the State's reliance on them. Meanwhile, large portions of the State's expenditure budget are relatively fixed, causing a perennial revenue shortfall and an accumulated deficit in the tens of billions of dollars. Two measures intended to address the existing cumulative budget deficit and to implement structural reform were approved at the March 2, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorized the issuance of up to \$15 billion of bonds to finance the State negative general fund reserve balance as of June 30, 2004 and other general fund obligations undertaken prior to June 30, 2004. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing. The State has issued \$10.896 billion of the authorized Economic Recovery Bonds.

***Proposition 1A.*** Beginning in 1992-93, the State has satisfied a portion of its Proposition 98 obligations by shifting part of the 1% local *ad valorem* property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a

local Educational Revenue Augmentation Fund (ERAF) in each county. In response to a statewide ballot initiative sponsored by affected local agencies, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election.

Proposition 1A is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Beginning in Fiscal Year 2008-09, the State will be able to divert up to 8% of local property tax revenues for State purposes (including, but not limited to, funding K through 12 education) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe any repayment to local agencies for past property tax or Vehicle License Fee diversions to local agencies; and (v) such property tax diversions do not occur in more than two of any ten consecutive fiscal years. Because ERAF shifts will be capped and limited in frequency, school and college districts that receive Proposition 98 funding from the State will be more directly dependent upon the State's general fund.

**2006-07 State Budget.** The Governor signed the State's 2006-07 Fiscal Year budget on June 30, 2006, although subsequent legislation may affect final budget totals. The following information relating to the funding of K-12 education is adapted from the budget summary prepared by the Legislative Analyst's Office. The budget includes Proposition 98 funding for K-12 schools and community colleges of approximately \$55.1 billion, an increase of about 10.3% from the enacted 2005-06 spending level, and approximately \$600 million more than the Proposition 98 minimum guarantee. New, ongoing enhancements to K-12 expenditures total \$4.5 billion, including \$2.6 billion in both statutory and discretionary cost-of-living adjustments (5.92%) to district revenue limits and most categorical programs; an increase of \$426 million to implement Proposition 49 (After-School Education and Safety Program); \$350 million to address the inequities in revenue limit funding levels across school districts; \$350 million to the Economic Impact Aid Program to educate economically disadvantaged and English learner students; \$309 million to eliminate the revenue limit "deficit factor" for school districts and county offices of education; \$200 million for school counselors; \$105 million for a new arts and music block grant; \$67 million for additional subsidized child care; \$50 million to expand preschool programs, and \$50 million for supplemental instruction for 11th- and 12th-grade students who have not passed the High School Exit Exam. The budget also includes an additional \$2.5 billion for K-12 schools in one-time funds, including \$927 million for mandated State reimbursements to school districts deferred from prior years; \$584 million in discretionary block grants for instructional materials, maintenance, professional development and fiscal obligations; \$500 million in grants for supplies and equipment for art, music and physical education; \$137 million of *Williams v. State of California* settlement funds for emergency facilities repairs to the State's neediest schools, and \$100 million in grants for instructional materials, library materials, or one-time educational costs.

The budget does not include an appropriation for settlement of the California Teachers' Association lawsuit concerning suspension of Proposition 98, which the Governor has negotiated with the teachers' union. While the funding of the settlement (approximately \$400 million per year for seven years beginning in 2007-08) is not included in the budget, the 2006-07 Proposition 98 spending level reflects upward adjustments to prior-year spending as if the settlement had been finalized.

**Proposed 2007-08 Governor's Budget.** On January 10, 2007, Governor Schwarzenegger released his Proposed Budget for Fiscal Year 2007-08 (the "2007-08 Proposed State Budget"). The 2007-08 Proposed State Budget projects General Fund revenues (including transfers) for Fiscal Year 2007-08 of \$101.3 billion, an increase of 7.2% above the anticipated revenues and transfers for Fiscal Year 2006-07, and General Fund expenditures of \$103.1 billion, an increase of 1.0% above the anticipated expenditures for Fiscal Year 2006-07. The 2007-08 Proposed State Budget proposes a major redirection of transportation funds, reductions in social services and a variety of other actions to eliminate a

significant shortfall in 2007-08. The 2007-08 Proposed State Budget provides for \$56.8 billion in total K-14 Proposition 98 funding. This is an increase of \$1.8 billion, or 3.3%, over the revised current-year estimate. The low growth in General Fund expenditures on Proposition 98 in 2007-08 is due to two factors: (i) a transfer of \$627 million in home-to-school transportation expenses to a transportation special fund; and (ii) nearly 10% property tax growth (which offsets, dollar for dollar, State General Fund obligations to Proposition 98).

The following information relating to the funding of K-12 education is adapted from the Overview of the Governor's Budget from the Legislative Analyst Office. Proposition 98 may significantly be affected by the 2007-08 Proposed State Budget. If the Home-to-School Transportation program expenses of \$627 million are transferred to a special transportation fund as proposed, total K-12 Proposition 98 funding would increase by \$1.4 billion, or 2.9%, from 2006-07. If the shift does not occur, total K-12 Proposition 98 funding would increase by \$2.1 billion, or 4.2%, from 2006-07. Proposition 98 per pupil funding rates are also complicated by the proposed shift. If the shift were to occur, the 2007-08 Proposition 98 per pupil funding rate would be \$8,525, an increase of \$275, or 3.3%, from the revised current-year estimate. If the shift were not to occur, the 2007-08 per pupil funding rate would be \$8,631, an increase of \$381, or 4.6%, over 2006-07. The 2007-08 Proposed State Budget contains relatively few Proposition 98 program expansions. The 2007-08 Proposed State Budget provides \$1.9 billion for a 4.04% cost-of-living adjustment, which consists of \$1.4 billion for revenue limits and \$516 million for categorical programs. In addition, the 2007-08 Proposed State Budget proposes to increase Proposition 98 funding for CalWORKs child care by \$269 million, which would free a comparable amount of federal Temporary Assistance for Needy Families funds for other CalWORKs purposes, thereby offsetting General Fund costs and creating savings for the State. The 2007-08 Proposed State Budget shows approximately \$90 million in associated attendance-related savings and assumes that student attendance will decline by 0.39% from 2006-07 to 2007-08. The 2007-08 Proposed State Budget also includes the following expenditures from one-time funds: \$268 million of Proposition 98 funds for reducing class size in grades 4-12 in about 500 low-performing schools through the Quality Education Improvement Act; \$6.9 billion in bond moneys in 2006-07 and 2007-08 for school facilities; \$186 million from the Proposition 98 Reversion Account for emergency facilities repairs at low performing schools (\$100 million), facility lease costs for charter schools located in low-income areas \$44 million); and child care (\$26 million); \$65 million in 2006-07 attendance-related savings for various one-time purposes, such as continuing teacher block grants to low performing schools for a third year (\$50 million); and establishing a new program to recruit retiring professionals into teaching (\$10 million).

The Legislative Analyst's Office reports that if the administration's budget assumptions were to hold, the 2007-08 Proposed State Budget would both (i) produce a balanced budget with a healthy reserve in 2007-08 and (ii) significantly reduce the State's ongoing structural shortfall. However, the Legislative Analyst's Office has indicated that even if all the budget's proposals were adopted, it is likely that the actual amount of budget savings and new revenues would fall short of the levels estimated by the administration, and reports that the Governor's key budget proposals raise a number of serious policy and legal issues, which may make their implementation problematic. The text of the 2007-08 Proposed State Budget may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget" and the Legislative Analyst's Office's analysis of the 2007-08 Proposed State Budget is posted at [www.lao.ca.gov](http://www.lao.ca.gov).

**May Revision to the 2007-08 Proposed State Budget.** On May 14, 2007, the Governor released the May Revision to the 2007-08 Proposed State Budget (the "May Revision"). The May Revision projects State General Fund revenues and transfers will be approximately \$102.3 billion (inclusive of State General Fund revenues transferred to the Budget Stabilization Account) and State General Fund expenditures will be approximately \$103.8 billion for Fiscal Year 2007-08, resulting in a \$1.5 billion excess of expenditures over revenues for Fiscal Year 2007-08. The budget imbalance between the

anticipated revenues and transfers and the proposed expenditures is expected to be addressed by Fiscal Year 2006-07's projected ending reserve fund balance of \$3.7 billion, which would result in an expected year-end reserve balance of approximately \$2.2 billion.

The May Revision reflects an aggregate \$2.3 billion in lower revenues and higher costs relative to the budget outlook set forth in the 2007-08 Proposed State Budget, including \$809 million in additional costs relating to Proposition 98 funding, \$521 million in additional costs relating to revised revenues forecasts and \$438 million in higher program costs. The May Revision proposes approximately \$2.4 billion in new budget solutions, including the expansion of the Home to School Transportation Program to generate \$200 million in additional revenues and the additional mid-year reductions to departmental budgets for \$46 million in savings.

For Fiscal Year 2005-06, Proposition 98 funding was \$53.3 billion (reflecting the guarantee level as recalculated pursuant to the Proposition 98 Settlement Agreement), \$39.7 billion or 74.5% of which was funded by the State General Fund and the remainder of which was funded from local property taxes. The Fiscal Year 2006-07 Proposition 98 funding is estimated to be \$55.4 billion, a 3.9% increase over Fiscal Year 2005-06. The State General Fund share in Fiscal Year 2006-07 is \$41.2 billion or 74.4%. These funding levels reflect the higher attendance estimates and the cost of apportionments for Fiscal Year 2006-07. Under the May Revision, Proposition 98 funding for Fiscal Year 2007-08 is proposed to be \$57.6 billion, a 4% increase over the 2007-08 Proposed State Budget estimate. The General Fund comprises approximately 72.7%, or \$41.9 billion of total Proposition 98 funding. The total Proposition 98 funding includes amounts allocated for K-12 education, community colleges and other state agencies that serve students. K-12 Proposition 98 per-pupil expenditures in the May Revision are \$8,681 (compared to the \$8,636 per-pupil expenditure set forth in the LAO Overview described below) for Fiscal Year 2007-08, an increase over the \$8,569 in the 2007-08 Proposed State Budget.

Certain of the features of the May Revision pertaining to K-12 education include the following:

1. The May Revision provides for full funding of the Proposition 98 guarantee, including an increase in the State General Fund share of Proposition 98 funding by \$113 million for Fiscal Year 2007-08 due primarily to an increase in the minimum guarantee.

2. The May Revision provides for the restoration of Proposition 98 funding for the Home-to-School Transportation program in the amount of \$627 million.

3. The May Revision provides an additional \$226.8 million to fund the K-12 COLA, including \$160.8 million for revenue limits, \$17.8 million for special education, \$7.5 million for child care programs, \$9 million for class size reduction and \$31.7 million for various categorical programs, which results in the K-12 COLA increasing 4.53%, relative to the 4.04% set forth in the 2007-08 Proposed State Budget.

4. The May Revision includes an additional \$542 million in one-time funding for K-14 expenses, thereby increasing the aggregate amount allocated to such funding to \$803 million, which amounts include \$196 million for the Emergency Repair Program, \$100 million for a special initiative relating to school safety plans, \$50 million for K-12 career technical equipment, \$65 million for assisting districts in providing the state with student-level data, \$50 million for teacher recruitment and retention, \$20 million for English learner supplemental materials, \$48 million to cover deficiencies in mandatory supplemental instruction programs and \$44 million for charter school facilities.

5. The May Revision proposes funding for certain ongoing initiatives, including \$50 million for expanding preschool, \$25 million to fund a higher reimbursement rate for the school meals program,



\$75 million for hiring career technical education teachers and counselors and \$50 million for new teachers of college preparatory classes, \$100 million of the last two programs being funded through a redirection of \$100 million from the High Priority School Grant Program.

6. The May Revision does not provide for additional funding for the ongoing costs of mandates, which are estimated to be approximately \$185 million in Fiscal Year 2007-08.

On May 15, 2007, the LAO released an analysis of the May Revision entitled Overview of the 2007-08 May Revision (the "LAO Overview"). According to the LAO Overview, the economic and revenue forecasts set forth in the May Revision are generally reasonable in light of the economic uncertainties associated with the housing market and the prices of crude oil and retail gasoline, but also contain risks attendant to court cases with large fiscal liabilities, retiree health unfunded liabilities (identified to be \$47.9 billion by the State Controller) and lower-than-expected property tax receipts. With respect to Proposition 98 funding, the LAO Overview also highlights (i) a \$366 million deficiency (as adjusted for the Fiscal Year 2007-08 COLA) due to \$350 million in revenue limit equalization for Fiscal Year 2006-07 not being carried forward and recognized as part of the costs to the base budget for Fiscal Year 2007-08 and (ii) significantly lower growth in property tax receipts received by K-12 school districts for Fiscal Year 2005-06 relative to the growth in overall property tax receipts throughout the State, which difference resulted in higher costs being recognized in the May Revision and which trend could result in \$310 million in additional Proposition 98 General Fund costs in Fiscal Year 2006-07 and \$350 million in additional Proposition 98 General Fund costs in Fiscal Year 2007-08. The LAO Overview also states that the May Revision relies on a number of optimistic assumptions that could result in the State's General Fund reserve at the end of Fiscal Year 2007-08 being overstated by as much as \$1.7 billion (which would result in a \$529 million reserve). According to the LAO Overview, based on its assessment of the out-year revenue and expenditure implications of the May Revision, operating shortfall would be approximately \$5 billion in Fiscal Year 2008-09 and approximately \$3 billion in Fiscal Year 2010-11. The LAO Overview further states that the State Legislature will face a significant challenge to develop a Fiscal Year 2007-08 budget that realistically reflects revenues and spending while maintaining a prudent reserve, and reiterated that the State Legislature should identify solutions that realistically balance the State's finances on an ongoing basis while avoiding new ongoing commitments absent identified funding therefor.

***Changes in State Budget.*** The final 2007-08 State Budget, which requires approval by a two-thirds vote of each house of the State Legislature, may differ substantially from the Governor's original budget proposal and the May Revision. There can be no assurances that the final Fiscal Year 2007-08 State Budget will not place additional burdens on school districts, or will not significantly reduce revenues to school districts. In addition, the State Budget will be affected by national and state economic conditions and other factors. Accordingly, the District cannot predict the ultimate impact that the final approved Fiscal Year 2007-08 State Budget, or subsequent budgets, will have on its finances and operations. In the event the final Fiscal Year 2007-08 State Budget includes decreases in District revenues or increases in required District expenditures from the levels assumed by the District, the District will be required to curtail programs and/or services to ensure a balanced budget.

***Future Budgets.*** The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. The State budget will be affected by national and state economic conditions and other factors over which the District will have no control.

***Allocation of State Funding to School Districts.*** Under Education Code Section 42238 and following, each school district is 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

(“A.D.A.”). The base revenue limit is 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 is 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 increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State’s contribution.

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

The following table sets forth (i) the District’s actual A.D.A., enrollment and base revenue limit per A.D.A. for Fiscal Years 2002-03 through 2005-06, and (ii) the District’s estimated A.D.A., enrollment and base revenue limit per A.D.A. for Fiscal Year 2006-07:

**POWAY UNIFIED SCHOOL DISTRICT  
Average Daily Attendance And Enrollment  
Fiscal Years 2002-03 Through 2006-07**

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>	<u>Enrollment</u>	<u>District Base Revenue Limit</u>
2002-03	31,405	32,754	\$4,753.00
2003-04	31,663	33,031	4,623.54
2004-05	31,817	32,749	4,809.31
2005-06	31,524	32,670	5,125.00
2006-07 <sup>(1)</sup>	31,738	32,873	5,527.00

<sup>(1)</sup> Estimated.  
Source: The District.

In its 2006-07 estimated actual financial results, the District estimates that it will receive \$178,766,419 in aggregate revenue limit income in 2006-07, or approximately 67.89% of its total general fund revenues. This amount represents an increase of 8.21% from the \$165,204,556 that the District received in 2005-06. State funds for special (categorical) programs are estimated at \$60,752,194 for 2006-07, including the State lottery fund portion. Lottery funds 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 for 2005-06 was \$5,075,056 and is estimated at approximately \$4,839,600 for 2006-07.

**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 one-percent 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 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; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State aid, and receives 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 are known colloquially as “basic aid districts.” Districts that receive some State aid are commonly referred to as “revenue limit districts.”

The District is not a “basic aid district.” Local property tax revenues account for approximately 55.88% of the District’s aggregate revenue limit income, and are estimated at \$97 million, or 38.27% of total general fund revenue in 2006-07. The County is a “Teeter Plan” county, which means that the District is made whole for any delinquencies in payment of property taxes by local property owners. For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” below.

Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a “project area” of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as “tax increment”) belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. For revenue limit districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State. In neither case are taxes collected for payment of debt service on school bonds affected or diverted. Certain school districts may enter into “pass-through agreements” with their local redevelopment agencies in order to receive a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on redevelopment agency tax-increment bonds), and in some cases the pass-through is mandated by statute.

### **Local Property Taxation**

**General.** Taxable property located in the District has a 2006-07 assessed value of approximately \$28,738,104,588. All taxable property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. State law also exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling provided that the owner files for such exemption. This exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

The assessment of all property and levy and collection of local property taxes is required to be performed for the District by the County. District property taxes are assessed and collected by the County at the same time and on the same rolls as county, special district, and city property taxes. The valuation of secured property and a statutory tax lien is established as of January 1 and is subsequently equalized in August of each year. The resulting secured property tax is payable in two equal installments due November 1 and February 1, and payments become delinquent on December 10 and April 10, respectively. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year. Taxes on unsecured property are levied at the preceding fiscal year’s tax rate and become delinquent on October 31.

Future assessed valuation growth allowed under Article XIII A (as a result of new construction, certain changes of ownership, and increases in the cost of living of up to 2% per year) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenue from growth in an agency tax base is affected by the existence or establishment of redevelopment agencies which, under certain circumstances, may be entitled to such revenues.

For assessment and collection purposes, property is classified as either “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 real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property, business inventories, boats and airplanes. Unsecured property is assessed on the “unsecured roll.”

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

Continuing changes in the California electric utility industry structure and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District cannot predict the impact that these changes may have on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets or the State’s methods of assessing utility property and allocating tax revenues to local taxing agencies, including the District.

**Assessed Valuation of Property Within District.** Shown in the following table are the assessed valuations of property in the District for Fiscal Years 2002-03 through 2006-07.

**POWAY UNIFIED SCHOOL DISTRICT  
Assessed Valuations  
Fiscal Years 2002-03 through 2006-07**

Fiscal Year	Local Secured	Utility	Unsecured	Total Before Rdv. Increment	Total After Rdv. Increment
2002-03	\$17,455,156,787	\$684,163	\$871,777,334	\$18,327,618,284	\$15,483,362,145
2003-04	19,607,094,982	339,100	762,412,003	20,369,846,085	17,726,313,590
2004-05	21,858,610,379	1,342,918	715,721,024	22,575,674,321	19,720,252,688
2005-06	24,632,553,645	1,342,918	745,788,657	23,379,685,220	22,125,392,480
2006-07	27,779,533,552	1,342,918	957,228,118	28,738,104,588	25,224,594,433

Source: California Municipal Statistics, Inc.

**Largest Taxpayers.** The following table shows the twenty largest taxpayers in the District for Fiscal Year 2006-07.

**POWAY UNIFIED SCHOOL DISTRICT  
Twenty Largest Taxpayers  
Fiscal Year 2006-07**

Property Owner	Primary Land Use	2006-07 Assessed Valuation	Percent of Total <sup>(1)</sup>
1. Kilroy Realty LP	Commercial	\$ 236,915,418	0.85%
2. Hewlett-Packard Co.	Industrial	149,860,798	0.54
3. Cymer Inc.	Commercial	131,773,937	0.47
4. Pacific Carmel Mountain Holdings LP	Commercial	117,714,630	0.42
5. Sony Corp. of America	Industrial	103,023,472	0.37
6. Alliance I LLC	Apartments	89,505,000	0.32
7. Shea Homes LP	Residential Development	74,727,800	0.27
8. I&G the Point Inc.	Commercial	74,500,000	0.27
9. Slough Poway I LLC	Industrial	73,036,260	0.26
10. BRE Properties Inc.	Apartments	70,725,733	0.25
11. BAE Systems Mission Solutions Inc.	Industrial	70,650,830	0.25
12. Arden Realty Finance	Commercial	70,517,255	0.25
13. NCR Corp.	Commercial	60,196,097	0.22
14. Rreef America REIT II Portfolio LP	Commercial	57,813,987	0.21
15. Toppan Optical Products Inc.	Industrial	56,801,563	0.20
16. CCC Retirement Communities I LP	Convalescent Hospital	56,323,570	0.20
17. Miller Brothers Investment Company	Commercial	52,336,044	0.19
18. CLPF-Carmel Mountain LP	Industrial	51,000,000	0.18
19. Costco Wholesale Corp.	Commercial	48,304,599	0.17
20. Aslan Bernardo Hills LLC	Apartments	46,846,245	0.17
		<b>\$1,692,573,238</b>	<b>6.09%</b>

<sup>(1)</sup> 2006-07 Local Secured Assessed Valuation: \$27,779,533,552  
Source: California Municipal Statistics, Inc.

**Assessed Valuation by Land Use.** The following table gives a distribution of taxable property located in the District on the 2006-07 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**POWAY UNIFIED SCHOOL DISTRICT  
Assessed Valuation and Parcels by Land Use**

	2006-07 Assessed Valuation		2006-07 Taxable Parcels	
	Secured Valuation <sup>(1)</sup>	% of Total	Number of Parcels	% of Total
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 106,523,563	0.38%	459	0.72%
Commercial	2,794,342,537	10.06	681	1.07
Vacant Commercial	23,562,661	0.08	42	0.07
Industrial	1,994,092,829	7.18	379	0.60
Vacant Industrial	92,965,915	0.33	88	0.14
Recreational	101,523,636	0.37	59	0.09
Government/Social/Institutional	<u>13,184,317</u>	<u>0.05</u>	<u>1,492</u>	<u>2.35</u>
Subtotal Non-Residential	\$5,126,195,458	18.45	3,200	5.05%
<b>Residential:</b>				
Single Family Residence	\$17,415,867,985	62.69%	40,739	64.27%
Condominium/Townhouse	4,152,645,343	14.95	14,785	23.32
Mobile Home	31,021,536	0.11	444	0.70
Multi-Family Residential/Apartments	877,650,008	3.16	134	0.21
Miscellaneous Residential	1,339,536	0.00	132	0.21
Vacant Residential	<u>174,813,686</u>	<u>0.63</u>	<u>3,956</u>	<u>6.24</u>
Subtotal Residential	\$22,653,338,094	81.55%	60,190	94.95%
<b>TOTAL</b>	\$27,779,533,552	100.00%	63,390	100.00%

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

**Assessed Valuation of Single Family Homes.** The following table shows the assessed valuation of single family homes in the District for Fiscal Year 2006-07.

**Per Parcel 2006-07 Assessed Valuation of Single Family Homes**

	No. of Parcels	2006-07 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	40,739	\$17,415,867,985	\$427,499	\$338,287

2006-07 Assessed Valuation	No. of Parcels <sup>(1)</sup>	Percent of Total	Cumulative Percent of Total	Total Valuation	Percent of Total	Cumulative Percent of Total
\$0 - \$24,999	2,125	5.216%	5.216%	\$ 154,968,368	0.890%	0.890%
\$25,000- \$49,999	4,815	11.819	17.035	766,202,686	4.399	5.289
\$50,000- \$74,999	10,124	24.851	41.886	2,535,398,289	14.558	19.847
\$75,000- \$99,999	7,379	18.113	59.999	2,547,975,373	14.630	34.477
\$100,000- \$124,999	4,585	11.255	71.254	2,047,678,483	11.758	46.235
\$125,000- \$149,999	3,417	8.388	79.641	1,874,412,997	10.763	56.998
\$150,000- \$174,999	2,744	6.376	86.377	1,774,389,337	10.188	67.186
\$175,000- \$199,999	1,752	4.301	90.677	1,305,051,700	7.493	74.679
\$200,000- \$224,999	1,069	2.624	93.301	904,616,571	5.194	79.874
\$225,000- \$249,999	797	1.956	95.258	755,828,321	4.340	84.214
\$250,000- \$274,999	518	1.272	96.529	540,535,095	3.104	87.317
\$275,000- \$299,999	305	0.749	97.278	349,913,575	2.009	89.326
\$300,000- \$324,999	228	0.560	97.837	283,918,705	1.630	90.957
\$325,000- \$349,999	192	0.471	98.309	257,968,978	1.481	92.438
\$350,000- \$374,999	140	0.344	98.652	201,782,288	1.159	93.596
\$375,000- \$399,999	113	0.277	98.930	175,070,571	1.005	94.602
\$400,000- \$424,999	82	0.201	99.131	134,942,498	0.775	95.377
\$425,000- \$449,999	50	0.123	99.254	87,666,925	0.503	95.880
\$450,000- \$474,999	54	0.133	99.386	100,052,056	0.574	96.454
\$475,000 - \$499,999	48	0.118	99.504	93,660,807	0.538	96.992
\$500,000 and greater	202	0.496	100.000	523,834,362	3.008	100.000
<b>Total</b>	<b>40,379</b>	<b>100.000%</b>		<b>\$17,415,867,985</b>	<b>100.000%</b>	

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

**Tax Rates.** The following table summarizes the total *ad valorem* tax rates for the last several years in typical tax rate areas (“TRA”) within the District: TRA 8-262 and TRA 17-030. TRA 8-262 consists of approximately 33.58% of the total assessed value of taxable property in the District. TRA 17-030 consists of approximately 2.18% of the total assessed value of taxable property in the District.

**POWAY UNIFIED SCHOOL DISTRICT**  
**Typical Total Tax Rates**  
**Fiscal Years 2002-03 Through 2006-07**

TRA 8-262

	2002-03	2003-04	2004-05	2005-06	2006-07
General Tax Rate	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
City of San Diego	.00711	.00680	.00670	.00645	.00624
Poway USD SFID No. 2002-1	-	.05187	.04723	.04256	.04627
Palomar Pomerado Healthcare District	-	-	-	.01775	.01775
Metropolitan Water District	.00670	.00610	.00580	.00520	.00470
San Diego County Water Authority	<u>.00075</u>	<u>.00067</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	1.01456%	1.06544%	1.05973%	1.07196%	1.07496%

TRA 17-030

	2002-03	2003-04	2004-05	2005-06	2006-07
General Tax Rate	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
City of Poway	.01020	.00010	.00720	.00690	-
Poway USD SFID No. 2002-1	-	.05187	.04723	.04256	.04627
Palomar Pomerado Healthcare District	-	-	-	.01775	.01775
Metropolitan Water District	.00670	.00610	.00580	.00520	.00470
San Diego County Water Authority	<u>.00075</u>	<u>.00067</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	1.01765%	1.05874%	1.06023%	1.07241%	1.06872%

Source: California Municipal Statistics, Inc.

**Tax Collections and Delinquencies.** Tax collection and delinquency information with respect to property located in the District is not available from the County. However, the County utilizes the Teeter Plan (defined below) for assessment levy distribution, which provides for the funding of 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.

**Teeter Plan.** The County has adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing with 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, 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. Since the District maintains funds in the County Treasury, the District is included in the Teeter Plan.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the



Board of Supervisors shall receive a petition for its discontinuance joined in by resolutions adopted by two thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. In the event that the Teeter Plan were terminated, receipt of revenue of *ad valorem* taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

### Developer Fees

The District collects developer fees to finance essential school facilities within the District. The following table of developer fee revenues reflects the collection of fees from Fiscal Year 2003-04 through Fiscal Year 2007-08.

**POWAY UNIFIED SCHOOL DISTRICT  
Developer Fees  
Fiscal Years 2003-04 to 2007-08**

Year	Total Revenues
2003-04	\$ 1,812,177
2004-05	1,390,661
2005-06	1,086,452
2006-07	928,185
2007-08 <sup>(1)</sup>	750,000

<sup>(1)</sup> Projected.  
Source: The District.

### Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K through 12 school 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 California 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, 2006, excerpts of 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 auditors Wilkinson Hadley & Co., LLP, El Cajon, California, for Fiscal Years 2003-04 through 2005-06.

Wilkinson Hadley & 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 neither 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.

**POWAY UNIFIED SCHOOL DISTRICT**  
**Summary of General Fund**  
**Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2003-04 Through 2005-06**

	<u>Fiscal Year 2003-04</u>	<u>Fiscal Year 2004-05</u>	<u>Fiscal Year 2005-06</u>
Revenues:			
Revenue Limit Sources:			
State Apportionments	\$54,340,912	\$70,902,741	\$70,969,899
Local Sources	95,954,669	86,479,977	94,234,657
Federal Revenues	9,809,936	10,688,985	9,334,363
Other State Revenues	38,692,118	40,975,086	45,239,944
Other Local Revenues	13,043,963	11,253,537	11,932,089
<b>Total Revenues</b>	<b>\$211,841,598</b>	<b>\$220,300,326</b>	<b>\$231,710,952</b>
Expenditures:			
Instruction	135,701,852	139,131,116	145,664,507
Instruction – Related Services	23,120,346	24,968,094	26,066,537
Pupil Services	15,196,379	16,428,016	18,083,180
Ancillary Services	3,123,117	3,578,959	3,337,477
Community Services	282,946	350,914	383,005
Enterprise	-	-	101 <sup>(1)</sup>
General Administration	9,218,223	10,230,582	11,085,339
Plant Services	21,165,795	20,655,753	22,094,912
Other Outgo	650,652	513,702	1,366,706
Debt Services:			
Principal	90,292	519,222	49,614
Interest	230,861	61,243	18,353
<b>Total Expenditures</b>	<b>\$208,780,463</b>	<b>\$216,437,601</b>	<b>\$228,149,731</b>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	3,061,135	3,862,725	3,561,221
Other Financing Sources (Uses):			
Operating Transfers In	377,907	139,840	1,685,703
Operating Transfers Out	(1,501,894)	(2,356,718)	(3,016,257)
Other Sources	277,043	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (846,944)</b>	<b>\$ (2,216,878)</b>	<b>\$ (1,330,554)</b>
Net Change in Fund Balance	2,214,191	1,645,847	2,230,667
Fund Balance, July 1	12,542,122	14,756,313	16,402,161
Fund Balance, June 30	<u>\$14,756,313</u>	<u>\$16,402,160</u>	<u>\$18,632,828</u>

<sup>(1)</sup> Accounted for as "Instruction" in previous years.

Source: District Audited Financial Reports for Fiscal Years 2003-04 through 2005-06.

The following table shows the general fund balance sheets of the District for the Fiscal Years ended June 30, 2004, 2005 and 2006.

**POWAY UNIFIED SCHOOL DISTRICT**  
**Summary of General Fund Balance Sheet**  
**Fiscal Years 2003-04 Through 2005-06**

	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
<b>ASSETS:</b>			
Cash in County Treasury	\$ 9,233,219	\$11,065,246	\$ 8,300,659
Cash on Hand and in Banks	93,310	250,825	302,310
Cash in Revolving Fund	75,000	75,000	75,000
Cash with a Fiscal Agent/Trustee	-	11,025,133	15,150,375
Accounts Receivable	11,755,117	10,728,449	17,457,806
Due from Other Funds	782,137	1,724,390	1,109,100
Stores Inventory	426,707	248,328	240,266
Prepaid Expenditures	139,985	114,384	67,053
	<u>\$22,505,475</u>	<u>\$35,231,755</u>	<u>\$42,702,569</u>
<b>LIABILITIES AND FUND BALANCE:</b>			
Liabilities:			
Accounts Payable	4,564,850	4,446,646	6,974,133
Due to Other Funds	1,200,875	2,227,540	1,568,437
Current Loans	-	10,825,000	15,000,000
Deferred Revenue	1,983,437	1,330,409	527,171
	<u>\$ 7,749,162</u>	<u>\$18,829,595</u>	<u>\$24,069,741</u>
Fund Balance:			
Reserved Fund Balances:			
Reserve for Revolving Cash	75,000	75,000	75,000
Reserve for Stores Inventory	426,706	248,328	240,266
Reserve for Prepaid Expenditures	139,985	114,384	67,053
Designated Fund Balances:			
Designated for Economic Uncertainties	4,500,000	4,500,000	4,900,000
Other Designated	9,318,527	-	-
Unreserved	296,095	11,464,448	13,350,509
	<u>\$14,756,313</u>	<u>\$16,402,160</u>	<u>\$18,632,828</u>
	<u>\$22,505,475</u>	<u>\$35,231,755</u>	<u>\$42,702,569</u>

Source: District Audited Financial Reports for Fiscal Years 2003-04 through 2005-06.

## Budgets

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

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

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the criteria and standards 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 two subsequent years' 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 two subsequent fiscal years. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District has never received a qualified or negative certification.

The tabulation that follows summarizes the District's Adopted General Fund Budgets for Fiscal Years 2005-06 through 2007-08 as well as the District's estimated actual financial results for Fiscal Year 2006-07.

**POWAY UNIFIED SCHOOL DISTRICT**  
**General Fund Budgets**  
**Fiscal Years 2005-06 through 2007-08**

	<b>2005-06 Original Adopted Budget</b>	<b>2006-07 Original Adopted Budget</b>	<b>2006-07 Estimated Actuals</b>	<b>2007-08 Original Adopted Budget<sup>(1)</sup></b>
<b>REVENUES</b>				
Revenue Limit Sources	\$165,248,415.00	\$176,188,110.00	\$178,766,419.00	\$185,507,262.00
Federal Revenue	8,383,489.00	7,944,574.00	9,556,126.00	8,143,543.00
Other State Revenue	41,513,764.00	44,812,019.00	60,752,194.00	49,173,977.00
Other Local Revenue	6,383,772.00	6,947,548.00	14,248,647.00	9,541,287.00
<b>TOTAL REVENUES</b>	<b>\$221,529,440.00</b>	<b>\$235,892,251.00</b>	<b>\$263,323,386.00</b>	<b>\$252,366,069.00</b>
<b>EXPENDITURES</b>				
Certificated Salaries	119,078,826.00	127,724,302.00	131,534,310.00	136,156,621.00
Classified Salaries	34,104,224.00	36,934,606.00	39,871,305.00	39,998,782.00
Employee Benefits	39,650,231.00	39,158,127.00	40,289,470.00	43,148,999.00
Books and Supplies	8,692,557.00	9,567,898.00	14,396,860.00	9,250,013.00
Services, Other Operating Expenses	23,222,891.00	23,322,649.00	26,429,062.00	23,274,739.00
Capital Outlay	266,791.00	294,306.00	1,749,745.00	239,639.00
Other Outgo (excluding Direct Support/Indirect Costs)	121,525.00	1,134,875.00	1,134,875.00	474,875.00
Direct Support/Indirect Costs	(271,955.00)	(261,343.00)	(265,741.00)	(263,597.00)
<b>TOTAL EXPENDITURES</b>	<b>\$224,865,090.00</b>	<b>\$237,875,420.00</b>	<b>\$255,139,886.00</b>	<b>\$252,280,071.00</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	(3,355,650.00)	(1,983,169.00)	8,183,500.00	85,998.00
<b>INTER-FUND TRANSFERS AND OTHER SOURCES (USES)</b>				
Inter-fund Transfers In	218,190.00	1,468,190.00	1,913,577.00	2,055,387.00
Inter-fund Transfers Out	848,402.00	3,002,062.00	2,829,103.00	2,539,122.00
Other Sources (Uses)	-	-	-	-
<b>TOTAL, OTHER FINANCING SOURCES (USES)</b>	<b>\$ (630,212.00)</b>	<b>\$ (1,533,872.00)</b>	<b>\$ (915,526.00)</b>	<b>\$ (483,735.00)</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>				
	(3,965,862.00)	(3,517,041.00)	7,267,974.00	(397,737.00)
<b>BEGINNING BALANCE, as of July 1</b>	<b>14,956,133.04</b>	<b>16,788,664.78</b>	<b>18,632,827.74</b>	<b>25,900,801.74</b>
<b>ENDING BALANCE</b>	<b>\$ 10,990,451.04</b>	<b>\$ 13,271,623.78</b>	<b>\$ 25,900,801.74</b>	<b>\$ 25,503,064.74</b>

<sup>(1)</sup> The 2007-08 budget does not reflect the contents of the final 2007-08 State budget. Certain adjustments may have to be made based on actual State funding. The District cannot make any predictions regarding the 2007-08 State budget or its effect on school finance, or whether the State will make any cuts or enhancements to education funding for Fiscal Year 2007-08.  
Source: District Adopted Budgets for Fiscal Years 2005-06 through 2007-08; Estimated Actuals for Fiscal Year 2006-07.

## District Debt

**Long-Term Obligation Activity.** Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2006, are as follows:

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
General obligation bonds <sup>(1)(2)</sup>	\$ 68,600,000	\$ -	\$ 4,435,000	\$ 64,165,000	\$ 4,785,000
Capital leases	2,722,833	990,992	1,471,383	2,242,442	1,418,341
Certificates of participation <sup>(3)</sup>	100,000,000	-	-	100,000,000	-
Special tax bonds <sup>(4)(5)</sup>	205,345,835	177,315,000	3,620,000	379,040,835	4,155,000
Compensated absences	3,321,786	170,004	-	3,491,790	3,491,790
Total governmental activities	\$379,990,454	\$178,475,996	\$ 9,526,383	\$ 548,940,067	\$ 13,850,131

<sup>(1)</sup> The principal of and interest on the District's general obligation bonds is not payable from the General Fund of the District. The District's general obligation bonds are payable from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment thereof.

<sup>(2)</sup> On October 19, 2006, the District issued an additional \$119,300,766 aggregate principal amount of general obligation bonds.

<sup>(3)</sup> On December 31, 2006, the District prepaid \$80,700,000 of principal evidenced by the District's 2003 Certificates. As a result, the \$19,300,000 aggregate principal amount of the 2003 Certificates remain outstanding as of December 31, 2006.

<sup>(4)</sup> The principal of and interest on the special tax bonds is not payable from the General Fund of the District. The annual payments for the special tax bonds are secured solely by the annual special tax levied on taxable property in the respective community facilities districts established by the District, and are not debts of the District. Amounts exclude special tax bonds issued after June 30, 2006. See "Community Facilities Districts" below.

<sup>(5)</sup> On June 20, 2007, various community facilities districts of the District issued an additional \$69,945,000 aggregate principal amount of special tax bonds, and on July 26, 2007, CFD No. 6 of the District issued an addition \$37,910,000 aggregate principal amount of special tax bonds.

**General Obligation Bonds.** The District received authorization at an election held on November 5, 2002, by an affirmative vote of approximately 57.4% of the votes cast by eligible voters within a school facilities improvement district to issue not to exceed \$198,000,000 of general obligation bonds. The election was held pursuant to the provisions of the "Safer Schools, Smaller Classes and Financial Accountability Act" (also known as "Proposition 39"). The proceeds of the general obligation bonds are authorized for construction, rehabilitation, modernization or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for schools. On June 5, 2003, the District issued \$75,000,000 of such authorized bonds. On October 19, 2006, the District issued an additional \$119,300,766 aggregate principal amount of such authorized bonds. The principal of and interest on the District's outstanding general obligation bonds is not payable from the General Fund of the District. The District's general obligation bonds are payable from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment thereof.

**Capital Lease Agreements.** The District has entered into various capitalized lease agreements for facilities and equipment with minimum lease payments as of June 30, 2006, as follows:

Year Ending	Payments
<u>June 30</u>	
2007	\$1,505,194
2008	365,646
2009	225,608
2010	220,892
2011	<u>73,631</u>
Total Minimum Lease Payments	\$2,390,971
Less: Amount representing Interest	<u>(148,529)</u>
Present Value of Net Minimum Lease Payments	\$2,242,442

**Certificates of Participation.** On August 25, 2004, the District entered into a lease agreement with the Poway Unified School District Facilities Financing Corporation. Certificates of Participation

were executed and delivered in the amount of \$100,000,000 (the “2003 Certificates”) and the proceeds were used to: (i) provide financing for acquisition, construction and installation of certain District school facilities; (ii) fund a reserve fund for the 2003 Certificates, (iii) provide capitalized interest on the project through June 1, 2007, and (iv) pay the costs incurred in connection with the execution and delivery of the 2003 Certificates. The 2003 Certificates were delivered in a variable interest rate mode. On December 31, 2006, the District prepaid \$80,700,000 of principal evidenced by the District’s 2003 Certificates. As a result, the \$19,300,000 aggregate principal amount of the 2003 Certificates remain outstanding as of December 31, 2006. The following table shows the remaining mandatory principal prepayment schedules of the 2003 Certificates.

Year Ending <u>June 30</u>	<u>Payments</u>
2030	\$1,590,000
2031	1,690,000
2032	1,790,000
2033	1,900,000
2034	2,010,000
2035	2,130,000
2036	2,260,000
2037	2,390,000
2038	3,540,000

Interest represented by the 2003 Certificates accrues at a variable rate and, therefore, is not shown in the above table.

**Community Facilities Districts.** Development of property located within the District has caused a need for school facility funding. To finance these additional school facilities, the District has to date formed 14 community facilities districts pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State). The following table sets forth the formation date, the authorized debt, the amount of authorized debt issued, and the amount of remaining debt authorized for each community facilities district (“CFD”) formed by the District. The principal of and interest on the special tax bonds is not payable from the General Fund of the District. The annual payments for the special tax bonds are secured solely by the annual special tax levied on taxable property in the respective community facilities districts established by the District, and are not debts of the District.

Community Facilities District	Formation Date	Authorized Debt	Amount Issued	Remaining Authorization
CFD No. 1	May 26, 1987	\$138,251,618 <sup>(1)</sup>	\$85,815,835.10 <sup>(1)</sup>	N/A <sup>(1)</sup>
CFD No. 2	December 15, 1997	80,000,000	14,233,847.12	65,766,152.88
CFD No. 3	September 22, 1997	13,000,000	5,485,000	7,515,000
CFD No. 4	December 15, 1997	32,000,000	11,989,000	20,011,000
CFD No. 5	August 4, 1997	5,000,000	1,670,000	3,330,000
CFD No. 6	March 24, 1998	130,000,000	107,215,000	22,785,000
CFD No. 6 Improvement Area A	October 21, 2002	18,000,000	18,000,000	0
CFD No. 6 Improvement Area B	October 21, 2002	30,000,000	30,000,000	0
CFD No. 6 Improvement Area C	October 21, 2002	14,000,000	0	14,000,000
CFD No. 7	August 24, 1998	15,000,000	1,545,000	13,455,000
CFD No. 8 Improvement Area A	December 17, 1998	80,000,000	0	80,000,000
CFD No. 8 Improvement Area B	December 17, 1998	20,000,000	7,329,000	12,671,000
CFD No. 9	November 8, 1998	15,000,000	1,711,000	13,289,000
CFD No. 10	August 27, 2001	45,000,000	38,230,000	6,770,000
CFD No. 10 Improvement Area A	August 27, 2001	13,000,000	9,700,000	3,300,000
CFD No. 10 Improvement Area B	August 27, 2001	9,000,000	6,345,000	2,655,000
CFD No. 10 Improvement Area C	August 27, 2001	3,000,000	3,000,000	0
CFD No. 10 Improvement Area D	August 27, 2001	7,000,000	5,125,000	1,875,000
CFD No. 10 Improvement Area E	August 27, 2001	7,500,000	6,750,000	750,000
CFD No. 10 Improvement Area F	August 27, 2001	3,500,000	0	3,500,000
CFD No. 11 Zone 1	January 20, 2004	60,000,000	9,000,000	51,000,000
CFD No. 11 Improvement Area A	January 20, 2004	13,000,000	11,000,000	2,000,000
CFD No. 11 Improvement Area B	January 20, 2004	10,900,000	9,035,000	1,865,000
CFD No. 11 Improvement Area C	January 20, 2004	17,400,000	13,475,000	3,925,000
CFD No. 12	June 24, 2002	18,000,000	7,689,087.48	10,310,912.52
CFD No. 13	March 12, 2007	20,000,000	0	20,000,000
CFD No. 14	January 17, 2006	75,000,000	51,515,000	23,485,000
CFD No. 14 Improvement Area A	January 17, 2006	75,000,000	51,495,000	23,505,000

<sup>(1)</sup> With respect to CFD No. 1, the authorized indebtedness is stated in 1986-87 dollars, which amount is subject to increase in accordance with a specified schedule. CFD No. 1 issued \$80,000,000 of bonds in February, 1998 to finance school facilities and to refund the 1991 Bonds and \$5,815,835.10 in 2003 to finance school facilities. CFD No. 1 has covenanted not to issue additional bonds on a parity with the outstanding bonds except to refund the outstanding bonds.

**Tax and Revenue Anticipation Notes.** The District issued \$10,000,000 of Tax and Revenue Anticipation Notes (TRANS) with an interest rate of 4.50%, dated July 3, 2006, through the San Diego County and School District Tax and Revenue Anticipation Note Program. The TRANS matured on July 27, 2007 and were sold to supplement the District's cash flow. Repayment requirements were that 50% of principal and interest be repaid on January 31, 2007 and on April 30, 2007. The District repaid 100% of the principal and interest due on its 2006 TRANS. On July 3, 2007, the District issued notes through the same program for Fiscal Year 2007-08 in the aggregate principal amount of \$10,000,000.

**Statement of Direct and Overlapping Debt.** Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated as of May 4, 2007. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they



necessarily obligations secured by land within the District. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 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 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**POWAY UNIFIED SCHOOL DISTRICT**  
**Statement Of Direct And Overlapping Bonded Debt**  
**As of May 4, 2007**

2006-07 Assessed Valuation:	\$28,738,104,588
Redevelopment Incremental Valuation:	<u>3,513,510,155</u>
Adjusted Assessed Valuation:	\$25,224,594,433

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/01/07</u>
Metropolitan Water District	1.548%	\$5,559,100
San Diego Community College District	0.616	1,776,944
Poway Unified School District School Facilities Improvement District No. 2002-1	100.000	178,680,766
City of San Diego	12.681	1,256,053
City of San Diego Open Space Park District	12.681	1,711,935
City of Poway Community Facilities District No. 88-1	100.000	24,070,000
Palomar Pomerado Healthcare District	42.718	31,532,292
Poway Unified School District Community Facilities Districts	100.000	300,690,835
City of San Diego Community Facilities Districts	100.000	72,940,000
Rancho Santa Fe Community Services District Community Facilities District No. 1	60.906	17,577,472
1915 Act Bonds	Various	<u>14,059,397</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$649,854,794
Less: City of San Diego Open Space Park District (100% self-supporting)		<u>1,711,935</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$648,142,859

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	7.985%	\$28,484,092
San Diego County Pension Obligations	7.985	107,298,271
San Diego County Superintendent of Schools General Fund Obligations	7.985	1,440,694
Palomar Community College District Certificates of Participation	33.661	2,714,760
Poway Unified School District Certificates of Participation	100.000	19,300,000 <sup>(1)</sup>
City of Poway Certificates of Participation	99.687	52,644,705
City of San Diego General Fund Obligations	12.681	61,109,739
City of Santee General Fund Obligations	0.005	<u>96</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$272,992,357
GROSS COMBINED TOTAL DEBT		\$922,847,151 <sup>(2)</sup>
NET COMBINED TOTAL DEBT		\$921,135,216

(1) Excludes the District's obligations under the Lease Agreement.

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

Ratios to 2006-07 Assessed Valuation:

Direct Debt (\$178,680,766) .....	0.62%
Total Gross Direct and Overlapping Tax and Assessment Debt.....	2.26%
Total Net Direct and Overlapping Tax and Assessment Debt .....	2.26%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$197,980,766) .....	0.78%
Gross Combined Total Debt .....	3.66%
Net Combined Total Debt.....	3.65%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$0

Source: California Municipal Statistics, Inc.

## Employment

As of June 30, 2006, the District employed approximately 1,862 certificated professionals and approximately 1,729 classified employees. For the year ended June 30, 2006, the total certificated and classified payrolls were \$147,020,522 and \$62,696,736 respectively.

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

<u>Name of Bargaining Unit</u>	<u>Number of Employees Represented</u>	<u>Current Contract Expiration Date</u>
Poway Federation of Teachers (PFT), Local 2357	1,782	June 30, 2009
Service Employees International Union	481	June 30, 2008
California Schools Employees Association	1,309	June 30, 2009

Source: The District.

## District Retirement Systems

The District participates in retirement plans with the State Teachers' Retirement System ("STRS"), 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.

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

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

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

which proposals would include components for unfunded liability. If these proposals were adopted, the District's annual obligations to CalSTRS would likely increase substantially.

The District's employer contributions to CalSTRS for Fiscal Years 2003-04, 2004-05 and 2005-06 were \$9,263,916, \$9,450,619 and \$10,013,458, respectively. The District estimates that its employer contributions to CalSTRS for Fiscal Year 2006-07 was approximately \$10,811,684.

**CalPERS.** All qualifying classified employees of K through 12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability.

According to the CalPERS State and Schools Actuarial Valuation as of June 30, 2004, the CalPERS Plan for Schools had an actuarial value of assets of approximately \$33.3 billion and entry age normal accrued liability of approximately \$35.9 billion, with an unfunded liability of approximately \$2.6 billion. As of June 30, 2004, the CalPERS Plan for Schools had a funded ratio of 92.7%. The District's employer contributions to CalPERS for Fiscal Years 2003-04, 2004-05 and 2005-06 were \$4,822,739, \$4,856,272 and \$4,867,201, respectively, and were equal to 100 percent of the required contributions for each year. The District estimates that that its employer contributions to CalPERS for Fiscal Year 2006-07 will be approximately \$5,041,323.

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. CalPERS and CalSTRS are more fully described in Note J to the District's audited financial statements for the Fiscal Year ended June 30, 2006. See APPENDIX B — "DISTRICT 2005-06 AUDITED FINANCIAL STATEMENTS."

**Other Post-Employment Benefits (OPEBs).** In addition to the retirement plan benefits with CalSTRS and CalPERS, the District provides certain post retirement healthcare benefits, in accordance with District employment contracts, to all employees eligible to retire under CalPERS or CalSTRS who retire from the District on or after attaining age 55 with at least 10 years of service. The benefits consist of health insurance benefits. The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on the length of service and other factors. The benefits are provided to eligible retirees up to age 65 or Medicare eligibility. As of June 30, 2006, 261 retirees met the eligibility requirements. The District's contributions for these benefits for Fiscal Years 2004-05, 2005-06 and 2006-07 on a pay-as-you-go basis were \$651,520, \$624,817 and \$941,918 (estimated), respectively.

The Governmental Accounting Standards Board ("GASB") has recently released its Statement Number 45 ("Statement Number 45"), which will require municipalities to account for other post-employment benefits (meaning other than pension benefits) liabilities much like municipalities are required to account for pension benefits. Although Statement Number 45 encourages earlier adoption, implementation is required by the fiscal year beginning after December 15, 2006, for municipalities, like the District, with revenues over \$100 million in a fiscal year. (Annual revenues determined for fiscal years ending after June 15, 1999).

The District does not presently recognize a liability for future post employment health care benefits. However, The Epler Company, San Diego, California, has prepared an actuarial valuation of the District's retiree health insurance benefits and reports that, as of January 1, 2006, the District has an accrued unfunded liability of \$34.46 million. It is expected that a change to an accrual accounting method under Statement Number 45 would more than triple the District's current pay-as-you-go

contribution for these healthcare benefits. The District's pay-as-you-go contributions to these benefits are described in Note K to the District's financial statements attached hereto. See APPENDIX B — "DISTRICT 2005-06 AUDITED FINANCIAL STATEMENTS."

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

The District maintains commercial insurance or self-insurance for property damage, general liability and workers' compensation in such amounts and with such retentions and other terms as the District believes to be adequate based on actual risk exposures and as may be required by statute.

In 1998, the State authorized the District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. The District responded by implementing such a plan on July 1, 1998. Effective July 1, 2005, the District joined a fully insured workers' compensation Joint Powers Authority (JPA) known as the Protected Insurance Program for Schools ("PIPS"). The District retains responsibility for all previous self-insured claims and will manage them until they close. Kennan & Associates is the claims administrator for both self-insured and PIPS claims.

The District operates a self-insurance program to cover general liability claim losses up to a limit of \$50,000 per claim and for property losses up to \$25,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through a combination of pooling through a joint powers authorities and purchase of commercial insurance and reinsurance policies. For example, one JPA (the Southern California Regional Liability Excess Fund) (SCR) furnishes \$5,000,000 in government liability coverage and a second JPA (the Schools Excess Liability Fund) (SELF) provides coverage from \$5,000,001 to \$15,000,000. Effective July 1, 2007 the SCR coverage will increase from \$5,000,000 to \$25,000,000 replacing and expanding the limits of the coverage formerly provided by the SELF.

### **The San Diego County Treasury Pool**

*The following information has been provided by 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.*

In accordance with Government Code Section 53600 *et seq.*, the Treasurer manages funds deposited with it by the District. Each county is required to invest such funds in accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

All investments in the Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53601 *et seq.*, authorities delegated by the County Board of Supervisors and the Treasurer's investment policy.

**General.** Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In

addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis (“Voluntary Depositors” and together with the Involuntary Depositors, the “Depositors”). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the “Treasury Pool” or the “Pool”). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee pursuant to State law. The Oversight Committee consists of members appointed from the County Treasurer-Tax Collector, the County Auditor and Controller, a representative appointed by the Board of Supervisors, the County superintendent of schools or his or her designee, a representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county, a representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the County Treasury and up to five other members of the public. The Oversight Committee directs the preparation of an annual audit, which audit may include issues relating to the structure of the investment portfolio and its related risk, to determine the County Treasury’s compliance with law.

***The Treasury Pool’s Portfolio.*** As of June 30, 2007, the securities in the Treasury Pool had a market value of \$4,551,842,970 and a book value of \$4,556,150,861, for a net unrealized loss of \$4,307,891 of the book value of the Treasury Pool. As of June 30, 2007, the weighted average maturity of the Pool portfolio was approximately 171 days. As of June 30, 2007, 7.9% of the Pool was invested in securities with maturities ranging from 1-30 days, 64.78% of the Pool was invested in securities with maturities ranging from 31-90 days, 0% of the Pool was invested in securities with maturities ranging from 91-180 days, 6.27% of the Pool was invested in securities with maturities ranging from 181-365 days and 21.07% of the Pool was invested in securities with maturities between 1 and 5 years.

The effective duration for the Treasury Pool was 0.474 years as of June 30, 2007. “Duration” is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.474 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.474%

As of June 30, 2007, approximately 0.23% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts. Mandatory Depositors are comprised of 47.30% by County Funds, 44.08% by K-12 school districts and 8.38% by community colleges.

Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc. maintains ratings on the Pool’s ability to meet its financial commitments of “AAAF” (long-term) and “S1” (short-term volatility). The rating reflects only the view of the rating agency and any explanation of the significance of such rating may be obtained from such rating agency as follows: Standard & Poor’s, 55 Water Street, New York, New York 10041.

#### ***Investments of the Treasury Pool.***

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States

Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states that the objectives of the Treasurer when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds are as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve an investment return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing one year or less with the remainder spread over 1-5 years on the yield curve depending on opportunities in the marketplace. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to invest the proceeds from the agreement into permissible securities that have the highest short-term credit rating, to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation, and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

**Pool Benchmark.** Beginning in early 2007, the Pool was managed as two portfolios; one positioned to meet liquidity needs and the other positioned to achieve incremental yield. All reporting with respect to the Pool will be on a combined portfolio basis to facilitate financial transparency from the perspective of Pool participants. The change was instituted after the development of a benchmark portfolio, which is comprised of 60% U.S. Treasury securities, 30% U.S. Government Agency securities and 10% corporate securities. It has a duration of approximately 1.6 years and reflects an appropriate risk/return profile for the portion of the Pool that is not anticipated to be needed for liquidity purposes.

While the “benchmarked” portion of the portfolio is available for liquidity needs, it is positioned to achieve long term incremental yield. The combined portfolios will continue to comply with all California State Code and the Pool’s Investment Policy, a copy of which is contained in Appendix F hereto.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

### **Article XIII A of the California Constitution**

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various



jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

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’s appropriations from “proceeds of taxes” (sometimes referred to as the “Gann limit”) for the 2005-06 Fiscal Year were equal to the allowable limit of \$156,209,780. 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, 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 one percent *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

### **Statutory Limitations**

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

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

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

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

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

The Accountability Act also changes how tax revenues in excess of the State Appropriations Limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 school Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional 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 four percent 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 (i) 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; (ii) provided that 50% of the “excess” tax revenues, determined based on a two-year cycle, would be transferred to K-14 school districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of four percent of the districts’ minimum funding level), and that any such transfer to K-14 school districts would not be built into the school districts’ base expenditures for calculating their entitlement for State aid in the following year and would not increase the State’s appropriations limit; (iii) 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; (iv) 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 (v) adjusted the Proposition 98 formula that guarantees K-14 school districts a certain amount of General Fund revenues, as described below.

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

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

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

## **Future Initiatives and Legislation**

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

## **RATINGS**

Moody's Investors Service ("Moody's") and Standard & Poor's Rating Services ("Standard & Poor's") are expected to assign the Series 2007 Bonds the ratings of "Aaa" and "AAA," respectively, with the understanding that upon delivery of the Series 2007 Bonds, the Insurance Policy will be issued by the Insurer. Either of the rating agencies may have obtained and considered information and material which has not been included in this Official Statement. Generally, the rating agencies base their rating on information and material so furnished and on investigations, studies and assumptions made by them. The ratings are not a recommendation to buy, sell or hold the Series 2007 Bonds. The ratings reflect only the views of each rating agency with respect to its respective rating and an explanation of the significance of such rating may be obtained from it. No assurance can be given that the rating of a rating agency will be maintained for any given period of time or that the rating may not be revised downward or withdrawn entirely by the rating agency, if in its own judgment, circumstances warrant. Any such downward change in or withdrawal may have an adverse effect on the market price of the Series 2007 Bonds. Neither the Underwriter, the Authority or the District have undertaken any responsibility after the offering of the Series 2007 Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), bond counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2007 Bonds is excluded 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. Bond Counsel is of the further opinion that interest on the Series 2007 Bonds is not a specific preference item for purposes of the federal individual or 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 complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series 2007 Bonds is less than the amount to be paid at maturity (or to the Capital Appreciation Conversion Date) of such Series 2007 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2007 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2007 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2007 Bonds is the first price at which a substantial amount of such maturity of the Series 2007 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2007 Bonds accrues daily over the term to maturity (or to the Capital Appreciation Conversion Date) of such Series 2007 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2007 Bonds to determine taxable gain or loss upon disposition (including

sale, redemption, or payment on maturity) of such Series 2007 Bonds. Beneficial Owners of the Series 2007 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2007 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2007 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2007 Bonds is sold to the public.

Series 2007 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 2007 Bonds. The Authority and the District have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2007 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2007 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2007 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and 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), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2007 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2007 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2007 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Series 2007 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2007 Bonds ends with the issuance of the Series 2007 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Series 2007 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2007 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2007 Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

### **CERTAIN LEGAL MATTERS**

The validity of the Series 2007 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Bond Counsel, as such, has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement and expresses no opinion as to the matters set forth herein. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C hereto and will accompany the Series 2007 Bonds. Certain legal matters will be passed upon for the District and the Authority by Best Best & Krieger LLP, San Diego, California, as Counsel to the District and the Authority, for the Insurer by its Associate General Counsel, for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California, and for the Bank by Sidley Austin LLP, Los Angeles, California.

### **ABSENCE OF MATERIAL LITIGATION**

At the time of delivery of and payment for the Series 2007 Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the District, threatened against the District (i) which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Series 2007 Bonds, the Lease Agreement, the Ground Lease, the Standby Purchase Agreement, the Indenture or the Continuing Disclosure Agreement, (ii) contesting the validity of the Purchase Agreement, the Lease Agreement, the Standby Purchase Agreement, the Ground Lease, the Indenture or the Continuing Disclosure Agreement, the powers of the District to enter into or perform its obligations under the Purchase Agreement, the Lease Agreement, the Standby Purchase Agreement, the Ground Lease, the Indenture or the Continuing Disclosure Agreement, or the existence or powers of the District, or (iii) which, if determined adversely to the District, would materially impair the District's ability to meet its obligations under the Lease Agreement or materially and adversely affect the District's financial condition.

The District does have claims pending against it. The aggregate amount of the uninsured liabilities of the District which may result from all claims will not, in the opinion of the District, materially affect the District's finances or impair its ability to make Base Rental Payments under the Lease Agreement.

### **UNDERWRITING**

The Series 2007 Bonds are to be purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed, subject to certain terms and conditions set forth in the Bond Purchase Agreement, dated August 9, 2007, by and between the Underwriter and the District, to purchase the Series 2007 Bonds at a purchase price of \$34,401,367.10 (which represents the aggregate initial principal



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## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following summary discussion of selected provisions of the Lease Agreement, the Ground Lease and the Indenture are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Bonds are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.*

#### Definitions

**“Accreted Value”** means, with respect to any Series 2007 Bond, as of any date of calculation, an amount equal to the initial Principal Amount of such Series 2007 Bond, plus interest accrued thereon from the Closing Date to the earlier of such date of calculation or the Capital Appreciation Conversion Date, compounded semiannually on each Compounding Date at the interest rate borne by such Series 2007 Bond, assuming in each year that such interest accrues in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months. The Accreted Value of the Series 2007 Bonds as of each Compounding Date is set forth in the Accreted Value Table. From and after the Capital Appreciation Conversion Date, the Accreted Value of each Series 2007 Bond will be its Accreted Value as of the Capital Appreciation Conversion Date.

**“Accreted Value Table”** means the Accreted Value Table for the Series 2007 Bonds attached to the Indenture as Exhibit F, which sets forth the Accreted Value of the Series 2007 Bonds as of each Compounding Date.

**“Act”** means the Marks-Roos Local Bond Pooling Act of 1985, constituting Section 6584 *et seq.* of the California Government Code.

**“Additional Bonds”** means Bonds other than Series 2007 Bonds issued under the Indenture in accordance with the provisions thereof.

**“Additional Rental Payments”** means all amounts payable by the District as Additional Rental Payments pursuant to the Lease Agreement.

**“Adjustable Rate”** means, as the context requires, the Weekly Rate or the Extended Rate.

**“Adjustable Rate Mode”** means, as the context requires, the Weekly Rate Mode or the Extended Rate Mode.

**“Annual Debt Service”** means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the scheduled Principal Amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking fund redemptions due in such Bond Year); provided, however, that, for purposes of determining the Annual Debt Service, the interest rate borne by Bonds in an Adjustable Rate Mode shall be deemed to be 12% per annum.

**“Asbestos Containing Materials”** means material in friable form containing more than 1% of the asbestiform varieties of (a) chrysotile (serpentine), (b) crocidolite (ricbeckite), (c) amosite (cummington-itegrinerite), (d) anthophyllite, (e) tremolite, and (f) actinolite.

**“Asbestos Operations and Maintenance Plan”** means that written plan for the Property relating to monitoring and maintaining all Asbestos Containing Materials used or located on such Property.

**“Authority”** means the Poway Unified School District Public Financing Authority, a joint powers authority organized and existing under the laws of the State of California.

**“Authorized Authority Representative”** means the Chairperson, the Vice Chairperson, the Secretary, the Executive Director or the Auditor and Treasurer of the Authority, and any other Person authorized by the Chairperson of the Authority to act on behalf of the Authority under or with respect to the Indenture.

**“Authorized Denominations”** means (a) with respect to Bonds in the Weekly Rate Mode, \$100,000 Principal Amount and whole multiples thereof, except that one Bond of each maturity may be in a denomination of \$100,000 Principal Amount and a whole multiple of \$5,000 in excess thereof, (b) with respect to Bonds in the Extended Rate Mode or the Fixed Rate Mode, \$5,000 Principal Amount and whole multiples thereof, and (c) with respect to Series 2007 Bonds in the Capital Appreciation Mode, \$5,000 of Accreted Value on the Capital Appreciation Conversion Date and whole multiples thereof.

**“Authorized District Representative”** means the Superintendent of the District and the Deputy Superintendent of the District and any other Person authorized by the Board of Trustees of the District to act on behalf of the District under or with respect to the Indenture.

**“Average Annual Debt Service”** means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

**“Bank”** means Dexia Credit Local, New York Branch, as provider of the Facility, and any provider of a Substitute Facility.

**“Bank Bond”** has the meaning ascribed thereto in the Standby Agreement.

**“Bank Default Rate”** means a rate per annum equal to the Bank Rate plus 3.00%.

**“Bank Rate”** means, for any day, the rate of interest per annum equal to the greater of (a) the rate most recently determined and announced by the Bank as its prime commercial lending rate, it being understood that such rate will not necessarily be the best or lowest rate of interest available to the Bank’s best or most preferred, large commercial customers, and (b) the sum of the Federal Funds Rate in effect for such day plus 0.50%, calculated on the basis of a year of 365 days and actual days elapsed.

**“Base Rental Deposit Date”** means the second Business Day next preceding each Interest Payment Date.

**“Base Rental Payments”** means all amounts payable to the Authority by the District as Base Rental Payments pursuant to the Lease Agreement.

**“Beneficial Owners”** means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Bonds.

**“Bond Year”** means each twelve-month period beginning on June 2 in each year and extending to the next succeeding June 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on June 1, 2008.

**“Bonds”** means the Poway Unified School District Public Financing Authority Lease Revenue Bonds issued under the Indenture, and includes the Series 2007 Bonds and any Additional Bonds.

**“Book-Entry Bonds”** means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

**“Business Day”** means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city or cities in which the Office of the Trustee is located, the principal office of the Remarketing Agent is located or the principal office of the Bank at which requests for purchase under the Facility are made is located, are authorized or required by law to be closed, and (c) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed.

**“Capital Appreciation Conversion Date”** means June 1, 2010, the date on which the Series 2007 Bonds automatically convert from the Capital Appreciation Mode to the Weekly Rate Mode.

**“Capital Appreciation Mode”** means the Mode in which interest accruing on the Series 2007 Bonds is compounded semiannually on each Compounding Date.

**“Capital Appreciation Period”** means the period during which the Series 2007 Bonds are in the Capital Appreciation Mode, which is the period commencing on the Closing Date and continuing to and including the day before the Capital Appreciation Conversion Date.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to Book-Entry Bonds.

**“Closing Date”** means August 29, 2007.

**“Code”** means the Internal Revenue Code of 1986.

**“Compounding Dates”** means, with respect to the Series 2007 Bonds, each June 1 and December 1, from and including December 1, 2007 to and including the Capital Appreciation Conversion Date.

**“Continuing Disclosure Agreement”** means the Continuing Disclosure Agreement, dated as of the date of the Indenture, by and between the District and the Trustee, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Conversion Date”** means, with respect to a Bond, any date on which the Mode applicable thereto is converted from one Adjustable Rate Mode to another Adjustable Rate Mode or to the Fixed Rate Mode.

**“Costs of Issuance”** means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease Agreement, the Ground Lease, the Standby Agreement, the Bonds and any preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with respect to the financing of the Project, initial fees and expenses of the administrator of the financing of the Project, the initial fees and expenses of the Trustee and its counsel, the premium for the Insurance Policy and any premium for a municipal bond insurance policy insuring payments of debt service on Additional Bonds, Facility fees and charges, and other fees and expenses incurred in connection with the issuance and delivery of the Bonds or the

implementation of the financing of the Project, to the extent such fees and expenses are approved by the District.

**“Costs of Issuance Fund”** means the fund by that name established pursuant to the Indenture.

**“Defeasance Securities”** means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, (c) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (d) subject to the prior written consent of the Insurer, securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof.

**“Depository”** means the securities depository acting as Depository pursuant to the Indenture.

**“District”** means the Poway Unified School District, a school district organized and existing under the laws of the State of California.

**“DTC”** means The Depository Trust Company, New York, New York and its successors.

**“Environmental Regulations”** means all Laws and Regulations, in effect now or after the effective date of the Lease Agreement, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, *et seq.*) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, *et seq.*) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, *et seq.*) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, *et seq.*) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, *et seq.*) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 *et seq.*) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

**“Excess Amount”** means, with respect to a Rental Period, the amount, if any, by which the Fair Rental Value of the Property exceeds the Rental Payments actually paid by the District during such Rental Period.

**“Extended Rate”** means the interest rate or rates determined for an Extended Rate Period pursuant to the Indenture.

**“Extended Rate Mode”** means the Mode in which Bonds bear interest at an Extended Rate.

**“Extended Rate Period”** means, with respect to a Bond in the Extended Rate Mode, the period during which the Extended Rate will remain in effect for such Bond pursuant to the Indenture.

**“Facility”** means the standby purchase facility established by the Bank pursuant to the Standby Agreement, and any Substitute Facility.

**“Fair Rental Value”** means, with respect to the Property, the annual fair rental value thereof, as set forth in the Lease Agreement.

**“Federal Funds Rate”** means, for any day, the overnight rate of interest per annum quoted by the Bank at its New York Branch for the overnight sale to other major banks and financial institutions of federal funds on such day (or, if such day is not a day for trading in federal funds by and between banks in the New York interbank market, the next preceding day for such trading).

**“Fixed Rate”** means the interest rate or rates determined for Bonds converted to the Fixed Rate Mode pursuant to the Indenture.

**“Fixed Rate Mode”** means the Mode in which Bonds bear interest at a Fixed Rate.

**“Ground Lease”** means the Ground Lease, dated as of the date of the Indenture, by and between the District and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

**“Hazardous Materials”** means, collectively, flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the District, the Property or the business operations conducted by the District thereon.

**“Indenture”** means the Indenture, dated as of August 1, 2007, by and among the Authority, the District and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

**“Independent Insurance Consultant”** means a nationally recognized independent actuary, insurance company or broker acceptable to the Insurer that has actuarial personnel experienced in the area of insurance for which the District is to be self-insured, as may from time to time be designated by the District.

**“Insolvency Proceeding”** means any proceeding commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law.

**“Insurance Policy”** means the insurance policy issued by the Insurer guaranteeing the scheduled payment of the principal and Accreted Value of and interest on the Series 2007 Bonds when due.

**“Insurer”** means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

**“Insurer Default”** means (a) the Insurer will be in payment default under the Insurance Policy and such failure will continue for three Business Days, (b) any material provision of the Insurance Policy will be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof will be contested by the Insurer, or (c) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer under Article 16 of the Insurance Law of the State of New York, or any successor provision thereto, and such proceeding is not

terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

**“Insurer’s Fiscal Agent”** means a fiscal agent appointed by the Insurer for purposes of, and in accordance with the terms contained in, the Insurance Policy.

**“Interest Payment Date”** means (a) with respect to Bonds in the Weekly Rate Mode, the first Business Day of each calendar month, commencing with the first Business Day of the calendar month first occurring after such Bonds begin to bear interest at the Weekly Rate; (b) with respect to Bonds in the Extended Rate Mode, (i) each June 1 and December 1, commencing with the June 1 or December 1 first occurring after such Bonds begin to bear interest at the Extended Rate, and (ii) the Conversion Date on which such Bonds are converted from the Extended Rate Mode to another Mode; (c) with respect to Bonds in the Fixed Rate Mode, each June 1 and December 1, commencing with the June 1 or December 1 first occurring after such Bonds begin to bear interest at a Fixed Rate, and (d) with respect to any Bank Bond (i) the first Business Day of each calendar month, commencing with the first Business Day of the calendar month first occurring after such Bond becomes a Bank Bond, and (ii) the date on which such Bank Bond is remarketed (and ceases to be a Bank Bond) pursuant to the Indenture. During the Capital Appreciation Period, interest on the Series 2007 Bonds is not payable to the Owners thereof and, therefore, there are no Interest Payment Dates for Bonds in the Capital Appreciation Mode.

**“Laws and Regulations”** means, with respect to the Property, any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property.

**“Lease Agreement”** means the Lease Agreement, dated as of the date of the Indenture, by and between the District and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Lease Default Event”** means an event of default pursuant to and as described in the Lease Agreement.

**“Lease Revenues”** means all Base Rental Payments payable by the District pursuant to the Lease Agreement, including any prepayments thereof, any Net Proceeds and any amounts received by the Trustee as a result of or in connection with the Trustee’s pursuit of remedies under the Lease Agreement upon a Lease Default Event.

**“Letter of Representations”** means the letter of the Authority delivered to and accepted by the Depository on or prior to the delivery of the Bonds as Book-Entry Bonds setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

**“Maximum Annual Debt Service”** means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

**“Maximum Rate”** means (a) with respect to any Bond, other than a Bank Bond, in the Weekly Rate Mode, 12% per annum, (b) with respect to any Bond, other than a Bank Bond, in the Extended Rate Mode, the rate per annum that would, if all Bonds in the Extended Rate Mode bore interest at such rate for a period of 183 days, result in the interest accrued during such period being equal to the amount

available under the Facility to pay the interest portion of the Purchase Price of Bonds in the Extended Rate Mode delivered or required to be delivered to the Trustee for purchase pursuant to the Indenture, (c) with respect to any Bond in the Fixed Rate Mode, the highest rate of interest allowed by law, and (d) with respect to Bank Bonds, the lesser of 25% per annum and the highest rate of interest allowed by law.

**“Mode”** means the Capital Appreciation Mode, the Extended Rate Mode, the Fixed Rate Mode or the Weekly Rate Mode.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation will no longer perform the function of a securities rating agency for any reason, the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Trustee and the Insurer.

**“Net Proceeds”** means any insurance proceeds or condemnation award paid with respect to any of the Property, which proceeds or award, after payment therefrom of all reasonable expenses incurred in the collection thereof, are in an amount greater than \$50,000.

**“Notice of Mandatory Tender”** has the meaning ascribed thereto in the Standby Agreement.

**“Office of the Trustee”** means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Authority and the District in writing.

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority and satisfactory to and approved by the Trustee.

**“Outstanding”** means, when used as of any particular time with reference to Bonds (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

- (a) Bonds previously canceled by the Trustee or delivered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of the applicable provisions of the Indenture; and
- (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

**“Owner”** means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

**“Participants”** means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

**“Participating Underwriter”** has the meaning ascribed thereto in the Continuing Disclosure Agreement.

**“Period”** or **“Rate Period”** means, when used with respect to any particular rate of interest applicable to the Certificates (whether a Weekly Rate, an Extended Rate or a Fixed Rate), the period during which such rate of interest will remain in effect pursuant to the Indenture.

**“Permitted Encumbrances”** means, with respect to the Property, (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease Agreement, permit to remain unpaid, (b) the Lease Agreement, (c) the Ground Lease, (d) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law, (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date, and (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Closing Date to which the Insurer consents in writing.

**“Permitted Investments”** means any of the following to the extent then permitted by the general laws of the State of California applicable to investments by school districts:

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively “United States Obligations”). These include, but are not necessarily limited to:

- U.S. Treasury obligations
  - All direct or fully guaranteed obligations
- Farmers Home Administration
  - Certificates of beneficial ownership
- General Services Administration
  - Participation certificates
- U.S. Maritime Administration
  - Guaranteed Title XI financing
- Small Business Administration
  - Guaranteed participation certificates
- Guaranteed pool certificates
- Government National Mortgage Association (GNMA)
  - GNMA-guaranteed mortgage-backed securities
  - GNMA-guaranteed participation certificates
- U.S. Department of Housing & Urban Development
  - Local authority bonds
- Washington Metropolitan Area Transit Authority
  - Guaranteed transit bonds

(2) Federal Housing Administration debentures.



(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)  
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)  
Senior debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)  
Consolidated system wide bonds and notes
- Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)  
Senior debt obligations  
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)  
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)  
Debt obligations
- Resolution Funding Corporation (REFCORP)  
Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

(7) Money market funds rated "AAm" or "AAm-G" by S&P, or better and, subject to the prior written consent of the Insurer, S&P and Moody's, the investment pool maintained by the county in which the District is located or other investment pools, in either case so long as such pool is rated in one of the two highest rating categories by S&P and Moody's.

(8) State Obligations, which means

(a) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(b) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated “A-1+” by S&P and “MIG-1” by Moody’s.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated “AA” or better by S&P and “Aa” or better by Moody’s.

(9) Pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s meeting the following requirements:

(a) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

A. With (i) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and Moody’s; (ii) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or (iii) any other entity rated “A” or better by S&P and Moody’s and acceptable to the Insurer, provided that:

a. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach);

b. The Trustee or a third party acting solely as agent therefor (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

c. The repurchase agreement shall state, and an opinion of counsel is rendered at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

d. All other requirements of S&P in respect of repurchase agreements shall be met;

e. The repurchase agreement shall provide that if during its term the provider’s rating by either S&P or Moody’s is withdrawn or suspended or falls below “A-” or “A3” respectively, the provider must, at the direction of the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by S&P and Moody’s, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA” by S&P and “Aa2” by Moody’s; provided, that, by the terms of the investment agreement:

(a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Project Fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice; the Trustee and the District hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks *pari passu* with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(d) the Trustee or the District receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Insurer) that such investment

agreement is legal, valid, binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;

(e) the investment agreement shall provide that if during its term (i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (A) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a Holder of the Collateral, collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (B) repay the principal of and accrued but unpaid interest, on the investment, and (ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A" or "A3," respectively, the provider must, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee;

(f) the investment agreement shall state, and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(g) the investment agreement must provide that if during its term (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

**"Person"** means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**"Principal Amount"** means (a) with respect to Bonds other than the Series 2007 Bonds, the principal amount thereof, and (b) with respect to the Series 2007 Bonds, the Accreted Value thereof as of the date of calculation.

**"Principal Payment Date"** means a date on which the principal or Accreted Value of the Bonds becomes due and payable, either as a result of the maturity thereof or by mandatory sinking fund redemption.

**"Project"** means the construction, reconstruction, rehabilitation, or replacement of the certain school facilities described in Exhibit E to the Indenture.

**“Project Costs”** means all costs of acquiring, constructing and installing the Project, including but not limited to:

(a) all costs which the District will be required to pay to a seller or any other Person under the terms of any contract or contracts for the purchase of any portion of the Project;

(b) all costs which the District will be required to pay a contractor or any other Person for the acquisition, construction and installation of any portion of the Project;

(c) obligations of the District incurred for services (including obligations payable to the District for actual out-of-pocket expenses of the District) in connection with the acquisition, construction and installation of the Project, including reimbursement to the District for all advances and payments made in connection with the Project prior to or after issuance of the Bonds;

(d) the actual out-of-pocket costs of the District for test borings, surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project, including administrative expenses under the Lease Agreement and under the Indenture relating to the acquisition, construction and installation of the Project;

(e) Costs of Issuance, to the extent amounts for the payment thereof are not available in the Costs of Issuance Fund; and

(f) any sums required to reimburse the Authority or the District for advances made by the Authority or the District for any of the above items or for any other costs incurred and for work done by the Authority or the District which are properly chargeable to the Project.

**“Property”** means the real property described in the Lease Agreement, and any improvements thereto.

**“Purchase Date”** means a date upon which Bonds are required to be purchased pursuant to the Indenture.

**“Purchase Price”** means, with respect to any Bond required to be purchased pursuant to the Indenture, an amount equal to the principal or Accreted Value of such Bond, plus accrued interest, if any, at the rate applicable to such Bond from the most recent Interest Payment Date and up to but excluding the Purchase Date.

**“Rebate Requirement”** has the meaning ascribed thereto in the Tax Certificate.

**“Record Date”** means, with respect to the interest payable on any Interest Payment Date, (a) the Business Day immediately prior to such Interest Payment Date, in the case of Bonds in the Weekly Rate Mode, and (b) the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day, in the case of Bonds in the Extended Rate Mode or the Fixed Rate Mode.

**“Registration Books”** means the records maintained by the Trustee for the registration or ownership and registration of transfer of the Bonds pursuant to the Indenture.

**“Release”** means, with respect to any substance, to pump, spill, leak, dispose of, empty, discharge or release such substance.

**“Remarketing Agent”** means the remarketing agent for the Bonds appointed pursuant to the Indenture.

**“Remarketing Agreement”** means the Remarketing Agreement, dated as of the date of the Indenture, by and among the Authority, the District and the initial Remarketing Agent, as originally executed and as it may from time to time be amended in accordance with the provisions thereof, or any similar agreement with a successor Remarketing Agent.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Closing Date through June 30, 2008 and, thereafter, the twelve-month period commencing on July 1 of each year during the term of the Lease Agreement.

**“Reserve Facility”** means any line of credit, letter of credit, insurance policy, surety bond or other credit source approved by the Insurer and deposited with the Trustee pursuant to the Indenture.

**“Reserve Requirement”** means, as of the date of any calculation, the least of (a) 10% of the original aggregate Principal Amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service; provided, however, that, for purposes of determining the Reserve Requirement, the interest rate borne by Bonds in an Adjustable Rate Mode will be deemed to be 12% per annum.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity will no longer perform the functions of a securities rating agency for any reason, the term “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Trustee and the Insurer.

**“Scheduled Termination Date”** means December 1, 2039.

**“Series”** means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series 2007 Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

**“Series 2007 Bonds”** means the Poway Unified School District Public Financing Authority Lease Revenue Bonds, Series 2007, issued under the Indenture.

**“Standby Agreement”** means the Standby Purchase Agreement, dated as of the date of the Indenture, by and between the District and the Bank, as originally executed and as it may from time to time be amended in accordance with the provisions thereof, or any similar agreement with the provider of a Substitute Facility.

**“Substitute Facility”** means any standby purchase facility substituted for the initial Facility in accordance with the provisions of the Indenture.

**“Supplemental Indenture”** means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

**“Tax Certificate”** means the Tax Certificate executed by the Authority at the time of issuance of the Series 2007 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Trustee”** means Zions First National Bank, a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture substituted in its place as provided therein.

**“Verification Report”** means, with respect to the deemed payment of Bonds pursuant to the Indenture, a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of the Indenture.

**“Weekly Rate”** means the interest rate or rates determined for a Weekly Rate Period pursuant to the Indenture

**“Weekly Rate Mode”** means the Mode in which Bonds bear interest at a Weekly Rate.

**“Weekly Rate Period”** means, with respect to a Bond in the Weekly Rate Mode, the period during which the Weekly Rate will remain in effect for such Bond pursuant to the Indenture.

**“Written Certificate of the Authority”** means a written certificate signed in the name of the Authority by an Authorized Representative of the Authority. Any such certificate may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

**“Written Certificate of the District”** means a written certificate signed in the name of the District by an Authorized Representative of the District. Any such certificate may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

**“Written Request of the Authority”** means a written request signed in the name of the Authority by an Authorized Representative of the Authority. Any such request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

**“Written Request of the District”** means a written request signed in the name of the District by an Authorized Representative of the District. Any such request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

## **THE LEASE AGREEMENT**

### **Lease of Property; Term**

Lease of Property. The Authority leases to the District and the District leases from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, subject to all Permitted Encumbrances.

The leasing of the Property by the District to the Authority pursuant to the Ground Lease will not effect or result in a merger of the District’s leasehold estate in such Property as lessee under the Lease

Agreement and its fee estate in the Property as lessor under the Ground Lease, and the Authority will continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The Lease Agreement will constitute a sublease with respect to the Property. The leasehold interest in the Property granted by the District to the Authority pursuant to the Ground Lease is and will be independent of the Lease Agreement; and the Lease Agreement will not be an assignment or surrender of the leasehold interest in the Property granted to the Authority under the Ground Lease.

Term; Occupancy. The term of the Lease Agreement will commence on the Closing Date and will end on the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If, on the Scheduled Termination Date, all of the Bonds will not be fully paid or deemed to have been paid in accordance with the Indenture, or any Rental Payments will remain due and payable or shall have been abated at any time, then the term of the Lease Agreement will be extended until the date upon which all of the Bonds are fully paid or deemed to have been paid in accordance with the Indenture, and all Rental Payments due and payable have been paid in full; provided, however, that the term of the Lease Agreement will in no event be extended more than ten years beyond the Scheduled Termination Date. If, prior to the Scheduled Termination Date, all of the Bonds will be fully paid or deemed to have been paid in accordance with the Indenture, and all Rental Payments due and payable have been paid in full, the term of the Lease Agreement will end simultaneously therewith.

The District will take possession of the Property on the Closing Date.

## **Rental Payments**

Base Rental Payments. *General.* The Rental Payments, including Base Rental Payments, for each Rental Period will be paid by the District to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during such Rental Period. It is expressly understood that the obligation of the District to pay Base Rental Payments under the Lease Agreement includes the obligation of the District to pay the Excess Amount, subject, however, to the specific limitations on such payment set forth in the Lease Agreement.

The obligation of the District to pay the Base Rental Payments does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

*Excess Amount.* Notwithstanding anything contained in the Lease Agreement to the contrary, the Excess Amount, if any, for each Rental Period will remain an obligation of the District to be paid by the District in any future Rental Period in which the sum of the Rental Payments exceed the Fair Rental Value in such Rental Period; provided, however, that any such Excess Amount which, when added to unused Excess Amounts from prior years, is greater than the amount set forth in the Lease Agreement will, to the extent of such difference, be discharged and will not be paid by the District to the Authority in any future year. The obligation to pay any portion of the Excess Amount will not arise until the Rental Period during which such Excess Amount is required to be applied and in no event will any Excess Amount be used to pay Rental Payments which would have accrued during any period of abatement with respect to such Rental Payments.

*Base Rental Payments.* Subject to the provisions of the Lease Agreement, the District will, on each Base Rental Deposit Date, pay to the Authority a Base Rental Payment in an amount equal to the



principal and Accreted Value of, and interest on, the Bonds due and payable on the next succeeding Principal Payment Date or Interest Payment Date, as applicable, including any such principal and Accreted Value due and payable by reason of mandatory sinking fund redemption of the Bonds; provided, however, that the amount of such Base Rental Payment will be reduced by the amount, if any, available in the Payment Fund, the Principal Account, the Interest Account or the Capitalized Interest Subaccount on such Base Rental Deposit Date to pay such principal or Accreted Value of, or interest on, the Bonds.

*Payments to Bank from Excess Amount.* If, as a result of the limitation contained in the Lease Agreement, during any Rental Period any amount that would have otherwise been payable to the Bank thereunder or with respect to a Bank Bond was not so payable, such amount will become payable to the Bank or with respect to such Bank Bond in the first Rental Period in which there is sufficient Excess Amount available to pay such amount; provided, however, that any Excess Amount will be deemed not to be available for such purpose if such Excess Amount is required during such Rental Period to pay any Rental Payments otherwise scheduled to be paid during such Rental Period.

*Payments other than Regularly Scheduled Payments.* If the term of the Lease Agreement shall have been extended pursuant to the provisions thereof, the obligation of the District to pay Rental Payments will continue to and including the Base Rental Deposit Date preceding the date of termination of the Lease Agreement (as so extended pursuant to the provisions thereof). Upon such extension, the Base Rental Payments payable during such extended term will, subject to the provisions of the Lease Agreement and the approval of the Insurer, be established so that such Base Rental Payments will in the aggregate be sufficient to pay the unpaid principal and Accreted Value of, and interest accrued and to accrue on, the Bonds.

Additional Rental Payments. The District will also pay, as Additional Rental Payments, such amounts as are required for the payment of the following:

- (a) all taxes and assessments of any type or nature charged to the Authority or the District or affecting the Property or the respective interests or estates of the Authority or the District therein;
- (b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;
- (c) all fees, charges and expenses payable to the Bank pursuant to the Standby Agreement, other than amounts payable to the Bank with respect to Bank Bonds;
- (d) insurance premiums for all insurance required pursuant to the Lease Agreement;
- (e) any amounts with respect to the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Code; and
- (f) all other payments required to be paid by the District under the provisions of the Lease Agreement or the Indenture, including amounts payable to the Insurer.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the District directly to the person or persons to whom such amounts will be payable. The District will pay all such amounts when due or at such later time as such amounts may be paid without penalty or,

in any other case, within 60 days after notice in writing from the Trustee to the District stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the Principal Office of the Trustee, or such other place or entity as the Authority designates. Notwithstanding any dispute between the Authority and the District, the District will make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the District was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination.

Appropriations Covenant. The District covenants to take such action as may be necessary to include all Rental Payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The covenants on the part of the District contained in the provisions of the Lease Agreement described in this paragraph, will be deemed to be and will be construed to be duties imposed by law and it will be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform such covenants.

Rental Abatement. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property, Rental Payments will be abated proportionately, and the District waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the District and the Authority. The District and the Authority will provide the Trustee and the Insurer with a certificate setting forth the amount of such abatement and the basis therefor. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed, and the term of the Lease Agreement will be extended as provided therein; provided, however, that such term will in no event be extended more than ten years beyond the Scheduled Termination Date.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, rather, will be payable by the District as a special obligation payable solely from said funds and accounts.

## **Representations and Warranties; Covenants and Agreements**

Power and Authority of the District. The District represents and warrants to the Authority and the Insurer that (a) the District has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Ground Lease and the Indenture, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Ground Lease and the Indenture, and (b) the Property is zoned for use for school related facilities.

Power and Authority of the Authority. The Authority represents and warrants to the District and the Insurer that the Authority has the full power and authority to enter into, to execute and to deliver the

Lease Agreement, the Ground Lease and the Indenture, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Ground Lease and the Indenture.

Net-Net-Net Lease. The Lease Agreement will be, and will be deemed and construed to be, a “net-net-net lease” and the Rental Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the District and the Authority.

Disclaimer of Warranties. THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE DISTRICT ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE PROPERTY OR A DEALER THEREIN, THAT THE DISTRICT LEASES THE PROPERTY AS IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE DISTRICT.

Quiet Enjoyment. So long as no Event of Default has occurred and be continuing, the District will at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Right of Entry. The Authority shall have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority’s rights or obligations under the Lease Agreement, and for all other lawful purposes.

Use of the Property. The District will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the District agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the District may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under the Lease Agreement.

Maintenance and Utilities. As part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property will be the responsibility of the District, and the District will pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District. In exchange for the Rental Payments, the Authority agrees to provide only the Property.

Additions to Property. Subject to the provisions of the Lease Agreement, the District and any sublessee will, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements will remain the sole property of the District or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. Such additions, modifications and improvements will not in any way damage the

Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law, and the Property, upon completion of any addition, modification or improvement made pursuant to the provisions of the Lease Agreement described in this paragraph, will be of a value which is at least equal to the value of the Property immediately prior to the making of such addition, modification or improvement.

Installation of District's Equipment. The District and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the District or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. The District or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party will repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items, and the Property, upon completion of any installation, modification or removal made pursuant to the provisions of the Indenture described in this paragraph, will be of a value which is at least equal to the value of the Property immediately prior to the making of such installation, modification or removal. Nothing in the Lease Agreement will prevent the District or any sublessee from purchasing items to be installed pursuant to the provisions of the Lease Agreement described by this paragraph under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Property.

Taxes. The District will pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or the District or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District will be obligated to pay only such installments as and when the same become due.

Upon notice to the Insurer, the Authority and the Trustee, the District or any sublessee may, at the District's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority, the Insurer or the Trustee notify the District or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the District or such sublessee will promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority, the Insurer and the Trustee.

Liens. In the event the District at any time during the term of the Lease Agreement causes any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the District will pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the District in, upon or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the District desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the District will forthwith pay and discharge said judgment.

(a) Compliance with Law, Regulations, Etc. (b) The District represents and warrants that, after due inquiry, it has no knowledge and has not given or received any written notice indicating that the Property or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any Laws and Regulations. Without limiting the generality of the foregoing, the District represents and warrants that neither the District nor, to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Property has, other than as may have been remediated in accordance with Laws and Regulations (i) used, treated, stored, transported or disposed of any material amount of Hazardous Materials on, from or beneath the Property, (ii) Released any material amount of Hazardous Materials on, from or beneath the Property, or (iii) stored any material amount of petroleum products at the Property in underground storage tanks, except Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance or operation of school buildings and facilities, the use, treatment, storage, transportation and disposal of which has been and will be in compliance with all Laws and Regulations.

(c) The District represents and warrants that no portion of the Property located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Property.

Environmental Compliance. (a) The District will not use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property and then only in compliance with all Environmental Regulations, nor will it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee or agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Property or onto any other property excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance or operation of school buildings and facilities, the use, storage, treatment, transportation and disposal of which will be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the District will promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released on, from or beneath the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained in the Lease Agreement, underground storage tanks will only be permitted subject to compliance with paragraph (d) below and only to the extent necessary to maintain the improvements on the Property.

(b) The District will comply with, and will use its best efforts to assure that its tenant's subtenants, agents, licensees, employees, contractors and agents comply with, all Environmental Regulations with respect to the Property; provided, however, that notwithstanding that a portion of this covenant is limited to the District's use of its best efforts, the District will remain solely responsible for ensuring such compliance and such limitation will not diminish or affect in any way the District's obligations contained in subsection (c) below. Upon receipt of any notice from any person with regard to the Release of Hazardous Materials on, from or beneath the Property, the District will give prompt written notice thereof to the Authority, the Trustee and the Insurer prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the Lease Agreement is not true or correct, the District will, to the extent permitted by law, defend, indemnify and hold harmless the Authority, the Owners and the Insurer, its partners, depositors and each of its and their employees, agents, officers, directors, trustees, successors and assigns, from and against any claims,

demands, penalties, fines, attorneys' fees (including, without limitation, attorneys' fees incurred to enforce these indemnification provisions of the Lease Agreement), consultants' fees, investigation and laboratory fees, liabilities, settlements (five Business Days' prior notice of which the Authority, the Trustee or the Insurer, as appropriate, has delivered to the District), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to, (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Business Days' prior notice of which the Authority, the Trustee or the Insurer, as appropriate, has delivered to the District), or governmental order relating to Hazardous Materials on, from or beneath the Property, (iv) any violation of Environmental Regulations or paragraphs (a) or (b) above by it or its agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that the District is strictly liable under any Environmental Regulation, its obligation to the Authority, the Owners and the Insurer and the other indemnitees under the foregoing indemnification will likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under the provisions of the Lease Agreement described in this paragraph will survive the payment of all Bonds and the discharge of the Indenture.

(d) The District will conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and will maintain, repair and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

No Condemnation. The District will not exercise the power of condemnation with respect to the Property. If for any reason the foregoing covenant shall be held by a court of competent jurisdiction to be unenforceable and the District condemns the Property or if the District breaches such covenant, the District agrees that the value of the District's leasehold estate under the Lease Agreement in the Property will be not less than the greater of (a) the amount sufficient to redeem the Bonds pursuant to the Indenture if the Bonds are then subject to redemption, or (b) the amount sufficient to defease the Bonds to the first available redemption date in accordance with the Indenture if the Bonds are not then subject to redemption.

Authority's Purpose. So long as any Bonds are Outstanding, the Authority will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the agreement pursuant to which the Authority was created.

## **Insurance**

Public Liability and Property Damage Insurance; Workers' Compensation Insurance. (a) The District will maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard comprehensive general liability insurance policy or policies in protection of the District, the Authority and their respective members, officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury to or death of each person and \$3,000,000 for personal injury to or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in

conjunction with any other liability insurance coverage carried or required to be carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, provided that such self-insurance complies with the provisions of the Lease Agreement. The Net Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

(b) The District will maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto, or in lieu thereof, such workers' compensation insurance to cover all persons employed by the District in connection with the Property and to cover full liability for compensation under any such act. The insurance required under the provisions of the Lease Agreement described in this paragraph may be maintained in whole or in part in the form of self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(c) The District will maintain or cause to be maintained casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood) to the full insurable value of the Property, subject to a \$100,000 loss deductible provision, unless some other deductible is acceptable to the Insurer. Full insurable value will be evaluated at least every five years by an Independent Insurance Consultant and will not be less than the aggregate principal amount of the Outstanding Bonds. The insurance required under the provisions of the Lease Agreement described in this paragraph may be maintained in whole or in part in the form of self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(d) The District will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to the provisions of the Lease Agreement described in paragraph (c) above in an amount not less than the lesser of (1) an amount equal to two times Maximum Annual Debt Service, or (2) such lesser amount as may be agreed to by the Insurer in writing; provided, however, that for purposes of calculating Maximum Annual Debt Service, interest on the Bonds in an Adjustable Rate Mode will be deemed to accrue at a rate per annum of 12%. The insurance required under the provisions of the Lease Agreement described under the Lease Agreement described in this paragraph may not be maintained in whole or in part in the form of self-insurance.

(e) The insurance required by the provisions of the Lease Agreement described in under the caption "Insurance" will be provided by insurers rated "A" or better by S&P, unless the Insurer will, in writing, approve an insurer with a lower rating.

Additional Insurance Provision; Form of Policies. The District will pay or cause to be paid when due the premiums for all insurance policies required by the provisions of the Lease Agreement. All such policies will provide that the Trustee and the Insurer will be given 30 days notice of the expiration thereof, any intended cancellation thereof or any reduction in the coverage provided thereby. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee; provided, however, that the Trustee will not agree to any adjustment, compromise or settlement without the Insurer's written consent.

The District will cause to be delivered to the Trustee and the Insurer on or before August 15 of each year, commencing August 15, 2008, a schedule of the insurance policies being maintained in accordance with the Lease Agreement and a Written Certificate of the District stating that such policies are in full force and effect and that the District is in full compliance with the requirements of the

provisions of the Lease Agreement. The District will, upon request of the Insurer, deliver to the Insurer certificates or duplicate originals or certified copies of each insurance policy described in such schedule. The Trustee will be entitled to rely upon said Certificate of the District as to the District's compliance with the provisions of the Lease Agreement. Neither the Trustee nor the Insurer will be responsible for the sufficiency of coverage or amounts of such policies.

Self-Insurance. Insurance provided through a California joint powers authority of which the District is a member or with which the District contracts for insurance will be deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the District pursuant to the provisions of the Lease Agreement, will comply with the following terms:

- (a) the self-insurance program must be approved in writing by the Insurer;
- (b) the self-insurance program must be approved in writing by an Independent Insurance Consultant;
- (c) the self-insurance program will include an actuarially sound claims reserve fund out of which each self-insured claim will be paid, the adequacy of each such fund will be evaluated on an annual basis by the Independent Insurance Consultant and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of such Independent Insurance Consultant;
- (d) the self-insured claims reserve fund will be held in a separate trust fund by an independent trustee, which may be the Trustee serving as such under the Indenture; and
- (e) in the event the self-insurance program is discontinued, the actuarial soundness of its claims reserve fund, as determined by an Independent Insurance Consultant, will be maintained.

Title Insurance. The District will provide, at its own expense, one or more ALTA title insurance policies for the Property, in form acceptable to the Insurer, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2007 Bonds. Said policy or policies will insure (a) the fee interest of the District in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the District's leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances; provided, however, that one or more of said estates may be insured through an endorsement to such policy or policies. All Net Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the provisions of the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Lease Agreement or required thereby will provide that all proceeds under the Lease Agreement shall be payable to the Trustee for the benefit of the Owners.

### **Eminent Domain**

If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the District) is taken under the power of eminent domain, the term of the Lease Agreement will cease as of the day that possession is so taken. If less than all of the Property is taken under the power of eminent domain and the remainder is usable for public purposes by the District at the time of such taking, then the Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement. So long as any Bonds are Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any



portion thereof, will be paid to the Trustee and applied to the redemption of Bonds as provided under the provisions of the Indenture. Any such award made after all of the Bonds, and all other amounts due under the Indenture, the Standby Agreement and the Lease Agreement, have been fully paid, will be paid to the District.

### **Right to Redeem Bonds**

The District shall have the right to cause the Bonds to be redeemed pursuant to, and in accordance with the provisions of the Indenture by providing the Trustee with funds sufficient for such purpose (which funds may be derived by the District from any source) and giving notice of the District's exercise of such right as provided in the paragraph below.

In order to exercise its right to cause Bonds to be redeemed pursuant to the paragraph above, the District will give written notice to the Trustee of its intention to exercise such right, specifying the date on which such redemption will be made, which date will be not less than 45 days from the date such notice is given, and specifying the Series, Modes, maturities and amounts of Bonds to be redeemed.

### **Assignment and Subletting; Substitution or Release; Title**

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the District thereunder may be sold, mortgaged, pledged, assigned, or transferred by the District by voluntary act or by operation of law or otherwise; provided, however, that the Property may be subleased in whole or in part by the District, but only subject to the following conditions, which are thereby made conditions precedent to any such sublease:

- (a) the Insurer shall have consented in writing to such sublease;
- (b) the Lease Agreement and the obligation of the District to make all Rental Payments thereunder will remain the primary obligation of the District;
- (c) the District will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;
- (d) no such sublease by the District will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;
- (e) any sublease of the Property by the District will explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the District; and
- (f) the District shall have filed or caused to be filed with the Authority and the Trustee an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

Substitution or Release of the Property. Subject to the provisions of the Lease Agreement described in this paragraph, the District shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with any such substitution or release will be borne by the District. Notwithstanding any substitution or release pursuant to the provisions of the Lease Agreement described in this paragraph, there will be no reduction in or abatement of the Base Rental Payments due from the

District under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property will be subject to the following conditions, which are thereby made conditions precedent to such substitution or release:

- (a) the Insurer shall have consented in writing to such substitution or release;
- (b) an independent certified real estate appraiser selected by the District shall have found (and shall have delivered a certificate to the District, the Trustee and the Insurer setting forth its findings) that the Property, as constituted after such substitution or release (i) has an annual fair rental value greater than or equal to 105% of Maximum Annual Debt Service on the Outstanding Bonds, and (ii) has a useful life equal to or greater than the useful life of the Property, as constituted prior to such substitution or release;
- (c) the District shall have obtained or caused to be obtained an ALTA title insurance policy or policies with respect to any substituted property in the amount of the fair market value of such substituted property (which fair market value shall have been determined by an independent certified real estate appraiser), of the type and with the endorsements described in the provisions of the Lease Agreement;
- (d) the District shall have filed or caused to be filed with the Trustee an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;
- (e) the District shall have given, or shall have made arrangements for the giving of, any notice of the occurrence of such substitution or release required to be given pursuant to the Continuing Disclosure Agreement;
- (f) the District, the Authority and the Trustee shall have executed, and the District shall have caused to be recorded with the county recorder of the county in which the Property is located, any document necessary to reconvey to the District the portion of the Property being substituted or released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease;
- (g) the District shall have certified to the Trustee and the Insurer that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property for which it is being substituted; and
- (h) the Bank shall have been given no less than ten days' prior written notice of such substitution or release.

Notwithstanding the foregoing, the Insurer may waive any of the conditions contained in subsections (b), (c) and (g) of the provisions of the Lease Agreement.

Title to Property. Upon the termination or expiration of the Lease Agreement (other than as provided in the provisions of the Lease Agreement), and the first date upon which no Bonds are any longer Outstanding, all right, title and interest in and to the Property will vest in the District. Upon any such termination or expiration, the Authority will execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

## Events of Default and Remedies

Events of Default. The occurrence, from time to time, of any one or more of the following events will constitute an Event of Default under the Lease Agreement:

(a) the failure of the District to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement;

(b) the failure by the District to observe and perform any of the other covenants, agreements or conditions on its part in the Lease Agreement contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the District by the Trustee, the Authority, the Insurer or the Owners of not less than 5% in aggregate Principal Amount of the Bonds at the time Outstanding; provided, however, that if, in the reasonable opinion of the District, the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an Event of Default if corrective action is instituted by the District within such 30 day period and the District will thereafter diligently and in good faith cure such failure in a reasonable period of time, provided, further, however, that the period of time for such cure shall not exceed 60 days without the prior written consent of the Insurer;

(c) except as otherwise expressly permitted by the Lease Agreement, the assignment or transfer, either voluntarily or by operation of law or otherwise, of the District's interest in the Lease Agreement or any part thereof without the written consent of the Authority and the Insurer;

(d) the abandonment of the Property by the District; or

(e) the commencement by the District of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

In determining whether a default has occurred under paragraph (a), above, no effect will be given to payments made under the Insurance Policy.

Action on Default. (a) Subject to the provisions of the Lease Agreement, in each and every case during the continuance of an Event of Default thereunder, the Authority, in addition to all other rights and remedies it may have at law, shall have the option either to exercise the rights provided for in subparagraph (b) below or to exercise the rights provided for in subparagraph (c) below.

(b) In each and every case during the continuance of an Event of Default under the Lease Agreement, the Authority shall have the right to terminate the Lease Agreement in the manner provided therein, notwithstanding any re-entry or re-letting of the Property as provided in subparagraph (c) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District. In the event of such termination, the District agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions of the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the

appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District will be or become effective by operation of law or acts of the parties to the Lease Agreement, or otherwise, unless and until the Authority has given written notice to the District of the election on the part of the Authority to terminate the Lease Agreement. The District covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(c) In each and every case during the continuance of an Event of Default under the Lease Agreement, the Authority shall have the right, without terminating the Lease Agreement, (i) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions thereof to be kept or performed by the District, regardless of whether or not the District has abandoned the Property, or (ii) to exercise any and all rights of entry and re-entry upon the Property. In the event the Authority does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (b) above, the District will remain liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the District and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments thereunder, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the District irrevocably appoints the Authority as the agent and attorney-in-fact of the District to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District, and the District indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions of the Lease Agreement. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-letting will constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease Agreement will vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (b) above. The District further agrees to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the District of the completion and installation of such additions or alterations. The term "re-let" or "re-letting" as used in the provisions of the Lease Agreement described in this paragraph will include, but not be limited to, re-letting by means of the operation by the Authority of the Property.

(d) The District waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims

for damages to or loss of any property belonging to the District, or any other person, that may be in or upon the Property.

(e) Notwithstanding anything in the Lease Agreement to the contrary, the termination of the Lease Agreement by the Authority on account of an Event of Default thereunder will not effect or result in a termination of the lease of the Property by the District to the Authority pursuant to the Ground Lease.

Other Remedies. In addition to the other remedies provided for in the Lease Agreement, during the continuance of an Event of Default thereunder, the Authority will be entitled to proceed to protect and enforce the rights vested in the Authority by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the District and of its board, officers or employees will be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing and subject to the Lease Agreement, the Authority shall have the right to bring the following actions:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any board member, officer or employee thereof, and to compel the District or any such board member, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Lease Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the District and its board, officers and employees to account as if it or they were the trustee or trustees of an express trust.

No Acceleration. Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority shall have no right to accelerate Rental Payments upon the occurrence or continuance of a default or an Event of Default under the Lease Agreement.

Remedies Not Exclusive. Subject to the provisions of the Lease Agreement, no remedy therein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Lease Agreement or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. If any statute or rule of law validly limits the remedies given to the Authority under the Lease Agreement, the Authority nevertheless will be entitled to whatever remedies are allowable under any statute or rule of law.

Waiver. No delay or omission of the Authority to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by the Lease Agreement to the Authority may be exercised from time to time and as often as may be deemed expedient. A waiver of a particular default or Event of Default will not be deemed to be a waiver of any other default or Event of Default or of the same default or Event of Default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

Attorney's Fees. In the event the Authority prevails in any action brought to enforce any of the terms and provisions of the Lease Agreement, the District agrees to pay a reasonable amount as and for

attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease Agreement.

Insurer Rights. Notwithstanding anything to the contrary contained in the Lease Agreement, so long as no Insurer Default shall have occurred and be continuing, no remedy will be exercised under the Lease Agreement without the prior written consent of the Insurer and the Insurer shall have the right to direct the exercise of any remedy thereunder.

## **Amendments**

The Lease Agreement and the Ground Lease, and the rights and obligations of the District and the Authority thereunder, may be amended at any time by an amendment thereto, which will become binding upon execution by the District and the Authority, but only with the prior written consent of the Insurer (so long as no Insurer Default shall have occurred and be continuing) and the Owners of a majority of the aggregate Principal Amount of Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture. No such amendment shall (i) extend the payment date of any Base Rental Payment or reduce the amount of any Base Rental Payment without the prior written consent of the Owner of each Bond so affected, (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required for any amendment of the Lease Agreement or the Ground Lease to become binding without the prior written consent of the Owners of all the Bonds then Outstanding, (iii) modify any of the rights or obligations of the Bank without the prior written consent of the Bank, or (iv) amend these provisions of the Lease Agreement without the prior written consent of the Owners of all the Bonds then Outstanding.

The Lease Agreement and the Ground Lease, and the rights and obligations of the District and the Authority thereunder, may also be amended at any time by an amendment thereto, which will become binding upon execution by the District and the Authority, with the written consent of the Insurer (so long as no Insurer Default shall have occurred and be continuing), but without the written consents of any Owners, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the District or the Authority therein contained other covenants and agreements thereafter to be observed, or to surrender any right or power therein reserved to or conferred upon the District or the Authority;
- (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained therein or in regard to questions arising thereunder which the District or the Authority may deem desirable or necessary and not inconsistent therewith;
- (iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;
- (iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement;
- (v) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest on the Bonds; or

(vi) to make such other changes therein as the District or the Authority may deem desirable or necessary, and which will not materially adversely affect the interests of the Insurer, the Bank or the Owners.

The Lease Agreement and the Ground Lease, and the rights and obligations of the District and the Authority thereunder, may also be amended as of any Capital Appreciation Conversion Date or Conversion Date by an amendment thereof, which will become binding on such Capital Appreciation Conversion Date or Conversion Date, with the prior written consent of the Insurer (so long as no Insurer Default shall have occurred and be continuing) and the Bank (if the Rate Period commencing on such Conversion Date is an Adjustable Rate Period), but without the written consent of any Owners, but only if such amended rights and obligations affect only the Bonds being converted from one Mode to another Mode on such Capital Conversion Date or Conversion Date and such Bonds have been remarketed by the Remarketing Agent pursuant to the provisions of the Indenture for purchase on such Capital Appreciation Conversion Date or Conversion Date with such amended rights and obligations.

The Insurer will be provided with a full original transcript of all proceedings relating to the amendment of the Lease Agreement or the Ground Lease pursuant to these provisions of the Lease Agreement.

### **Rights of Insurer and Bank**

Rights of Insurer; Rights of Bank. (a) So long as no Insurer Default shall have occurred and be continuing, the Insurer will at all times be deemed to be the sole Owner of the Outstanding Series 2007 Bonds for purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2007 Bonds are entitled to take under the Lease Agreement or the Ground Lease, including but not limited to approval of or consent to any amendment of the Lease Agreement or the Ground Lease which requires the consent or approval of the Owners of a majority of the Principal Amount of the Bonds then Outstanding; provided, however, that the Insurer will not be deemed to be the sole and exclusive Owner of the Outstanding Series 2007 Bonds with respect to any amendment of the Lease Agreement or the Ground Lease which seeks to amend the Lease Agreement or the Ground Lease for the purposes set forth in provisions (i), (ii), (iii) or (iv) of the first paragraph of the provisions of the Lease Agreement set forth under the heading entitled "Amendments" above.

(b) If (i) an Insurer Default shall have occurred and be continuing, and (ii) all Outstanding Series 2007 Bonds are Bank Bonds, then the Bank shall have all rights of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2007 Bonds are entitled to take under the Lease Agreement or under the Ground Lease enjoyed by the Insurer pursuant to the subparagraph (a) above prior to the occurrence of such Insurer Default.

References to Bank Ineffective. If the Facility is no longer in effect, and all obligations to the Bank under the Standby Agreement have been paid in full, then all references in the Lease Agreement to the Bank, the Facility and the Standby Agreement will be of no effect.

### **Miscellaneous**

Authority Not Liable. The Authority and its directors, officers, agents and employees, will not be liable to the District or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the District will, at its expense, indemnify and hold the Authority and its directors, officers, agents and employees harmless against and from any and all claims by or on behalf of any Person arising from the acquisition, construction, occupation, use, operation, maintenance, possession,

conduct or management of any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. In no event will the Authority be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the District's use of the Property.

Third-Party Beneficiaries. The Insurer and the Bank are third-party beneficiaries of the Lease Agreement.

Assignment to Trustee; Effect. The parties to the Lease Agreement understand and agree that, upon the execution and delivery of the Indenture (which is occurring simultaneously with the execution and delivery of the Lease Agreement), all right, title and interest of the Authority in and to the Lease Agreement will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Bonds. The District thereby consents to such sale, assignment and transfer. Upon the execution and delivery of the Indenture, references in the operative provisions of the Lease Agreement to the Authority will be deemed to be references to the Trustee, as assignee of the Authority.

## **THE GROUND LEASE**

### **Lease of the Property; Rental**

Lease of Property. The District leases to the Authority, and the Authority leases from the District, for the benefit of the Owners of the Series 2007 Bonds, the Property, subject only to Permitted Encumbrances, to have and to hold for the term of the Ground Lease.

Rental. The Authority will pay to the District as and for rental of the Property under the Ground Lease, an amount set forth in the Ground Lease (the "Ground Lease Payment"). The Ground Lease Payment will be paid from the proceeds of the Series 2007 Bonds; provided, however, that in the event the available proceeds of the Series 2007 Bonds are not sufficient to enable the Authority to pay such amount in full, the remaining amount of the Ground Lease Payment will be reduced to an amount equal to the amount of such available proceeds.

The District will deposit the Ground Lease Payment in one or more separate funds or accounts to be held and administered for the purpose of financing the Project. The Authority and the District find and determine that the amount of the Ground Lease Payment does not exceed the fair market value of the leasehold interest in the Property which is conveyed under the Ground Lease by the District to the Authority. No other amounts of rental will be due and payable by the Authority for the use and occupancy of the Property under the Ground Lease.

### **Quiet Enjoyment**

The parties intend that the Property will be leased back to the District pursuant to the Lease Agreement for the term thereof. It is further intended that, to the extent provided in the Ground Lease and in the Lease Agreement, if an event of default occurs under the Lease Agreement, the Authority, or its assignee, shall have the right, for the then remaining term of the Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. Subject to any rights the District may have under the Lease Agreement (in the absence of an event of default) to possession and enjoyment of the Property, the District covenants and agrees that it will not take any action to prevent the Authority from having quiet and peaceable possession and enjoyment of the Property during the term of the Ground



Lease and will, at the request of the Authority and at the District's cost, to the extent that it may lawfully do so, join in any legal action in which the Authority asserts its right to such possession and enjoyment.

### **Special Covenants and Provisions**

Waste. The Authority agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

Further Assurances and Corrective Instruments. The District and the Authority agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements to the Ground Lease and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property leased or intended so to be or for carrying out the expressed intention of the Ground Lease, the Indenture and the Lease Agreement.

Waiver of Personal Liability. All liabilities under the Ground Lease on the part of the Authority will be solely liabilities of the Authority as a joint powers authority, and the District releases each and every director, officer and employee of the Authority of and from any personal or individual liability under the Ground Lease. No director, officer or employee of the Authority will at any time or under any circumstances be individually or personally liable under the Ground Lease to the District or to any other party whomsoever for anything done or omitted to be done by the Authority under the Ground Lease.

All liabilities under the Ground Lease on the part of the District will be solely liabilities of the District as a school district, and the Authority releases each and every member, officer and employee of the District of and from any personal or individual liability under the Ground Lease. No member, officer or employee of the District will at any time or under any circumstances be individually or personally liable under the Ground Lease to the Authority or to any other party whomsoever for anything done or omitted to be done by the District under the Ground Lease.

Taxes. The District covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

Right of Entry. The District reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

Representations of the District. The District represents and warrants to the Authority, the Trustee and the Insurer as follows:

- (a) the District has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations under the Ground Lease, and has duly authorized the execution of the Ground Lease;
- (b) except for Permitted Encumbrances, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for school purposes as contemplated by the District;
- (c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes, have been paid in full; and

(d) the Property is necessary to the District in order for the District to perform its governmental function relating to public education.

Representations of the Authority. The Authority represents and warrants to the District, the Trustee and the Insurer that the Authority has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations under the Ground Lease, and has duly authorized the execution and delivery of the Ground Lease.

### **Assignment, Selling and Subleasing**

Assignment, Selling and Subleasing. The Ground Lease may be assigned or sold, and the Property may be subleased, as a whole or in part, by the Authority with the consent of the Insurer and the Bank, or at the direction of the Insurer, without the necessity of obtaining the consent of the District, if an event of default occurs under the Lease Agreement. The Authority will, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the District a true and correct copy of such assignment, sublease or sale, as the case may be.

The Authority will assign all of its rights under the Ground Lease to the Trustee appointed pursuant to the Indenture.

Restrictions on District. The District agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

### **Improvements**

Title to all improvements made on the Property during the term of the Ground Lease will vest in the District.

### **Term; Extension; Early Termination**

Term. The term of the Ground Lease will commence as of the date of commencement of the term of the Lease Agreement and will remain in full force and effect from such date to and including December 1, 2039, unless such term is extended or sooner terminated as provided in the Ground Lease.

Extension; Early Termination. If, on December 1, 2039, the Series 2007 Bonds are not fully paid, or provision therefor made in accordance with the Indenture, or the Indenture will not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement have been abated at any time, then the term of the Ground Lease will be automatically extended until the date upon which all Series 2007 Bonds are fully paid, or provision therefor made in accordance with the provisions of the Indenture under the caption "Defeasance," will be discharged by its terms, except that the term of the Ground Lease will in no event be extended more than ten years. If, prior to December 1, 2039, all Series 2007 Bonds are fully paid, or provisions therefor made in accordance with the provisions of the Indenture under the caption "Defeasance," and the Indenture shall be discharged by its terms, the term of the Ground Lease will end simultaneously therewith.

## THE INDENTURE

### Terms and Conditions of the Bonds

Terms of Series 2007 Bonds. The Series 2007 Bonds will be dated as of the Closing Date, will be issued in the initial aggregate Principal Amount of \$34,783,991 and will mature on December 1, 2039. The Series 2007 Bonds will initially be in the Capital Appreciation Mode and, during the Capital Appreciation Period, will bear interest at the rate of 4.100% per annum. During the Capital Appreciation Period, interest accruing on the Series 2007 Bonds will be compounded semiannually on each Compounding Date, calculated on the basis of a 360-day year consisting of twelve 30-day months. The Accreted Value of the Series 2007 Bonds as of each Compounding Date is set forth in the Accreted Value Table. From and after the Capital Appreciation Conversion Date, the Series 2007 Bonds will bear interest on the Accreted Value thereof as of the Capital Appreciation Conversion Date, at the rates determined as provided in the Indenture.

The Series 2007 Bonds will bear interest at the rates determined as set forth in the Indenture, payable on the Interest Payment Dates; provided, however, that, during the Capital Appreciation Period, interest on the Series 2007 Bonds will be compounded semiannually on each Compounding Date and will be paid as a portion of the Accreted Value thereof on maturity or earlier redemption thereof. Interest on each Series 2007 Bond, other than a Series 2007 Bond that is a Bank Bond, will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) such Series 2007 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest thereon shall be payable from such Interest Payment Date, (ii) such Series 2007 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Capital Appreciation Conversion Date, or (iii) interest on such Series 2007 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has previously been paid or duly provided for. Interest on each Bank Bond will be payable from the date on which such Series 2007 Bond becomes a Bank Bond until such time as such Series 2007 Bond is no longer a Bank Bond. Interest will be paid in lawful money of the United States on each Interest Payment Date. Except as otherwise provided in the Letter of Representations, interest on the Series 2007 Bonds will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2007 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date; provided, however, that if a Series 2007 Bond becomes a Bank Bond after a Record Date and on or before the next succeeding Interest Payment Date, interest on such Bank Bond will be paid to the Bank on such Interest Payment Date. Notwithstanding anything to the contrary contained herein, payments of interest on Bank Bonds will be made to the Bank by wire transfer of immediately available funds to the account specified in the Standby Agreement.

The Accreted Value of and premium, if any, on the Series 2007 Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee.

The Series 2007 Bonds will be in substantially the form set forth in Exhibit A to the Indenture, with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2007 Bonds) payable from Lease Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) neither the Authority nor the District will be in default under the Indenture, the Standby Agreement, the Lease Agreement or the Ground Lease;

(b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and under and pursuant to the Indenture and shall have been provided for by a Supplemental Indenture which will specify the following:

(i) the purposes for which such Additional Bonds are to be issued; provided, that the proceeds of the sale of such Additional Bonds will be applied only for one or more of the following purposes: (A) providing funds to pay costs of District facilities, (B) providing funds to refund any Bonds issued under the Indenture, (C) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, and (D) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (c) below;

(ii) the principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds, which will be Authorized Denominations;

(iii) the Mode or Modes to be applicable to such Series of Additional Bonds upon the issuance thereof and, if more than one Mode is to be applicable thereto, the principal amount and maturities of such Additional Bonds to which each such Mode is to be applicable; provided, however, that none of such Additional Bonds will be in the Capital Appreciation Mode;

(iv) the date, the maturity date or dates, the Interest Payment Dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, that (A) the serial Bonds of such Series of Additional Bonds shall be payable as to principal annually on December 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds shall have annual mandatory sinking fund redemptions on December 1, (B) interest on such Additional Bonds in each Mode will be payable on the Interest Payment Dates, commencing with the first Interest Payment Date applicable to such Mode occurring after the date of issuance of such Additional Bonds, (C) all Additional Bonds of a Series of like maturity and in the same Mode will be identical in all respects, except as to number or denomination, and (D) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(v) the form of such Additional Bonds; and

(vi) such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof;

(c) upon the issuance of such Additional Bonds, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities, shall be at least equal to the Reserve Requirement; and

(d) upon the issuance of such Additional Bonds, the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of the issuance of such Additional Bonds, plus Additional Rental Payments, in any Rental Period will not be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of such Additional Bonds (evidence of the satisfaction of such condition shall be made by a Written Certificate of the District).

Procedure for the Issuance of Additional Bonds. Whenever the Authority and the District shall determine to authorize the issuance of any Additional Bonds, the Authority, the District and the Trustee will enter into a Supplemental Indenture satisfying the conditions of the Indenture. Before such Additional Bonds will be issued, the Authority and the District will file or cause to be filed with the Trustee the following:

(a) an Opinion of Counsel setting forth (i) that counsel rendering such opinion has examined the Supplemental Indenture, the amendment to the Lease Agreement, if any, and the amendment, if any, to the Ground Lease required by the Indenture, (ii) that the issuance of the Additional Bonds has been duly authorized by the Authority, (iii) that the execution and delivery of the Supplemental Indenture and the amendments to the Lease Agreement and the Ground Lease have been duly authorized, executed and delivered by the Authority and the District, (iv) that upon execution and delivery of such Supplemental Indenture and such amendments to the Lease Agreement and the Ground Lease, the Indenture, as amended and supplemented by such Supplemental Indenture, and the Lease Agreement and the Ground Lease, as amended by such amendments, will be valid and binding obligations of the Authority and the District, and (v) that the execution and delivery of the Supplemental Indenture and the amendments to the Lease Agreement and the Ground Lease, in and of themselves, do not adversely affect the exclusion from gross income for federal income tax purposes of interest on Outstanding Bonds;

(b) a Written Certificate of the District that the requirements of the Indenture have been met, which shall include a certification as to the fair rental value of the Property, after giving effect to the amendments to the Lease Agreement and the Ground Lease entered into in connection with the issuance of the Additional Bonds and taking into account the use of proceeds of such Additional Bonds;

(c) the written consent of the Insurer to the execution and delivery of such Supplemental Indenture and the issuance of such Additional Bonds;

(d) certified copies of the resolutions of the Authority and the District authorizing the execution and delivery of the Supplemental Indenture and the amendments to the Lease Agreement and the Ground Lease;

(e) executed counterparts or duly authenticated copies of the Supplemental Indenture and the amendments to the Lease Agreement and the Ground Lease, with satisfactory evidence that such amendments to the Lease Agreement and the Ground Lease have been duly recorded in the appropriate records of the county in which the Property is located;

(f) certified copies of the policies of insurance required by the Lease Agreement or certificates thereof, which shall evidence that the amounts of the insurance required under the Lease Agreement have been increased, if applicable, to cover the amount of such Additional Bonds;

(g) an ALTA title insurance policy or other appropriate form of policy in the amount of the Additional Bonds of the type and with the endorsements described in the Lease Agreement;

(h) if the Additional Bonds bear interest at an Adjustable Rate, evidence that the Facility provides for payment in the amounts specified in the Indenture, taking into account the Additional Bonds in calculating such amounts; and

(i) if a rating or ratings on the Outstanding Bonds will be in effect on the date of issuance of such Additional Bonds, written evidence from Moody's and S&P, as applicable, to the effect that the issuance of such Additional Bonds will not, in and of itself, result in a reduction, suspension or withdrawal of such rating agency's rating on the Bonds.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee's being satisfied from an examination of said instruments that all of the documents required by the provisions of the Indenture have been delivered, the Trustee will authenticate such Additional Bonds, and will deliver such Additional Bonds to, or upon the request of, the Authority.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will be available for inspection and copying by the Authority, the District, the Bank (or its designated agent) and the Insurer (or its designated agent); and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as herein provided.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like aggregate Principal Amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and delivered to, or upon the order of, the Authority. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee will be given, the Authority, at the expense of the Owner, shall execute, and the Trustee will thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like aggregate Principal Amount in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the provisions of the Indenture described in this paragraph, and of the expenses which may be incurred by the Authority and the Trustee. Any Bond of a Series issued under the provisions of these provisions of the Indenture in lieu of any Bond of such Series alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

### **The Facility; Rights of the Bank**

The Facility. (a) The original Facility and any Substitute Facility will be an obligation of the Bank to pay to the Trustee upon request made with respect to the Bonds related thereto and in accordance with the terms thereof (i) an amount, not exceeding the aggregate Principal Amount of the Bonds, sufficient to pay the principal and Accreted Value portion of the Purchase Price of Bonds delivered or required to be delivered to the Trustee for purchase, and (ii) an amount sufficient to pay the interest portion of the Purchase Price of Bonds delivered or required to be delivered to the Trustee for purchase, which amount (A) with respect to any Bond in the Weekly Rate Mode, will be an amount equal to the amount of interest that would accrue during a period of 37 days, computed at the Maximum Rate, and (B) with respect to Bonds in the Extended Rate Mode, will be an amount determined by the District prior to the conversion of such Bond to such Extended Rate Mode; provided, however, that the original Facility and any Substitute Facility shall, during the Capital Appreciation Period, have a term that extends at least until the date 90 days after the Capital Appreciation Conversion Date and will provide that the amount available thereunder will be not less than the sum of (I) the Principal Amount, as of the Capital Appreciation Conversion Date, of the Outstanding Series 2007 Bonds, plus (II) an amount equal to the amount of interest that would accrue on the Principal Amount, as of the Capital Appreciation Conversion Date, of the Outstanding Series 2007 Bonds during a period of 37 days, computed at the Maximum Rate, calculated as if the Series 2007 Bonds were in the Weekly Rate Mode; provided, further, however, that

such Facility or Substitute Facility may provide that the amounts described in clauses (I) and (II) shall not be available for payment by the Bank thereunder until on or after the Capital Appreciation Conversion Date.

(b) If at any time the Authority or the District delivers to the Trustee:

(1) a Substitute Facility;

(2) an Opinion of Counsel stating that the delivery of such Substitute Facility to the Trustee is authorized under the Indenture and complies with the provisions thereof and that the proposed substitution will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes;

(3) one or more opinions of counsel addressed to the Trustee, to the effect, singly or together, that the Substitute Facility is a legal, valid and binding obligation of the Bank, enforceable against the Bank in accordance with its terms, except as limited by applicable reorganization, insolvency, liquidation, readjustment of debt, moratorium or other similar laws affecting the enforcement of the rights of creditors generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

(4) if a rating or ratings on the Bonds will be in effect on the date of such substitution, written evidence from Moody's and S&P, as applicable, to the effect that each such rating agency has reviewed the proposed Substitute Facility and that the substitution of the proposed Substitute Facility for the existing Facility will not, in and of itself, result in a reduction, suspension or withdrawal of such rating agency's rating on the Bonds; and

(5) written evidence that the Insurer has consented to such proposed substitution and that notice of such proposed substitution has been sent to the Owners prior to such substitution,

then the Trustee will, so long as such Substitute Facility contains administrative procedures which are acceptable to the Trustee in its reasonable discretion, accept such Substitute Facility, and, not later than five days after such acceptance, surrender the existing Facility to the issuer thereof, together with any certificate of surrender required by such Facility.

(c) During a Weekly Rate Period, if all of the requirements of subsection (b) above are satisfied other than those set forth in subsection (b)(4) above, and all of the requirements of the Standby Agreement are satisfied, and the Authority or the District, as applicable, has given the Trustee and the Owners at least 45 days written notice of its intention to substitute such Facility, the Trustee will accept the Substitute Facility, enforce payment of any amounts due under the existing Facility to the extent required by the Indenture and, not later than five days after such acceptance, surrender the existing Facility to the issuer thereof, together with any certificate of surrender required by such Facility.

(d) Any Substitute Facility will be an irrevocable purchase agreement, letter of credit, surety bond, insurance policy, guaranty or other irrevocable credit facility, or any combination thereof, issued by one or more commercial banks or savings associations, insurance companies or other financial institutions, the terms of which will in all respects material to the interests of the Owners be the same as the Facility, except that the expiration date of such Substitute Facility may be later than the expiration date for the existing Facility and such expiration date will be not less than one year after the date such Substitute Facility is substituted for the existing Facility.

(e) Bonds in the Fixed Rate Mode will not be payable from or enhanced by the Facility or subject to tender for purchase. Within five days after the date on which all Outstanding Bonds have been converted to the Fixed Rate Mode, the Trustee will surrender the Facility to the Bank, together with any certificate of surrender required by the Facility.

(f) No later than five days after all principal and Accreted Value of and interest on the Bonds has been paid in full, the Trustee will surrender the Facility to the Bank, together with any certificate of surrender required by the Facility.

(g) Notwithstanding any other provision of the Indenture, (i) under no circumstances will any amounts other than the Purchase Price of the Bonds be payable from funds paid by the Bank under the Facility or from any proceeds of the remarketing of Bonds by the Remarketing Agent, and (ii) under no circumstances will remarketing proceeds or proceeds received under the Facility be paid to the Authority or the District.

Rights of the Bank. If (a) an Insurer Default shall have occurred and be continuing, and all Outstanding Bonds are Bank Bonds, then the Bank shall have all rights of approval, consent and waiver, and all rights to institute actions and direct remedies, enjoyed by the Insurer under the Indenture prior to the occurrence of such event.

Notices to the Bank. The Trustee will provide to the Bank copies of all notices, consents, certificates, waivers or transcripts received by the Trustee from the Authority, the District or the Insurer or delivered by the Trustee to the Authority, the District, the Insurer, Moody's or S&P. Each of the Authority and the District will provide to the Bank copies of all notices, consents, certificates, waivers or transcripts received from the Insurer or delivered by it to the Insurer, Moody's or S&P if any such copy will not otherwise be provided to the Bank by the Trustee pursuant to the preceding sentence.

### **Pledge and Assignment; Funds and Accounts; Rental Payments**

Pledge and Assignment. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Lease Revenues and all amounts on deposit from time to time in the funds and accounts established thereunder (other than the Rebate Fund and the accounts provided for under the Indenture to hold proceeds of the remarketing of tendered Bonds and moneys received under the Standby Purchase Agreement to pay the Purchase Price with regard to Bonds for which remarketing proceeds have not be paid to the Trustee) are thereby pledged to the payment of the principal and Accreted Value of and interest on the Bonds as provided therein, and the Lease Revenues will not be used for any other purpose while any of the Bonds remain Outstanding. The Indenture provides that said pledge will constitute a first lien on such assets.

In order to secure the pledge of the Lease Revenues contained in the provisions of the Indenture, the Authority thereby sells, assigns and transfers to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the Owners, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, the right to receive Base Rental Payments and the right to exercise any remedies provided in the Lease Agreement in the event of a default by the District thereunder; provided, however, that the Authority will retain the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. The Trustee thereby accepts said assignment for the benefit of the Owners, subject to the provisions of the Indenture.

The Trustee will be entitled to and will receive all of the Base Rental Payments, and any Base Rental Payments collected or received by the Authority will be deemed to be held, and to have been



collected or received, by the Authority as agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

Project Fund. (a) The Trustee will establish and maintain a separate fund designated as the “Project Fund.” On the Closing Date, the Trustee will deposit in the Project Fund the amount required to be deposited therein pursuant to the Indenture.

(b) The moneys in the Project Fund will be used and withdrawn by the Trustee from time to time to pay Project Costs upon submission to the Trustee of a Written Request of the District, substantially in the form attached to the Indenture as Exhibit C. Upon receipt of each such Written Request of the District, the Trustee will pay the amount set forth in such Written Request as directed by the terms of the Indenture.

(c) Upon completion of the Project, the District shall file with the Trustee a Written Certificate of the District notifying the Trustee of such completion. Upon the filing of such Written Certificate of the District, all amounts remaining on deposit in the Project Fund will be transferred to the Interest Account and used to pay interest on the Bonds in accordance with the Indenture, and upon such transfer the Project Fund will be closed.

(d) If the Project Fund has been closed in accordance with the provisions of the Indenture, the Project Fund will be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued. There will be deposited in the Project Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(e) If an Event of Default shall have occurred and be continuing, the Trustee will, at the written direction of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), transfer all or a portion of the amounts on deposit in the Project Fund to the Payment Fund, to be applied to the payment of debt service on the Bonds.

Costs of Issuance Fund. (a) The Trustee will establish and maintain a separate fund designated the “Costs of Issuance Fund.” On the Closing Date, the Trustee will deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Indenture.

(b) The moneys in the Costs of Issuance Fund will be used and withdrawn by the Trustee from time to time to pay Costs of Issuance upon submission to the Trustee of a Written Request of the District substantially in the form attached to the Indenture as Exhibit D. Upon receipt of each such Written Request of the District, the Trustee will pay the amount set forth in such Written Request as directed by the terms thereof.

(c) On the date that is six months after the Closing Date, the Trustee will transfer any amounts then remaining in the Costs of Issuance Fund to the Project Fund, and upon such transfer the Costs of Issuance Fund will be closed.

(d) If the Costs of Issuance Fund has been closed in accordance with the provisions of the Indenture, the Costs of Issuance will be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued. There will be deposited in the Costs of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Payment Fund. (a) The Trustee will establish and maintain a separate fund designated the "Payment Fund." Within the Payment Fund, the Trustee will establish and maintain a separate account designated the "Interest Account" and a separate account designated the "Principal Account."

(b) All Lease Revenues received by the Trustee will be deposited in the Payment Fund; provided, however, that Net Proceeds, other than those constituting proceeds of rental interruption insurance received with respect to the Property, will not be deposited in the Rental Fund but, rather, will be applied as provided in the Indenture, as applicable. There will additionally be deposited in the Payment Fund amounts transferred from the Reserve Fund pursuant to the Indenture. The Insurance Policy will be held by the Trustee and will be deemed to be held in the Payment Fund.

(c) The Trustee, on each Interest Payment Date, will transfer from the Payment Fund to the Interest Account an amount equal to the interest on the Bonds coming due on such Interest Payment Date. Moneys in the Interest Account will be withdrawn and used by the Trustee for the purpose of paying interest on the Bonds as and when due and payable.

(d) The Trustee, on each Principal Payment Date, will transfer from the Payment Fund to the Principal Account an amount equal to the principal and Accreted Value of the Bonds, including principal and Accreted Value due and payable by reason of mandatory sinking fund redemption, coming due on such date. Moneys in the Principal Account will be withdrawn and used by the Trustee for the purpose of paying principal and Accreted Value of the Bonds, including principal and Accreted Value due and payable by reason of mandatory sinking fund redemption, as and when due and payable.

Redemption Fund. The Trustee will establish and maintain a special fund designated the "Redemption Fund." The Trustee will deposit in the Redemption Fund any amounts received from the District in connection with the District's exercise of its right pursuant to the Lease Agreement to cause Bonds to be optionally redeemed. Additionally, the Trustee will deposit in the Redemption Fund any amounts required to be deposited therein pursuant to the Indenture. Amounts in the Redemption Fund will be disbursed therefrom by the Trustee for the payment of the redemption price of, and accrued interest on, Bonds redeemed pursuant to the Indenture.

Reserve Fund. (a) The Trustee will establish and maintain a special fund designated the "Reserve Fund." On the Closing Date, the Trustee will deposit in the Reserve Fund the amount required to be deposited therein pursuant to the Indenture. There will additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) The District may, with the prior written consent of the Insurer (so long as no Insurer Default shall have occurred and be continuing), substitute a Reserve Facility for all or part of the moneys on deposit in the Reserve Fund by depositing such Reserve Facility with the Trustee, provided that, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities, will be at least equal to the Reserve Requirement. Moneys for which a Reserve Facility has been substituted as provided in the Indenture will be transferred, at the election of the District, to the Project Fund, to the Redemption Fund or, upon receipt of an Opinion of Counsel that such transfer will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, to a special account to be held by the Trustee and applied to the payment of capital costs of the District. Amounts on deposit in the Reserve Fund which were not derived from payments under any Reserve Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement will be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under such Reserve Facility. In order to accomplish such use and withdrawal of

such amounts not derived from payments under any such Reserve Facility, the Trustee will, as and to the extent necessary, liquidate any investments purchased with such amounts.

(c) In the event that, on the second Business Day prior to a date on which the Trustee is to transfer money from the Payment Fund to the Interest Account pursuant to subsection (c) of Section 7.04 hereof or to the Principal Account pursuant to subsection (e) of Section 7.04 hereof, amounts in the Payment Fund are insufficient for such purpose, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Payment Fund. If the amount on deposit in the Reserve Fund is not sufficient to make such transfer, the Trustee shall make a claim under any available Reserve Facility, in accordance with the provisions thereof, in order to obtain an amount sufficient to allow the Trustee to make such transfer as and when required.

(d) In the event of any transfer from the Reserve Fund or the making of any claim under a Reserve Facility, the Trustee will, within two Business Days thereafter, provide written notice to the Authority, the District, the Bank and the Insurer of the amount and the date of such transfer or claim; provided, however, that such notice need not be provided if such transfer is made pursuant to paragraph (f) or (g) below.

(e) If the sum of the amount on deposit in the Reserve Fund, plus the amount available under all available Reserve Facilities, is less than the Reserve Fund Requirement, the first of Base Rental Payments thereafter received from the District under the Lease Agreement and not needed to pay the principal and Accreted Value of and interest on the Bonds on the next Interest Payment Date or Principal Payment Date will be used, first, to reinstate the amounts available under any Reserve Facilities that have been drawn upon and, second, to increase the amount on deposit in the Reserve Fund, so that the amount available under all available Reserve Facilities, when added to the amount on deposit in the Reserve Fund, will equal the Reserve Requirement.

(f) If, as a result of the payment of principal or Accreted Value of or interest on the Bonds, the Reserve Requirement is reduced, amounts on deposit in the Reserve Fund in excess of such reduced Reserve Requirement will be transferred to the Payment Fund.

(g) On any date on which Bonds are defeased in accordance with the Indenture, the Trustee will, if so directed in a Written Request of the District, transfer any moneys in the Reserve Fund in excess of the Reserve Requirement resulting from such defeasance to the entity or fund so specified in such Written Request of the District, to be applied to such defeasance.

(h) Moneys, if any, on deposit in the Reserve Fund will be withdrawn and applied by the Trustee for the final payments of principal and Accreted Value of and interest on the Bonds.

Rebate Fund. (a) The Trustee will establish and maintain a special fund designated the "Rebate Fund." There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Authority or a Written Request of the District. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained therein, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by the Indenture and by the Tax Certificate (which is incorporated therein by reference). The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority or the District, and shall have no liability or responsibility to enforce compliance by the Authority or the District with the terms of the Tax Certificate. The Trustee may

conclusively rely upon the determinations, calculations and certifications of the Authority or the District required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the calculations of the Authority or the District.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the Indenture, will, upon receipt by the Trustee of a Written Request of the District, be withdrawn by the Trustee and remitted to the District.

Investments. *General.* Except as otherwise provided in the Indenture, any moneys held by the Trustee in the funds and accounts established thereunder will be invested by the Trustee upon the Written Request of the District, received at least two Business Days prior to the investment date, only in Permitted Investments, and in the absence of such direction will be invested by the Trustee in Permitted Investments described in clause (7) of the definition thereof. The Trustee may act as principal or agent in the acquisition or disposition of any such investment. The Trustee will not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Indenture. The Trustee will sell or present for redemption any obligations so purchased whenever it will be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee will not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Permitted Investments that are registerable securities will be registered in the name of the Trustee.

*Maturity of Investments.* Investments purchased with funds on deposit in the Payment Fund will mature not later than the payment date immediately succeeding the investment. Investments purchased with funds on deposit in the Redemption Fund will be invested in Permitted Investments described in clause 1(a) of the definition thereof that mature on or prior to the redemption date on which such funds are to be applied to the redemption of Bonds. Investments purchased with funds on deposit in the Project Fund shall mature not later than the dates upon which such funds will be needed to be expended for the payment of Project Costs. Notwithstanding anything to the contrary contained in the Indenture, investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity of not greater than five years.

*Valuation.* Investments (except investment agreements) in any fund or account established under the Indenture will be valued, exclusive of accrued interest (i) as frequently as deemed necessary by the Insurer but not less often than annually nor more often than monthly, and (ii) upon any draw upon the Reserve Fund. All investments of amounts deposited in any fund or account established under the Indenture will be valued at the market value thereof.

*Earnings.* Any interest or profits received with respect to investments held in any of the funds or accounts established under the Indenture (other than the Reserve Fund) will be retained therein. Any interest or profits received with respect to investments held in the Reserve Fund will be, until the date the Written Certificate of the District required by the Indenture is filed with the Trustee, transferred to the Project Fund and, thereafter, will, upon delivery to the Trustee of a Written Request of the District, be either (i) disbursed to the District, (ii) otherwise transferred as directed by the District, or (iii) transferred to the Interest Fund. Notwithstanding the foregoing, any such transfer or disbursement will be made from the Reserve Fund only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund, together with amounts available to be drawn on all Reserve Facilities, if any, is at least equal to the Reserve Requirement.

*Liquidation.* If at any time after the purchase or acquisition of, or investment in, an investment, such investment ceases to meet the criteria set forth in the definition of Permitted Investments and such investment, aggregated with other non-conforming investments, exceeds 10% of invested funds, such

investment will be sold or liquidated by the Trustee in accordance with a Written Request of the District, unless otherwise approved by the Insurer. The Trustee will terminate any repurchase agreement upon a failure of the counterparty thereto to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the repurchase securities, liquidate the collateral. The Trustee will, upon actual knowledge of a default under a repurchase or investment agreement or the withdrawal or suspension of either of the ratings of a repurchase or investment agreement provider or a drop in the ratings thereon below “AA” or “Aa,” as applicable, or “AAA” or “Aaa,” as applicable, in the case of a foreign bank, so notify the Insurer and, if so directed by the Insurer, will demand further collateralization of the agreement or termination thereof and liquidation of the collateral.

*Investment Agreements.* In the event any funds or accounts are invested in an investment agreement described in clause (11) of the definition of Permitted Investments, the Trustee will give notice to the provider of such investment agreement in accordance with the terms of such investment agreement to receive funds thereunder with no penalty or premium.

### **Net Proceeds and Title Insurance; Covenants**

Application of Net Proceeds. If the Property or any portion thereof is damaged or destroyed, subject to the further requirements of the provisions of the Indenture described in this paragraph, the District will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the District elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Indenture.

The Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, will, with the consent of the Insurer, be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the District, together with invoices therefor. Pending such application, such proceeds may, pursuant to a Written Request of the District, be invested by the Trustee in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the District shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the District intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the District does intend to replace or repair the Property or portions thereof, the District shall deposit with the Trustee the full amount of any insurance deductible to be credited to the special account referred to above.

If such damage, destruction or loss was such that there resulted a substantial interference with the District’s right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments results from such damage or destruction pursuant to the Lease Agreement, then the District will, with the consent or at the direction of the Insurer, be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the redemption, pursuant to the Indenture (i) of all of the Outstanding Bonds, or (ii) of such portion of the Outstanding Bonds as will result in the remaining, non-abated Base Rental Payments being sufficient to pay, as and when due, the principal and Accreted Value of and interest on the Bonds that will remain Outstanding after such redemption. If the District is required to apply funds from the insurance proceeds

and other legally available funds to the redemption of Bonds in accordance with clause (b) above, the District will direct the Trustee, in a Written Request of the District, to transfer the funds to be applied to such redemption to the Redemption Fund and the Trustee will transfer such funds to the Redemption Fund. Any proceeds of any insurance, including the proceeds of any self-insurance remaining after the portion of the Property which was damaged or destroyed is restored to and made available to the District in substantially the same condition and annual fair rental value as that which existed prior to the damage or destruction as required by clause (a) above, or the redemption of Bonds as required by clause (b) above, in each case as evidenced by a Written Certificate of the District to such effect, will be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. If the District is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above, or to use such amounts to redeem Bonds as set forth in clause (b) above, then such proceeds will be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Any amounts not required to be so deposited into the Reserve Fund will, with the consent of the Insurer and if there is first delivered to the Trustee a Written Certificate of the District to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the sum of the then unpaid principal components of Base Rental Payments, be paid to the District to be used for any lawful purpose.

The proceeds of any award in eminent domain will be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture.

Title Insurance. Net Proceeds of any policy of title insurance received by the Trustee in respect of the Property will be applied and disbursed by the Trustee as follows:

(a) if the District determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the District under the Lease Agreement, such proceeds will, with the written approval of the Insurer, be remitted to the District and used for any lawful purpose thereof; or

(b) if the District determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement in whole or in part of Rental Payments payable by the District under the Lease Agreement, then the District will, in a Written Request of the District, direct the Trustee to, and the Trustee will, with the written approval of the Insurer, immediately deposit such proceeds in the Redemption Fund and such proceeds shall be applied to the redemption of Bonds in the manner provided in the Indenture.

Punctual Payment. The Authority will punctually pay or cause to be paid the principal and Accreted Value of, and premium, if any, and interest on the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of the Base Rental Payments and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

Compliance with Indenture. The Authority and the District will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Indenture required to be complied with, kept, observed and performed by them.

Compliance with Ground Lease and Lease Agreement. The Authority and the District will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms

contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the District and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or after entering into the Indenture imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or after entering into the Indenture acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The District will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the District in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the District ten days' written notice to comply therewith and failure of the District to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or, with the consent of the Insurer, compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not in any event be deemed to have waived or released the District from liability for or on account of any of its agreements and covenants contained herein, or from its obligation under the Indenture to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the District will create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Indenture, other than the pledge and lien of the Indenture.

The Authority and the Trustee will not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement and the Indenture.

Prosecution and Defense of Suits. The District will promptly, upon request of the Trustee, the Insurer, the Bank or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or after entering into the Indenture developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee, the Insurer, the Bank and every Owner harmless from all cost, damage, expense or loss, including attorneys' fees, which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries will be made of all transactions relating to the receipt, deposit and disbursement of the Lease Revenues, and such accounting records will be available for inspection by the Authority and the District at reasonable hours and under reasonable conditions. The Trustee will, upon written request, make copies of the foregoing available to the Insurer, the Bank and, at the Owner's expense, any Owner or its agent duly authorized in writing.

Recordation. The District will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement and the Ground Lease, or memoranda thereof, and a memorandum of the

assignment of the District's right, title and interest in and to the Ground Lease and the Lease Agreement pursuant to the Indenture.

Tax Covenants. (a) Neither the Authority nor the District will take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2007 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, each of the Authority and the District will comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth therein. This covenant will survive payment in full or defeasance of the Series 2007 Bonds.

(b) In the event that at any time the Authority or the District is of the opinion that for purposes of the provisions of the Indenture, it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Authority or the District will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any of these tax covenants, if the Authority or the District provide to the Trustee an Opinion of Counsel to the effect that any specified action required under these tax covenants of the Indenture, is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2007 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of these provisions of the Indenture, and of the Tax Certificate, and the covenants under the Indenture will be deemed to be modified to that extent.

Continuing Disclosure. The District will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Indenture; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate Principal Amount of Outstanding Series 2007 Bonds, will) or any holder or Beneficial Owner of the Series 2007 Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee, the Insurer, the Bank or any Owner, the Authority and the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee, the Insurer, the Bank and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them hereby or by the Ground Lease or the Lease Agreement.

## **Events of Default and Remedies**

Events of Default. The occurrence, from time to time, of any one or more of the following events will constitute an Event of Default under the Indenture:

(a) failure to pay any installment of principal or Accreted Value of any Bond as and when the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise;

(b) failure to pay any installment of interest on any Bond as and when the same shall become due and payable;



(c) a Lease Default Event shall have occurred and be continuing;

(d) failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Authority by the Trustee, the District, the Insurer or the Owners of not less than 5% in aggregate Principal Amount of the Bonds at the time Outstanding; provided, however, that if, in the reasonable opinion of the Authority, the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Authority within such 30 day period and the Authority shall thereafter diligently and in good faith cure such failure in a reasonable period of time, provided, further, however, that the period of time for such cure shall not exceed 60 days without the prior written consent of the Insurer;

(e) failure by the District to observe and perform any of the covenants, agreements or conditions on its part in the Indenture contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the District by the Trustee, the Authority, the Insurer or the Owners of not less than 5% in aggregate Principal Amount of the Bonds at the time Outstanding; provided, however, that if, in the reasonable opinion of the District, the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the District within such 30 day period and the District shall thereafter diligently and in good faith cure such failure in a reasonable period of time, provided, further, however, that the period of time for such cure shall not exceed 60 days without the prior written consent of the Insurer; or

(f) the Authority or the District shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Action on Default. In each and every case during the continuance of an Event of Default, the Trustee (a) may, with the prior written consent of the Insurer, at the direction of the Owners of not less than a majority of the aggregate Principal Amount of Bonds then Outstanding, and (b) shall, so long as no Insurer Default shall have occurred and be continuing, at the direction of the Insurer, upon notice in writing to the Authority and the District, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, with the written consent or at the written direction of, the Insurer, take whatever action at law or in equity may appear necessary or desirable to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Indenture.

Other Remedies of the Trustee. Subject to the provisions of the Indenture, during the continuance of an Event of Default, the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the District or any member, director, officer or employee thereof, and to compel the Authority or the District or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture or in the Bonds;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Owners; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the Authority or the District, or both, to account as if it or they were the trustee or trustees of an express trust.

Remedies Not Exclusive. Subject to the provisions of the Indenture, no remedy therein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, will not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Application of Amounts After Default. If an Event of Default will occur and be continuing, all Lease Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

(a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) to the payment of all amounts then due for interest on the Bonds, ratably without preference or priority of any kind, according to the amounts of interest on such Bonds due and payable, with interest on the overdue interest at the rate borne by the respective Bonds, in the case of Bonds other than Bank Bonds, and at the Bank Default Rate in the case of Bank Bonds;

(c) to the payment of all amounts then due for principal and Accreted Value of the Bonds, ratably without preference or priority of any kind, according to the amounts of principal and Accreted Value of the Bonds due and payable, with interest on the overdue principal and Accreted Value at the rate borne by the respective Bonds, in the case of Bonds other than Bank Bonds, and at the Bank Default Rate in the case of Bank Bonds; and

(d) to the extent not included in clause (b) or clause (c) above, to the payment of all amounts then due under the Indenture to the Insurer and the Bank.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate Principal Amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, but only if, so long as no Insurer Default shall have occurred and be continuing, the Insurer has consent to such direction; provided, however, that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and, provided, further, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) so long as no Insurer Default shall have occurred and be continuing, such Owner shall have obtained the Insurer's consent to such institution, (c) the Owners of a majority in aggregate Principal Amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name, (d) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, and (e) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are thereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners, subject to the provisions of the Indenture.

Termination of Proceedings. If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Insurer, the Bank or any Owner, then, subject to any such adverse determination, the Trustee, the Insurer, the Bank, such Owner, the Authority and the District will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken. In case any proceedings taken by the Trustee, the Insurer, the Bank or any one or more Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, the Insurer, the Bank or any Owner, then in every such case the Trustee, the Insurer, the Bank, such Owner, the Authority and the District, subject to any determination in such proceedings, will be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Trustee, the Insurer, the Bank, the Owners, the Authority and the District will continue as though no such proceedings had been taken.

No Waiver of Default. No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

### **The Trustee and the Remarketing Agent**

Duties and Liabilities of Trustee. The Trustee will, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee will, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee agrees to hold all Bonds delivered to it for purchase under the Indenture in trust for the benefit of the respective Owners which shall have so delivered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Owners and to keep such books and records as will be consistent with prudent industry practice and to make such books and records available for inspection by the Authority, the District and the Remarketing Agent.

Removal and Resignation of the Trustee. The Authority and the District may, subject to the provisions of the Standby Agreement, by an instrument in writing, remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default shall have occurred and then be continuing, and will remove the Trustee initially a party to the Indenture and any successor thereto if at any time (a) requested to do so by the Insurer (so long as no Insurer Default shall have occurred and be continuing) or by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate Principal Amount of the Bonds at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee will cease to be eligible in accordance with the following sentence, and will appoint a successor Trustee. The Trustee and any successor Trustee will be a commercial bank with trust powers having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 (or be part of a bank holding company with a combined capital and surplus of at least \$50,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the provisions of the Indenture described in this paragraph, the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the District and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority and the District will, subject to the provisions of the Standby Agreement, promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Authority and the District do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the District, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority, the District and the Bank and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Authority, the District or of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth therein, including the Facility (which will be transferred in accordance with the terms thereof).

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such

conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of the Indenture, ipso facto, will be and become successor trustee under the Indenture and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties thereto, anything therein to the contrary notwithstanding.

Compensation and Indemnification of the Trustee. The District will from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Indenture and reimburse the Trustee for all its reasonable advances and expenditures (which will not include “overhead expenses” except as such expenses are included as a component of the Trustee’s stated annual fees) thereunder, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations thereunder; provided, however, that the Trustee will not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established thereunder.

The District will, to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities, costs, claims or expenses, including those of its attorneys, which it may incur in the exercise and performance of its powers and duties under the Indenture and under any related documents, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the District to indemnify the Trustee will survive the termination and discharge of the Indenture.

Protection of the Trustee. The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it will in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. Under no circumstances will the Trustee request or be entitled to indemnification from the District for taking actions required by and in accordance with the Indenture, including, but not limited to, requesting amounts under the Facility, causing payments of principal and Accreted Value of and interest on the Bonds to be made to the Owners thereof and carrying out purchases or redemptions of the Bonds in accordance with the terms thereof. The Trustee may consult with counsel, who may be counsel to the Authority or the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in good faith in accordance therewith.

The Trustee will not be responsible for the sufficiency of the Bonds or the Lease Agreement or for statements made in the preliminary or final official statement relating to the Bonds, or of the title to the Property.

Except as otherwise expressly provided in the Indenture, no provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the

performance of any of its duties under the Indenture or in the exercise of any of its rights or powers under the Indenture.

The Trustee will not be deemed to have knowledge of a default or an Event of Default under the Indenture unless it has actual knowledge thereof.

Whenever in the administration of its rights and obligations under the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Written Certificate of the Authority or a Written Certificate of the District, and such certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it deems reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority or the District, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the District as freely as if it were not the Trustee under the Indenture.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Indenture and perform any rights and obligations required of it thereunder by or through agents, attorneys or receivers, and will be entitled to advice of counsel concerning all matters of trust and its rights and obligations thereunder, and the Trustee will not be answerable for the negligence or misconduct of any such agent, attorney or receiver selected by it with reasonable care; provided, however, that in the event of any negligence or misconduct of any such attorney, agent or receiver, the Trustee will diligently pursue all remedies of the Trustee against such agent, attorney or receiver. The Trustee will not be liable for any error of judgment made by it in good faith unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee will not be answerable for the exercise of any trusts or powers under the Indenture or for anything whatsoever in connection with the funds established thereunder, except only for its own willful misconduct, negligence or breach of an obligation thereunder.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Authority or the District is a party and which, in the opinion of the Trustee and its counsel, affects the Bonds or the security therefor, and will do so if requested in writing by the Insurer or the Owners of at least 5% of the aggregate Principal Amount of Bonds then Outstanding, provided the Trustee shall have no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

Appointment of Co-Trustee. It is the purpose of the Indenture that there will be no violation of any law of any jurisdiction (including particularly the laws of the State of California) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under the Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted to the Trustee in the Indenture or hold title to the properties, in trust, as granted in the Indenture, or take any other action which may be desirable or necessary in connection therewith, it may be necessary

that the Trustee appoint an additional institution as a separate or co-trustee. The following provisions of the Indenture are adopted to these ends.

In the event that the Trustee appoints an additional institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto will be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee will run to and be enforceable by either of them. Any co-trustee will be bound by the standards of care, duties and obligations of the Trustee under the Indenture as if such co-trustee were the Trustee. Any co-trustee will be a bank or trust company doing business in the State of California and at all times shall have a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the paragraphs under the caption “— Appointment of Co-Trustee,” the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Should any instrument in writing from the Authority, the District or the Insurer be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the Authority, the District or the Insurer. In case any separate trustee or co-trustee, or a successor to either, will become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, will vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate trustee or co-trustee.

The Remarketing Agent. Stone & Youngberg LLC is appointed initial Remarketing Agent for the Bonds. The Remarketing Agent will designate its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the Authority, the District and the Trustee. The Remarketing Agent will hold all moneys delivered to it under the Indenture for the purchase of Bonds in trust in non-commingled funds solely for the benefit of the Person which shall have so delivered such moneys until such moneys are delivered to the Trustee as provided in the Indenture, and keep such books and records as will be consistent with prudent industry practice and to make such books and records available for inspection by the District and the Trustee at all reasonable times.

Qualifications of Remarketing Agent. The Remarketing Agent will be either (a) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$20,000,000, or (b) a commercial bank having combined capital and surplus of \$20,000,000 and, in either event, rated Baa/Prime-3 or better by Moody’s or will otherwise be approved in writing by the rating agencies then rating the Bonds and authorized by law to perform all the duties imposed upon it by the Indenture. The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 30 days’ notice to the Authority, the District, the Trustee, the Insurer and the Bank. The Remarketing Agent may be removed at any time by the District, and the Insurer may at any time direct the District to so remove the Remarketing Agent. Successor Remarketing Agents will be appointed from time to time by the District, with the approval of the Insurer and the Bank. Any Remarketing Agreement entered into with a successor Remarketing Agent will be subject to the approval of the Insurer.

If the Remarketing Agent resigns or is removed, the Remarketing Agent will pay over, assign and deliver any money and Bonds held by it in such capacity to the successor Remarketing Agent. If the Remarketing Agent resigns or is removed, or is dissolved, or if the property or affairs of the Remarketing Agent is taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the District will appoint a successor Remarketing Agent, with the approval of the Insurer and Bank. If the District fails to so appoint a successor Remarketing Agent, the Trustee will serve in that capacity or will appoint a successor Remarketing Agent.

Any successor Remarketing Agent appointed under the Indenture, must signify its acceptance of such appointment by executing and delivering to the Authority, the District, the Trustee, and to its predecessor Remarketing Agent, a written acceptance thereof, and thereupon such successor Remarketing Agent, without further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Remarketing Agent, with like effect as if originally named Remarketing Agent in the Indenture; but nevertheless at the request of the Authority or the District or the request of the successor Remarketing Agent, such predecessor Remarketing Agent will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Remarketing Agent all the right, title and interest of such predecessor Remarketing Agent in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Remarketing Agent any money or other property subject to the trust and conditions set forth in the Indenture. Upon request of the successor Remarketing Agent, the Authority and the District will execute and deliver any and all instruments as may be reasonably required for more fully certainly vesting in and confirming to successor Remarketing Agent all money, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance by a successor Remarketing Agent as provided in the provisions of the Indenture described under the caption “—Qualifications of Remarketing Agent,” the Trustee must give notice of the succession of such Remarketing Agent under the Indenture to the Bank and to the Owners at the addresses shown in the Registration Books.

## **Supplemental Indentures**

Supplemental Indentures. (a) The Indenture and the rights and obligations of the Authority, the District, the Trustee and the Owners thereunder may be modified or amended at any time by a Supplemental Indenture, which the Authority, the District and the Trustee may enter into when the prior written consents of the Insurer (so long as no Insurer Default shall have occurred and be continuing) and the Owners of a majority of the aggregate Principal Amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such modification or amendment will (i) extend the fixed maturity of any Bond, reduce the amount of principal or Accreted Value thereof or the rate of interest thereon, alter the redemption or tender and purchase provisions with respect thereto or diminish the security afforded by the Insurance Policy, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) permit the creation of any lien on the Lease Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Lease Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all Bonds then Outstanding, or (iv) modify any of the rights or obligations of the Bank without the prior written consent of the Bank, or (v) amend the provisions of the provisions of the Indenture without the prior written consent of the Owners of all Bonds then Outstanding.



(b) The Indenture and the rights and obligations of the Authority, the District, the Trustee and the Owners thereunder may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the District and the Trustee may enter into with the prior written consent of the Insurer (so long as no Insurer Default shall have occurred and be continuing), but without the consent of any Owners for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the District contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the District;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture or in regard to questions arising thereunder which the Authority or the District may deem desirable or necessary and not inconsistent therewith;

(3) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(4) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest on the Bonds; and

(5) for any other reason, provided such amendment or supplement does not adversely affect the rights or interests of the Insurer, the Bank or the Owners; provided, however, that the Authority, the District and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of the provisions of the Indenture described in this paragraph have been met with respect to such amendment or supplement.

(c) The Indenture and the rights and obligations thereunder of the Authority, the District, the Trustee and the Owners of Bonds being converted from one Mode to another Mode, but only as such rights and obligations relate solely to such Bonds, may be amended or modified by a Supplemental Indenture that becomes effective on the Capital Appreciation Conversion Date or Conversion Date, as applicable, for such conversion, which the Authority, the District and the Trustee may enter into with the prior written consent of the Insurer (so long as no Insurer Default shall have occurred and be continuing), and the Bank (if the Mode commencing on such Conversion Date is an Adjustable Rate Mode), but without the written consents of any Owners, but only if such Bonds being converted have been remarketed by the Remarketing Agent pursuant to the Indenture for purchase on such Capital Appreciation Conversion Date or Conversion Date, as applicable, with such amended or modified rights and obligations.

(d) Promptly after the execution by the Authority, the District and the Trustee of any Supplemental Indenture, the Trustee will mail a notice (the form of which will be furnished to the Trustee by the Authority or the District), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution and delivery of any Supplemental Indenture entered into pursuant to the Indenture, or upon the Capital Appreciation Conversion Date or Conversion Date, as applicable, for the conversion in connection with which a Supplemental Indenture is entered into pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the District, the Trustee and the Owners will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the effective date of any Supplemental Indenture pursuant to the Indenture may and, if the Authority or the District so determines, will bear a notation by endorsement or otherwise in form approved by the Authority, the District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date, and presentation of such Bond for such purpose at the Office of the Trustee, a suitable notation will be made on such Bonds. If the Supplemental Indenture will so provide, new Bonds so modified as to conform, in the opinion of the Authority, the District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date, and presentation of such Bond for such purpose at the Office of the Trustee, such a new Bond in equal Principal Amount of the same Series, interest rate and maturity will be exchanged for such Owner's Bond so surrendered.

Amendment of Particular Bonds. Subject to the receipt of the prior written consent of the Insurer as provided in the Indenture, the provisions thereof will not prevent any Owner from accepting any amendment or modification as to any particular Bond owned by it, provided that due notation thereof is made on such Bond.

## **Defeasance**

Discharge of Indenture. (a) If the Authority will pay or cause to be paid or there will otherwise be paid to the Owners of all Outstanding Bonds the principal or Accreted Value thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and in the Bonds, and (ii) all other amounts due and payable under the Indenture and under the Lease Agreement and the Standby Agreement shall have been paid, then the Owners will cease to be entitled to the pledge of the Lease Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Authority and the District thereunder will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority and the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the Authority all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal and Accreted Value of and interest and premium, if any, on the Bonds.

(b) Subject to the provisions of subsection (a) of the Indenture under the caption entitled "Discharge of Indenture," when any Bond shall have been paid and if, at the time of such payment, each of the Authority and the District shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bond and such Bond will cease to be entitled to the pledge of the Lease Revenues and the other assets as provided therein, and all agreements, covenants and other obligations of the Authority and

the District under the Indenture will cease, terminate, become void and be completely discharged and satisfied as to such Bond.

(c) Notwithstanding the discharge and satisfaction of the Indenture or the discharge and satisfaction of the Indenture in respect of any Bond, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, will remain in effect and will be binding upon the Trustee and the Owners and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal and Accreted Value of and interest and premium, if any, on the Bonds, to pay to the Owners of the Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the discharge and satisfaction of the Indenture, the provisions of the Indenture relating to the compensation of the Trustee will remain in effect and will be binding upon the Authority, the District and the Trustee.

Bonds Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bond and the payment of the interest thereon to the maturity or redemption date thereof, such Bond will be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bond will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bond on said redemption date, said notice to be given in accordance with the Indenture, (ii) there shall have been deposited with the Trustee either (A) money in an amount which will be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which will be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal or Accreted Value of and premium, if any, on such Bond, and (iii) in the event such Bond is not by its terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bond that the deposit required by clause (b) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the provisions of the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal or Accreted Value of and premium, if any, on such Bond. Neither the money nor the Defeasance Securities deposited with the Trustee pursuant to the provisions of the Indenture described in this paragraph in connection with the deemed payment of Bonds, nor principal or interest payments on any such Defeasance Securities, will be withdrawn or used for any purpose other than, and will be held in trust for and pledged to, the payment of the principal or Accreted Value of and, premium, if any, and interest on such Bonds.

(b) No Bond will be deemed to have been paid pursuant to clause (ii)(B) of subsection (a) of the Indenture described under the caption entitled “–Bonds Deemed To Have Been Paid,” unless (i) all amounts currently due to the Insurer under the Insurance Policy and to the Bank under the Standby Agreement shall have been paid in full, and (ii) the Authority or the District will cause to be delivered (A) an executed copy of a Verification Report with respect to such deemed payment, addressed to the Authority, the District, the Trustee and the Insurer, in form and in substance acceptable to the Authority, the District, the Trustee and the Insurer, (B) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of subsection (a) of the provisions of the Indenture described in the section entitled “Bonds Deemed To Have Been Paid,” resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of

Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and will be acceptable in form and substance to the Insurer, and (C) a copy of an Opinion of Counsel, dated the date of such deemed payment and addressed to the Authority, the District, the Trustee and the Insurer, in form and in substance acceptable to the Authority, the District, the Trustee and the Insurer, to the effect that such Bond has been paid within the meaning and with the effect expressed in the Indenture, and all agreements, covenants and other obligations of the Authority and the District under the Indenture as to such Bond have ceased, terminated, become void and been completely discharged and satisfied. The Insurer will be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow.

(c) Prior to any Bond in an Adjustable Rate Mode being deemed to have been paid pursuant to clause (ii) of subsection (a) of the provisions of the Indenture described in the section entitled “Bonds Deemed To Have Been Paid,” the Trustee shall have received written confirmation from each rating agency then rating such Bond that such deemed payment would not, in and of itself, cause such rating agency to lower, withdraw or suspend its rating of the Bonds.

(d) The Trustee may seek and is entitled to rely upon (i) an Opinion of Counsel reasonably satisfactory to the Trustee to the effect that the conditions precedent to a deemed pursuant to clause (ii) of subsection (a) of the provisions of the Indenture described in the section entitled “Bonds Deemed To Have Been Paid,” have been satisfied, and (ii) such other opinions, certifications and computations, as the Trustee may reasonably request, of accountants or other financial consultants concerning the matters described in subsection (b) of the provisions of the Indenture described in the section entitled “Bonds Deemed To Have Been Paid.”

Unclaimed Moneys. Any moneys held by the Trustee in trust for the payment and discharge of the principal or Accreted Value of, or premium or interest on, any Bonds which remain unclaimed for two years after the date when such principal, Accreted Value premium or interest has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, Accreted Value, premium or interest become payable, will, at the Written Request of the Authority, be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners of such Bonds will look only to the District for the payment of such principal, Accreted Value, premium or interest.

### **Insurance Policy Provisions**

Insurer To Be Deemed Owner; Rights of the Insurer; Payments by the Insurer; Notices. (a) Notwithstanding any provision of the Indenture to the contrary, so long as no Insurer Default shall have occurred and be continuing, the Insurer will at all times be deemed the sole Owner of the Outstanding Series 2007 Bonds for the purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2007 Bonds are entitled to take pursuant to the Indenture; provided, however, that the Insurer will not be deemed to be the sole and exclusive Owner of the Outstanding Series 2007 Bonds with respect to a Supplemental Indenture which seeks to modify or amend certain provisions of the Indenture described in clauses (i), (ii), (iii) and (iv) of paragraph (a) under the heading “Supplemental Indentures” above.

(b) The rights granted to the Insurer under the Indenture, the Lease Agreement or the Ground Lease to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer’s contractual rights and will not be construed or deemed to be taken for the benefit of or on behalf

of the Owners, nor does such action evidence any position of the Insurer, positive or negative, as to whether Owner consent is required in addition to consent of the Insurer.

(c) Series 2007 Bonds paid by the Insurer under the Insurance Policy will not be deemed to have been paid for purposes of the Indenture, the Lease Agreement or the Ground Lease and will remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture.

(d) Each of the Authority and the District covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve under applicable law the priority of the pledge of Lease Revenues contained in the Indenture.

(e) To the extent that the Insurer makes any payment of principal or Accreted Value of or interest on a Series 2007 Bond, the Insurer will, in accordance with the terms of the Insurance Policy, become subrogated to the rights of the Owner of such Series 2007 Bond receiving such payment. The obligations of the Authority with respect to such rights to which the Insurer has become subrogated will survive the termination of the Ground Lease and the Lease Agreement.

(f) The District agrees, to the extent permitted by law, to pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture, the Lease Agreement or the Ground Lease, (ii) the pursuit of any remedies under the Indenture, the Lease Agreement or the Ground Lease, or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture, the Lease Agreement or the Ground Lease whether or not executed or completed, (iv) the violation by the Authority or the District of any law, rule or regulation, or any judgment, order or decree applicable to it, or (v) any litigation or other dispute in connection with the Indenture, the Lease Agreement or the Ground Lease, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture, the Lease Agreement or the Ground Lease.

(g) The application of funds realized upon an Event of Default will be applied to payment of expenses of the Authority or the District or rebate only after the payment of debt service due and past due on the Bonds and, if necessary, replenishment of the Reserve Fund.

(h) The Insurer will be entitled to pay principal or Accreted Value of or interest on the Series 2007 Bonds that will become Due for Payment but will be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Insurance Policy), whether or not the Insurer has received a Notice of Nonpayment (as such term is defined in the Insurance Policy) or a claim upon the Insurance Policy.

(i) No contract will be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Series 2007 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

Claims upon the Insurance Policy and Payments by and to the Insurer. (a) If, on the second Business Day prior to the related Interest Payment Date or Principal Payment Date, there is not on deposit in the Payment Fund and the accounts therein, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal and Accreted Value of and interest on the Series 2007 Bonds due on such Interest Payment Date or Principal Payment Date, the Trustee will give notice to the

Insurer and to the Insurer's Fiscal Agent (if any) by telephone or telecopy of the amount of such deficiency by 12:00 (noon) on such Business Day. If, on the Business Day prior to such Interest Payment Date or Principal Payment Date, there continues to be a deficiency in the amount available to pay the principal and Accreted Value of and interest on the Series 2007 Bonds due on such Interest Payment Date or Principal Payment Date, the Trustee will make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2007 Bonds and the amount required to pay principal and Accreted Value of the Series 2007 Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent (if any) by 12:00 (noon) on such Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(b) In the event the claim to be made is for a mandatory sinking fund redemption installment for the Series 2007 Bonds, upon receipt of the moneys due, the Trustee will authenticate and deliver to affected Owners who surrender their Series 2007 Bonds a new Series 2007 Bond or Series 2007 Bonds in an aggregate Principal Amount equal to the unredeemed portion of the Series 2007 Bond surrendered. The Trustee will designate any portion of payment of principal and Accreted Value of Series 2007 Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption or maturity, on its books as a reduction in the Principal Amount of Series 2007 Bonds registered to the then current Owners, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2007 Bond to the Insurer, registered in the name of Financial Security Assurance Inc., in a Principal Amount equal to the amount of principal or Accreted Value so paid (without regard to Authorized Denominations); provided, however, that the Trustee's failure to so designate any payment or issue any replacement Series 2007 Bond shall have no effect on the amount of principal or Accreted Value of or interest on Series 2007 Bonds payable by the Authority or on the subrogation rights of the Insurer.

(c) Upon payment of a claim under the Insurance Policy, the Trustee will establish a separate special purpose trust account for the benefit of the Owners of the Series 2007 Bonds designated the "Policy Payments Account," over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee will receive any amount paid under the Insurance Policy in trust on behalf of Owners of the Series 2007 Bonds and will deposit such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts will be disbursed by the Trustee to Owners of the Series 2007 Bonds in the same manner as principal, Accreted Value and interest payments are to be made with respect to the Series 2007 Bonds under the provisions of the Indenture regarding payment of Bonds. It will not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Indenture, and to the extent permitted by law, in the event amounts paid under the Insurance Policy are applied to claims for payment of principal or Accreted Value of, or interest on, the Series 2007 Bonds, interest on such principal and Accreted Value of, and interest on, such Series 2007 Bonds will accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate, plus 3%, and (ii) the then applicable rate of interest on the Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

(d) Funds held in the Policy Payments Account will not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following the Interest Payment Date or Principal Payment Date on which amounts therein have been disbursed shall be remitted to the Insurer.

Reporting Requirements. (a) The District will provide to the Insurer (i) within 150 days after the end of each fiscal year of the District, a Written Certificate of the District certifying that the District is not aware of any Event of Default or of any default under the Indenture or under the Lease Agreement, (ii) within 150 days after the end of each fiscal year of the District, audited financial statements for such fiscal year, (iii) within 30 days after the approval thereof, each annual budget of the District, and, (iv) from time to time, such other information, data or reports as the Insurer may reasonably request.

(b) The Authority will provide the Insurer with notice of any default under the Indenture or under the Lease Agreement within five Business Days of obtaining knowledge thereof. The District will provide the Insurer with notice of any default under the Indenture or under the Lease Agreement within five Business Days of obtaining knowledge thereof.

(c) The Authority will provide the Insurer with prior notice of the advance refunding or redemption of any of the Series 2007 Bonds, including the Principal Amount, maturities and CUSIP numbers thereof.

(d) The Authority will provide the Insurer with notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto.

(e) Each of the Authority, the District and the Trustee agrees that it will, if it has actual knowledge thereof, promptly notify the Insurer of (i) the commencement of any Insolvency Proceeding by or against the Authority or the District, and (ii) the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal or Accreted Value of or interest on the Series 2007 Bonds.

(f) The Insurer will be provided with a full original transcript of all proceedings relating to the execution of any Supplemental Indenture, amendment to the Lease Agreement or amendment to the Ground Lease or any waiver with respect to the Indenture, the Lease Agreement or the Ground Lease.

(g) The Trustee will, at the time any report, notice or correspondence is delivered to Owners of the Series 2007 Bonds pursuant to the provisions of the Indenture, deliver a copy of such report, notice or correspondence to the Insurer.

(h) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Bonds or the rights of the Owners, the Trustee will consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

## **Miscellaneous**

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or its attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which such notary public or other officer purports to act that the Person signing such declaration, request or other instrument or writing acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Bond and the amount, payment date, number and date of owning the same may be proved by the Registration Books.

Any declaration, request or other instrument in writing of the Owner of any Bond will bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority, the District or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Indenture to the contrary, no member, officer or employee of the Authority or the District will be individually or personally liable for the payment of any moneys, including without limitation, the principal or Accreted Value of or interest on the Bonds, but nothing contained in the Indenture will relieve any member, officer or employee of the Authority or the District from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or by the Indenture.

Funds and Accounts. Any fund or account required to be established and maintained under the Indenture by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts will at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Indenture.

Subject to the provisions of the Indenture, the Trustee may commingle any of the moneys held by it thereunder for investment purposes only; provided, however, that the Trustee will account separately for the moneys in each fund or account established pursuant thereto.

Third-Party Beneficiaries. The Insurer and the Bank are third-party beneficiaries of the Indenture.

California Law. The Indenture and the Bonds will be construed and governed in accordance with the laws of the State of California.



**APPENDIX B**

**DISTRICT 2005-06 AUDITED FINANCIAL STATEMENTS**

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**POWAY UNIFIED SCHOOL DISTRICT  
COUNTY OF SAN DIEGO  
POWAY, CALIFORNIA**

**AUDIT REPORT**

**JUNE 30, 2006**

**WILKINSON HADLEY & CO., LLP  
250 E. Douglas Ave., Suite 200  
El Cajon, CA 92020  
Tel (619) 447-6700 Fax (619) 447-6707**

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*Introductory Section*

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Poway Unified School District  
 Audit Report  
 For The Year Ended June 30, 2006

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*Financial Section*

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**WILKINSON HADLEY & CO., LLP**  
250 E. Douglas Ave., Suite 200  
El Cajon, CA 92020  
Tel (619) 447-6700 Fax (619) 447-6707

**Independent Auditor's Report on Financial Statements**

Board of Trustees  
Poway Unified School District  
Poway, California 92064-2098

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Poway Unified School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Poway Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Poway Unified School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of Poway Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Poway Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
September 8, 2006

**Poway Unified School District  
Management's Discussion and Analysis  
Fiscal Year 2005-06**

**Profile of the District**

Poway Unified School District (District) was formed in 1962 and serves the children of Poway, Rancho Bernardo, Rancho Penasquitos, Carmel Mountain Ranch, Sabre Springs, Black Mountain Ranch, Torrey Highlands, 4S Ranch and Santa Fe Valley. It is the 3<sup>rd</sup> largest district in San Diego County and the 26<sup>th</sup> largest district in the state of California. The district covers nearly 100 square miles in northeast San Diego County housing 32,621 students in 33 schools. The 34<sup>th</sup> school, which is Monterey Ridge Elementary School, will open in the 2006-07 school year.

**Management's Discussion and Analysis**

This section of Poway Unified School District's annual financial report presents Management's Discussion and Analysis (MD&A) of the District's financial performance during the year ending June 30, 2006. The MD&A is required as an element of the reporting model established by the Governmental Accounting Standards Board (GASB) in Statement Number 34. The District implemented GASB 34 in 2001-02. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

**Comparisons to the Previous Fiscal Year 2004-05**

- The District's financial status continued to improve.
- In 2005-06 assets exceeded liabilities by \$229.8 million compared to \$206 million in 2004-05.
- In 2005-06, overall revenues were \$347 million and expenses were \$320 million. Revenue exceeded expenses by \$27 million in 2005-06. In 2004-05 the district's overall revenues were \$291.9 million and expenses were \$271 million. Revenue exceeded expenses by \$20.9 million.
- The District enrollment in October 2005 was 32,645. This is a decrease of 270 students from October 2004 when the enrollment was at 32,915.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide financial statements can be found on pages 13-15 of this report.

### **Fund Financial Statements**

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Capital Projects Fund for Blended Component Units, the Building Fund, the County School Facilities Fund, and the enterprise fund, Extended School Services (ESS), each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget on page 42 of this report.

- **Proprietary Funds:** The District maintains two proprietary fund types; internal service funds and one enterprise fund.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses three internal service funds to account for services provided to all the other funds of the District: workers' compensation, employee benefits, and property and liability insurance.

The internal service funds have been included within *governmental activities* in the government-wide financial statements. The three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

*Enterprise funds* are operated in a manner similar to private business where the determination of revenues earned, costs incurred and net income is necessary for management accountability. The District uses one enterprise fund to account for business activities of the Extended Student Services and Preschool programs.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

- **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. The District maintains an agency fund for associated student body funds. The basic agency fund financial statements can be found on pages 26-27 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-41 of this report.

### **Other Information**

The combining statements referred to earlier in connection with non-major governmental funds is presented on pages 43-52 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's stability and financial position. The district's assets exceeded liabilities by \$229.8 million at the close of 2005-06.

**POWAY UNIFIED SCHOOL DISTRICT**  
**2005-06 NET ASSETS**  
*(In Millions of Dollars)*

	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total District</b>	<b>Total Percentage</b>
Current and Other Assets	\$ 390.0	\$ 0.1	\$ 390.1	47.2%
Capital Assets	433.0	3.6	436.6	52.8%
<b>Total Assets</b>	<b>\$ 823.0</b>	<b>\$ 3.7</b>	<b>\$ 826.7</b>	<b>100.0%</b>
Long Term Debt Outstanding	\$ 548.9	\$ -	\$ 548.9	92.5%
Other Liabilities	44.3	0.3	44.6	7.5%
<b>Total Liabilities</b>	<b>\$ 593.2</b>	<b>\$ 0.3</b>	<b>\$ 593.5</b>	<b>100.0%</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	\$ 65.2	\$ -	65.2	28.0%
Restricted	164.6	-	164.6	70.6%
Unrestricted	-	3.4	3.4	1.4%
<b>Total Net Assets</b>	<b>\$ 229.8</b>	<b>\$ 3.4</b>	<b>\$ 233.2</b>	<b>100.0%</b>

- A portion of the District's net assets (28%) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment net of accumulated depreciation), less any related debt (bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- An additional portion of the District's net assets (70.6%) represents resources that are subject to external restrictions on how they may be used. The majority of the restricted balance is for categorical programs.

At the end of the 2005-06 fiscal year, the District is able to report positive balances in both categories of net assets.



**Governmental Activities.** The key elements of the District's net assets for the year ended June 30, 2006 are as follows:

<b>POWAY UNIFIED SCHOOL DISTRICT</b>		
<b>GOVERNMENT-WIDE STATEMENT OF ACTIVITIES</b>		
<b><u>Revenues</u></b>	<b><u>2005-06</u></b>	<b><u>% of Total</u></b>
<b>Program revenues</b>		
Charges for services	\$ 9,867,913	2.84%
Operating grants and contributions	51,021,327	14.69%
Capital grants and contributions	39,313,027	11.32%
<b>General revenues</b>		
Property taxes	128,902,882	37.11%
Federal and state aid not restricted to specific purposes	86,789,761	24.98%
Interest and investment earnings	5,517,197	1.59%
Interagency revenues	762,239	0.22%
Miscellaneous	25,199,309	7.25%
Special and extraordinary items	4,864	0.00%
<b>Total revenues</b>	<b>\$ 347,378,519</b>	<b>100.00%</b>
<b><u>Expenditures by Function</u></b>		
<b>Governmental activities</b>		
Instruction	\$ 178,877,350	55.86%
Pupil services	25,759,066	8.04%
General administration	11,925,849	3.72%
Plant services	67,485,679	21.07%
Ancillary services	3,346,523	1.05%
Community services	381,769	0.12%
Enterprise Activities	853,886	0.27%
Interest on long-term debt	18,813,827	5.88%
Other outgo	1,734,151	0.54%
<b>Business-type activities</b>		
Enterprise activities	11,058,003	3.45%
	<b>\$ 320,236,103</b>	<b>100.00%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 27,142,416</b>	
<b>Net Assets - beginning</b>	<b>\$ 206,020,118</b>	
<b>Net Assets - ending</b>	<b>\$ 233,162,534</b>	

- The district's total revenue increased 19 percent to \$347.3 million when compared to the last fiscal year.
- State aid COLA (cost of living adjustment) in 2005-06 increased by 4.3 percent. State aid is based primarily on average daily attendance (ADA) and other appropriations. If a student is in attendance for 180 days, the state awards the District one ADA. The state guarantees that if local taxes do not provide money equal to the base revenue limit guarantee it will make up the difference with state funding.
- The value of the base revenue limit during the year ended June 30, 2006 is \$5,125.22.
- More than 63.9 percent of the district's expenses are related to educating and caring for students (See Figure A-2).
- The administrative activities of the district accounted for 3.72 percent of total costs.

POWAY UNIFIED SCHOOL DISTRICT				
7 YEAR REVENUE LIMIT TABLE				
	Poway	% Increase	State Average	Difference
1999-00	4,275	1.42%	4,347	(72)
2000-01	4,413	3.23%	4,486	(73)
2001-02	4,597	4.19%	4,660	(63)
2002-03	4,680	1.79%	4,753	(73)
2003-04	4,768	1.88%	4,841	(73)
2004-05	4,914	3.07%	4,958	(44)
2005-06	5,125	4.30%	5,195	(70)

Figure A-1

**2005-06 Revenue by Source  
Government-wide Activities**

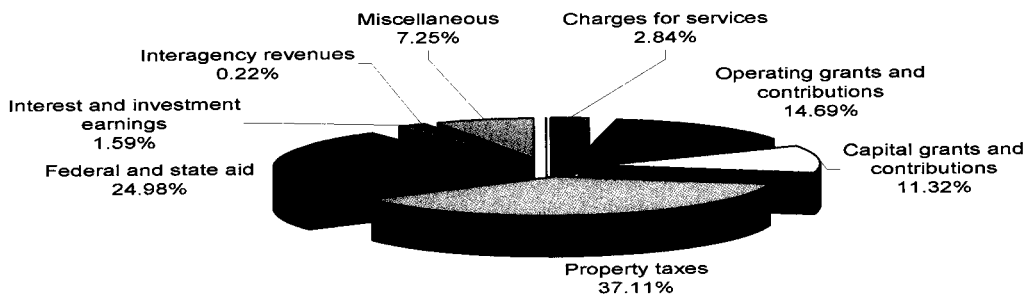
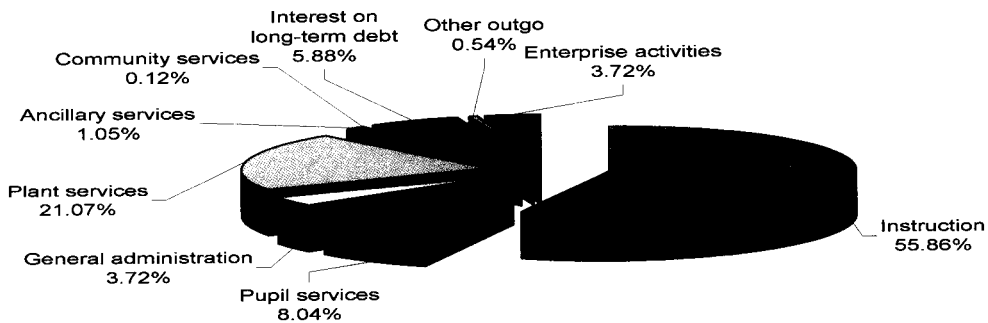


Figure A-2

**2005-06 Expenditures by Function  
Government-wide Activities**



## Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. As the District completed the year, its governmental funds reported a combined fund balance of \$229.8 million, \$26.9 million more than last year's fund balance. In addition, the following fund balances should be noted:

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that are not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions.

Designations reflect limitations on the use of otherwise available expendable financial resources in governmental funds. The limitations include federal, state, donor-authorized and District self-imposed. Fund balances of debt service, capital projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The \$18.6 million fund balance of the general fund is primarily designated for the following purposes:

*Designation for economic uncertainty reserve:* As required by state law, the District has established an undistributed reserve within the general fund. This reserve is required to be at least 2% of general fund expenditures set aside for contingencies or possible reductions in state funding and is not to be used in the negotiation or settlement of contract salaries. As of June 2006, the \$4.9 million held in reserve meets the 2% requirement. The maintenance of a sufficient reserve is a key credit consideration in garnering excellent short-term and long-term bond ratings.

*Restricted reserve for revolving cash fund:* The District maintains a \$75,000 revolving cash fund for expediting emergency and small purchase reimbursement to employees.

*Restricted reserve for stores inventories:* Three departments maintain perpetual inventories to expedite and reduce cost through volume purchasing. The valuation as of June 30, 2006 in the general fund inventory was \$240,266.

*Designations for restricted balance:* State, federal and donor authorized funding restrictions mandate that carryover balances of funds are restricted for those purposes in the next fiscal year. There was \$5.8 million in restricted balances as of June 30, 2006.

**General Fund Budgetary Highlights**

During the year, the Board revised the District’s budget. Budget amendments were to reflect changes in programs and related funding. The difference between the original budget and the final amended budget was an increase of \$19.6 million or 8.7 % in total general fund expenditures.

- During the year, final budgeted revenues exceeded original budgetary estimates by \$12.2 million or 5.51 %, to account for increases in federal and state aid and local donations.
- Even with these adjustments, actual expenditures were \$16.3 million below final budgeted amounts.
- Variances primarily result from expenditure-driven federal and state grants that are included in the budgets at their full amounts. Such grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met; unspent grant amounts are carried forward and included in the succeeding year’s budget. Therefore, actual grant revenues and expenditures are normally less than the amounts budgeted.
- For comparative purposes, the following table is presented to show General Fund actuals by Standardized Account Code Structure (SACS) functions and changes from fiscal year 2004-05 to 2005-06.

<b>POWAY UNIFIED SCHOOL DISTRICT GENERAL FUND - MAJOR FUND</b>					
<b><u>Expenditures by Function</u></b>	<b><u>% of Total</u></b>	<b><u>2005-06</u></b>	<b><u>Change</u></b>	<b><u>%</u></b>	<b><u>2004-05</u></b>
General Education-Grades K-12	50.57%	\$116,891,773	\$4,206,679	3.7%	\$112,685,094
Special Education	12.45%	\$28,772,732	\$2,326,712	8.8%	\$26,446,020
Instruction-Related Services	5.31%	\$12,267,060	(\$370,526)	-2.9%	\$12,637,586
School Administration	5.97%	\$13,799,478	\$1,468,969	11.9%	\$12,330,509
Pupil Services	4.23%	\$9,788,682	\$957,973	10.8%	\$8,830,709
Transportation	3.59%	\$8,294,500	\$697,192	9.2%	\$7,597,308
Ancillary, Co-curricular & Athletics	1.44%	\$3,337,477	(\$241,483)	-6.7%	\$3,578,960
Community Services	0.17%	\$383,005	\$32,090	9.1%	\$350,915
General Administration	4.02%	\$9,293,471	\$1,642,966	21.5%	\$7,650,505
Central Data Processing	0.78%	\$1,791,968	(\$788,108)	-30.5%	\$2,580,076
Maintenance & Operations	9.35%	\$21,608,174	\$1,396,376	6.9%	\$20,211,798
Facility Acquisition & Construction	0.01%	\$19,071	\$19,071	100.0%	\$0
Facility Rents and Leases	0.20%	\$467,666	\$23,711	5.3%	\$443,955
Other Outgo	1.93%	\$4,450,931	\$1,000,047	29.0%	\$3,450,884
<b>Total</b>	<b>100.00%</b>	<b>\$231,165,988</b>	<b>\$12,371,669</b>		<b>\$218,794,319</b>
Final October CBEDS Enrollment		32,645	(270)		32,915
Expenditures per student =		\$7,081.21	\$434	6.5%	\$6,647.25

**Note: Expenses for Cafeteria, Adult Ed., Construction, Preschool and child care services are recorded in separate funds. They are not included in the above figures.**

- The expenditure per student rose 6.5%.

**Capital Asset and Debt Administration**

**Capital Assets.** The County School Facilities Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. The proceeds of the General Obligation Bond are used for the renovation and modernization of 24 older schools. The construction of new middle school, Oak Valley Middle School at 4S Ranch was completed at the beginning of fiscal year 2005-06. Monterey Ridge is another elementary school, which is anticipated to be completed in the beginning of fiscal year 2006-07.

The District has a total inventory of relocatable and modular buildings of approximately 308 classrooms representing approximately 300,000 square feet. These relocatable buildings were initially required for class size reduction in grades K-3 and for growth in the west side of the District. Capital assets at June 30, 2006 and 2005 are outlined below:

<b>CAPITAL ASSETS (NET OF DEPRECIATION)</b>			
<b>Governmental Activities</b>			
	June 30, 2006	June 30, 2005	Total Change
Land	\$ 58,641,598	\$ 39,569,499	\$ 19,072,099
Improvement of Sites	15,432,828	8,965,510	6,467,318
Buildings	207,169,870	166,105,210	41,064,660
Equipment	9,574,316	10,140,122	(565,806)
Work in Progress	142,145,674	84,303,165	57,842,509
<b>Total Capital Assets</b>	<b>\$ 432,964,286</b>	<b>\$ 309,083,506</b>	<b>\$ 123,880,780</b>

Additional information on the District’s capital assets can be found in Note E to the basic financial statements.

**Debt Administration.** The District has a General Obligation Bond outstanding (Bond of November 2002). This is a voter-approved \$198 million bond specifically for the purpose of renovating 24 of the District’s older schools.

In May 2004, the District’s Board of Education approved a plan to accelerate the completion of Proposition U building projects from the year 2015 to a date as early as 2009. This plan provides an interim financing program that will be paid back from the final Proposition U Bond sales scheduled for 2009 and 2013. This interim financing will bridge the gap between the bond sales date and the accelerated construction program.

The District has formed various CFDs to secure school facilities for students that will be generated from new housing developments. These bonds are not obligations of the general fund of the District and are secured by taxes generated by homeowners and developers. There are eighteen bonds under the Community Facilities Districts (CFD) as of June 30, 2006.

CFD #1 issued \$80 million in debt in February of 1998 for construction of school facilities. CFD #10 issued \$16.045 million in October of 2001 with the District as the lead agency for capital infrastructure improvement areas A and B. There were six bonds issued by the CFD in 2002-03. CFD # 1 issued \$5.82 million, CFD #6 issued \$25 million, CFD #10E issued \$5.75 million, CFD# 10D issued \$5.12 million, CFD #6A issued \$18 million, and the Public Financing Authority (PFA) issued \$21.335 million. In addition, there were three bonds issued by the CFD in 2003-04. CFD #10 1A issued Series C bonds for \$3 million; CFD #11 Zone 1 issued bonds for \$9 million and CFD #11 1A issued Series A bonds for \$11 million.

Two additional bonds were issued in 2004-05 fiscal year: CFD #11 Improvement Area B for \$9 million and CFD #11 Improvement Area C for \$13.5 million.

In 2005-06, two bonds were issued by CFD #6 (4s Ranch): Special Tax Bonds, Series 2005 for \$44.3 million and Improvement Area B, 2005 Special Tax Bonds for \$30 million.

During the year, a new CFD was formed CFD #14 (Del Sur). CFD #14 issued two bonds in 2005-06. 2006 Special Tax Bonds for \$51.5 million and Improvement Area A 2006 Special Tax Bonds for \$51.5 million.

Additional information on the District's long-term debt can be found in Note H to the basic financial statements.

### Changing Enrollment within the District

The demographics of the District reflect an increasing trend in the high school population and a decreasing trend in the elementary and middle school population. Experience shows that the east side of the District is nearly built out and the west and south areas are busy with developments and new families. California voters approved Proposition 13 that not only limits the tax rate on property, but also gives an incentive for owners to occupy longer resulting in slower turnover of homes to new families. This impacts the east side with declining enrollment. The District however has offsetting growth on the west side.

<b>POWAY UNIFIED SCHOOL DISTRICT</b>					
<b>Changes in CBEDS from Year to Year</b>					
<u>Grade</u>	<u>Oct 2003</u>	<u>Chg</u>	<u>Oct 2004</u>	<u>Chg</u>	<u>Oct 2005</u>
K	2,377	(11)	2,366	(98)	2,268
1	2,311	(6)	2,305	46	2,351
2	2,407	(81)	2,326	17	2,343
3	2,391	28	2,419	(97)	2,322
4	2,452	(18)	2,434	(2)	2,432
5	2,543	(65)	2,478	(54)	2,424
6	2,624	(73)	2,551	(70)	2,481
7	2,564	92	2,656	(99)	2,557
8	2,749	(185)	2,564	112	2,676
9	2,779	20	2,799	(186)	2,613
10	2,620	188	2,808	(13)	2,795
11	2,531	68	2,599	156	2,755
12	2,703	(93)	2,610	18	2,628
<b>TOTAL</b>	<b>33,051</b>	<b>(136)</b>	<b>32,915</b>	<b>(270)</b>	<b>32,645</b>
	<u>2003-04</u>	<u>Chg</u>	<u>2004-05</u>	<u>Chg</u>	<u>2005-06</u>
<b>Elementary K-5</b>	14,481	(153)	14,328	(188)	14,140
<b>Middle 6-8</b>	7,937	(166)	7,771	(57)	7,714
<b>High 9-12</b>	10,633	183	10,816	(25)	10,791
<b>TOTAL</b>	<b>33,051</b>	<b>(136)</b>	<b>32,915</b>	<b>(270)</b>	<b>32,645</b>

### Requests for Information

This financial report is designed to provide a general overview of the Poway Unified School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Business Support Services, Poway Unified School District, 13626 Twin Peaks Road, Poway, CA 92064.

## *Basic Financial Statements*

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# POWAY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash in County Treasury	\$ 113,814,999	\$ 437,556	\$ 114,252,555
Cash on Hand and in Banks	1,032,936	38,667	1,071,603
Cash in Revolving Fund	75,810	-	75,810
Cash with a Fiscal Agent/Trustee	244,073,724	-	244,073,724
Accounts Receivable	19,262,426	27,509	19,289,935
Internal Balances	421,042	(421,042)	-
Stores Inventories	432,990	-	432,990
Prepaid Expenses	10,966,561	2,340	10,968,901
<b>Capital Assets:</b>			
Land	58,641,598	-	58,641,598
Land Improvements	26,747,874	4,583	26,752,457
Buildings	258,765,598	4,767,384	263,532,982
Equipment	27,533,212	56,507	27,589,719
Work in Progress	142,145,673	-	142,145,673
Less Accumulated Depreciation	(80,869,669)	(1,271,835)	(82,141,504)
<b>Total Assets</b>	<b><u>823,044,774</u></b>	<b><u>3,641,669</u></b>	<b><u>826,686,443</u></b>
<b>LIABILITIES:</b>			
Accounts Payable	29,133,943	251,111	29,385,054
Current Loans	15,000,000	-	15,000,000
Deferred Revenues	154,301	44,487	198,788
<b>Long-Term Liabilities:</b>			
Due within One Year	13,850,131	-	13,850,131
Due in More Than One Year	535,089,936	-	535,089,936
<b>Total Liabilities</b>	<b><u>593,228,311</u></b>	<b><u>295,598</u></b>	<b><u>593,523,909</u></b>
<b>NET ASSETS:</b>			
Invested in Capital Assets, net of Related Debt	65,207,731	-	65,207,731
<b>Restricted For:</b>			
Capital Projects	151,479,594	-	151,479,594
Debt Service	7,084,614	-	7,084,614
Educational Programs	6,044,524	-	6,044,524
Unrestricted	-	3,346,071	3,346,071
<b>Total Net Assets</b>	<b><u>\$ 229,816,463</u></b>	<b><u>\$ 3,346,071</u></b>	<b><u>\$ 233,162,534</u></b>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Government Activities:				
<i>Instruction</i>	\$ 151,672,672	\$ 179,725	\$ 27,865,841	\$ 39,313,027
<i>Instruction-Related Services</i>	27,204,678	587,688	7,302,993	-
<i>Pupil Services</i>	25,759,066	6,881,141	4,764,185	-
<i>General Administration</i>	11,925,849	239,293	712,520	-
<i>Plant Services</i>	67,485,679	110,536	6,434,865	-
<i>Ancillary Services</i>	3,346,523	1,869,530	126,799	-
<i>Community Services</i>	381,769	-	109,383	-
<i>Enterprise</i>	853,886	-	-	-
<i>Interest on Long-Term Debt</i>	18,813,827	-	-	-
<i>Other Outgo</i>	1,734,151	-	3,704,741	-
Total Governmental Activities	<u>309,178,100</u>	<u>9,867,913</u>	<u>51,021,327</u>	<u>39,313,027</u>
Business-type Activities:				
Enterprising Activities	11,058,003	-	-	-
Total Primary Government	<u>\$ 320,236,103</u>	<u>\$ 9,867,913</u>	<u>\$ 51,021,327</u>	<u>\$ 39,313,027</u>

General Revenues:

*Taxes and Subventions*  
*Federal and State Revenues*  
*Interest and Investment Earnings*  
*Interagency Revenues*  
*Miscellaneous*  
*Special and Extra Ordinary Items*  
 Total General Revenues  
 Change in Net Assets  
 Net Assets - Beginning  
 Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (84,314,079)		\$ (84,314,079)
(19,313,997)		(19,313,997)
(14,113,740)		(14,113,740)
(10,974,036)		(10,974,036)
(60,940,278)		(60,940,278)
(1,350,194)		(1,350,194)
(272,386)		(272,386)
(853,886)		(853,886)
(18,813,827)		(18,813,827)
1,970,590		1,970,590
<u>(208,975,833)</u>		<u>(208,975,833)</u>
-	\$ (11,058,003)	(11,058,003)
<u>(208,975,833)</u>	<u>(11,058,003)</u>	<u>(220,033,836)</u>
128,902,882	-	128,902,882
86,789,761	-	86,789,761
5,492,587	24,610	5,517,197
762,239	-	762,239
14,005,760	11,193,549	25,199,309
4,864	-	4,864
<u>235,958,093</u>	<u>11,218,159</u>	<u>247,176,252</u>
26,982,260	160,156	27,142,416
202,834,203	3,185,915	206,020,118
<u>\$ 229,816,463</u>	<u>\$ 3,346,071</u>	<u>\$ 233,162,534</u>

**POWAY UNIFIED SCHOOL DISTRICT**

*BALANCE SHEET - GOVERNMENTAL FUNDS*

JUNE 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>
<b>ASSETS:</b>		
<i>Cash in County Treasury</i>	\$ 8,300,659	\$ 48,186,761
<i>Cash on Hand and in Banks</i>	302,310	-
<i>Cash in Revolving Fund</i>	75,000	-
<i>Cash with a Fiscal Agent/Trustee</i>	15,150,375	18,685,341
<i>Accounts Receivable</i>	17,457,806	511,326
<i>Due from Other Funds</i>	1,109,100	5,369,503
<i>Stores Inventories</i>	240,266	-
<i>Prepaid Expenditures</i>	67,053	-
<b>Total Assets</b>	<u>\$ 42,702,569</u>	<u>\$ 72,752,931</u>
<b>LIABILITIES AND FUND BALANCE:</b>		
Liabilities:		
<i>Accounts Payable</i>	\$ 6,974,133	\$ 13,471,357
<i>Due to Other Funds</i>	1,568,437	1,081,905
<i>Current Loans</i>	15,000,000	-
<i>Unearned Revenue</i>	527,171	-
<b>Total Liabilities</b>	<u>24,069,741</u>	<u>14,553,262</u>
Fund Balance:		
Reserved Fund Balances:		
<i>Reserve for Revolving Cash</i>	75,000	-
<i>Reserve for Stores Inventories</i>	240,266	-
<i>Reserve for Prepaid Items</i>	67,053	-
Designated Fund Balances:		
<i>Designated for Economic Uncertainties</i>	4,900,000	-
<i>Other Designated</i>	-	-
Unreserved	13,350,509	58,199,669
Unreserved, reported in nonmajor:		
<i>Special Revenue Funds</i>	-	-
<i>Debt Service Funds</i>	-	-
<i>Capital Projects Funds</i>	-	-
<b>Total Fund Balance</b>	<u>18,632,828</u>	<u>58,199,669</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 42,702,569</u>	<u>\$ 72,752,931</u>

The accompanying notes are an integral part of this statement.

County School Facilities Fund	Capital Project Fund Blended Component Units	Other Governmental Funds	Total Governmental Funds
\$ 13,413,550	\$ -	\$ 36,947,402	\$ 106,848,372
-	-	276,288	578,598
-	-	810	75,810
-	209,865,836	-	243,701,552
431,699	-	774,489	19,175,320
-	-	1,187,435	7,666,038
-	-	192,724	432,990
-	-	-	67,053
<u>\$ 13,845,249</u>	<u>\$ 209,865,836</u>	<u>\$ 39,379,148</u>	<u>\$ 378,545,733</u>
\$ 11,997	\$ -	\$ 705,254	\$ 21,162,741
4,119,503	-	1,758,241	8,528,086
-	-	-	15,000,000
-	-	35,725	562,896
<u>4,131,500</u>	<u>-</u>	<u>2,499,220</u>	<u>45,253,723</u>
-	-	810	75,810
-	-	192,724	432,990
-	-	-	67,053
-	-	-	4,900,000
-	-	9,000,000	9,000,000
9,713,749	209,865,836	-	291,129,763
-	-	6,485,124	6,485,124
-	-	7,084,614	7,084,614
-	-	14,116,656	14,116,656
<u>9,713,749</u>	<u>209,865,836</u>	<u>36,879,928</u>	<u>333,292,010</u>
<u>\$ 13,845,249</u>	<u>\$ 209,865,836</u>	<u>\$ 39,379,148</u>	<u>\$ 378,545,733</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

Total fund balances - governmental funds balance sheet	\$ 333,292,010
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation.	432,943,499
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:	10,899,507
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:	(5,368,025)
Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available" meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statement, is:	408,595
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of:	(548,940,067)
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:	<u>6,580,944</u>
Net assets of governmental activities - statement of net assets	\$ <u><u>229,816,463</u></u>

The accompanying notes are an integral part of this statement.

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**POWAY UNIFIED SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>
<b>Revenues:</b>		
Revenue Limit Sources:		
State Apportionments	\$ 70,969,899	\$ -
Local Sources	94,234,657	-
Federal Revenue	9,334,363	-
Other State Revenue	45,239,944	-
Other Local Revenue	<u>11,932,089</u>	<u>2,890,932</u>
Total Revenues	<u>231,710,952</u>	<u>2,890,932</u>
<b>Expenditures:</b>		
Instruction	145,664,507	-
Instruction - Related Services	26,066,537	-
Pupil Services	18,083,180	-
Ancillary Services	3,337,477	-
Community Services	383,005	-
Enterprise	101	-
General Administration	11,085,339	-
Plant Services	22,094,912	58,262,909
Other Outgo	1,366,706	-
Debt Service:		
Principal	49,614	7,906
Interest	<u>18,353</u>	<u>2,942,004</u>
Total Expenditures	<u>228,149,731</u>	<u>61,212,819</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>3,561,221</u>	<u>(58,321,887)</u>
<b>Other Financing Sources (Uses):</b>		
Transfers In	1,685,703	10,591,155
Transfers Out	(3,016,257)	(1,250,000)
Proceeds From Sale of Bonds	-	-
Other Sources	<u>-</u>	<u>4,864</u>
Total Other Financing Sources (Uses)	<u>(1,330,554)</u>	<u>9,346,019</u>
<b>Net Change in Fund Balance</b>	2,230,667	(48,975,868)
<b>Fund Balance, July 1</b>	<u>16,402,161</u>	<u>107,175,537</u>
<b>Fund Balance, June 30</b>	<u>\$ 18,632,828</u>	<u>\$ 58,199,669</u>

The accompanying notes are an integral part of this statement.



County School Facilities Fund	Capital Project Fund Blended Component Units	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 665,502	\$ 71,635,401
-	-	-	94,234,657
-	-	1,444,572	10,778,935
37,368,251	-	2,769,146	85,377,341
1,034,464	34,832,531	23,538,812	74,228,828
<u>38,402,715</u>	<u>34,832,531</u>	<u>28,418,032</u>	<u>336,255,162</u>
-	-	914,419	146,578,926
-	-	339,217	26,405,754
-	-	6,927,463	25,010,643
-	-	-	3,337,477
-	-	-	383,005
-	-	-	101
-	-	266,471	11,351,810
45,000,046	66,325,887	6,778,789	198,462,543
-	3,234,297	-	4,601,003
-	-	9,468,864	9,526,384
-	-	14,606,668	17,567,025
<u>45,000,046</u>	<u>69,560,184</u>	<u>39,301,891</u>	<u>443,224,671</u>
<u>(6,597,331)</u>	<u>(34,727,653)</u>	<u>(10,883,859)</u>	<u>(106,969,509)</u>
-	926,615	16,442,614	29,646,087
(26,607)	(25,669,430)	(1,190,906)	(31,153,200)
-	177,315,000	-	177,315,000
-	-	990,992	995,856
<u>(26,607)</u>	<u>152,572,185</u>	<u>16,242,700</u>	<u>176,803,743</u>
(6,623,938)	117,844,532	5,358,841	69,834,234
16,337,687	92,021,304	31,521,087	263,457,776
<u>\$ 9,713,749</u>	<u>\$ 209,865,836</u>	<u>\$ 36,879,928</u>	<u>\$ 333,292,010</u>

**POWAY UNIFIED SCHOOL DISTRICT**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006*

Net change in fund balances - total governmental funds \$ 69,834,234

Amounts reported for governmental activities in the statement of activities are different because:

**Capital Outlay:** In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	131,716,069	
Depreciation expense	<u>(7,726,559)</u>	
Net		123,989,510

**Debt service:** In governmental funds, repayment of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 9,526,382

**Debt proceeds:** In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: (178,305,992)

**Debt issue costs:** In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

Issue costs incurred during the period	3,234,296	
Issue costs amortized for the period	<u>(367,444)</u>	
		2,866,852

**Earned but unavailable revenues:** In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period less revenues that became available in the current period but related to a prior period is: (110,418)

**Gain or loss from disposal of capital assets:** In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (109,568)

**Donated capital assets:** In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increase to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was: 10,751

**Unmatured interest on long-term debt:** In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: (1,246,802)

**Compensated absences:** In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (170,003)

Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were:

(3,972)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

701,286

Change in net assets of governmental activities - statement of activities

\$ 26,982,260

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**

## STATEMENT OF NET ASSETS

## PROPRIETARY FUNDS

JUNE 30, 2006

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self-Insurance Fund
<b>ASSETS:</b>		
Current Assets:		
<i>Cash in County Treasury</i>	\$ 437,556	\$ 6,966,627
<i>Cash on Hand and in Banks</i>	38,667	454,338
<i>Cash with a Fiscal Agent/Trustee</i>	-	372,172
<i>Accounts Receivable</i>	27,509	87,106
<i>Due from Other Funds</i>	21,464	1,507,303
<i>Prepaid Expenditures</i>	2,340	-
Total Current Assets	<u>527,536</u>	<u>9,387,546</u>
Noncurrent Assets:		
Fixed Assets-		
<i>Improvement of Sites</i>	4,583	-
<i>Accumulated Depreciation - Sites</i>	(4,583)	-
<i>Buildings and Improvements</i>	4,767,384	-
<i>Accumulated Depreciation - Buildings</i>	(1,218,331)	-
<i>Equipment</i>	56,507	29,696
<i>Accumulated Depreciation - Equipment</i>	(48,921)	(8,909)
Total Noncurrent Assets	<u>3,556,639</u>	<u>20,787</u>
Total Assets	<u>\$ 4,084,175</u>	<u>\$ 9,408,333</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
<i>Accounts Payable</i>	\$ 251,111	\$ 2,603,177
<i>Due to Other Funds</i>	442,506	224,212
<i>Unearned Revenue</i>	44,487	-
Total Current Liabilities	<u>738,104</u>	<u>2,827,389</u>
Total Liabilities	<u>738,104</u>	<u>2,827,389</u>
<b>NET ASSETS:</b>		
<i>Unrestricted Net Assets</i>	<u>3,346,071</u>	<u>6,580,944</u>
Total Net Assets	<u>\$ 3,346,071</u>	<u>\$ 6,580,944</u>

The accompanying notes are an integral part of this statement.

	Enterprise Fund	Self-Insurance Fund
<b>Operating Revenues:</b>		
<i>Local Revenue</i>	\$ 11,218,159	\$ 8,969,490
<b>Total Revenues</b>	<u>11,218,159</u>	<u>8,969,490</u>
<b>Operating Expenses:</b>		
<i>Certificated Personnel Salaries</i>	996,549	21,995
<i>Classified Personnel Salaries</i>	5,872,606	155,294
<i>Employee Benefits</i>	1,737,478	811,683
<i>Books and Supplies</i>	980,644	8,827
<i>Services and Other Operating Expenses</i>	1,364,201	8,771,579
<i>Depreciation Expense</i>	106,525	5,939
<b>Total Expenses</b>	<u>11,058,003</u>	<u>9,775,317</u>
<b>Income (Loss) before Contributions and Transfers</b>	160,156	(805,827)
<i>Interfund Transfers In</i>	-	1,725,303
<i>Interfund Transfers Out</i>	-	(218,190)
<b>Change in Net Assets</b>	<u>160,156</u>	<u>701,286</u>
<b>Total Net Assets - Beginning</b>	<u>3,185,915</u>	<u>5,879,658</u>
<b>Total Net Assets - Ending</b>	<u>\$ 3,346,071</u>	<u>\$ 6,580,944</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self Insurance Fund
<b>Cash Flows from Operating Activities:</b>		
<i>Cash Received from Customers</i>	\$ 11,193,549	\$ 8,726,374
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(11,101,011)	(11,389,444)
Net Cash Provided (Used) by Operating Activities	<u>92,538</u>	<u>(2,663,070)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
<i>Transfers From (To) Primary Government</i>	-	1,507,113
Net Cash Provided (Used) by Non-capital Financing Activities	<u>-</u>	<u>1,507,113</u>
<b>Cash Flows from Investing Activities:</b>		
<i>Interest and Dividends on Investments</i>	24,610	243,116
Net Cash Provided (Used) for Investing Activities	<u>24,610</u>	<u>243,116</u>
Net Increase (Decrease) in Cash and Cash Equivalents	117,148	(912,841)
Cash and Cash Equivalents at Beginning of Year	359,075	8,705,978
Cash and Cash Equivalents at End of Year	<u>\$ 476,223</u>	<u>\$ 7,793,137</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 160,156	\$ (805,827)
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	182,311	396,635
<i>Decrease (Increase) in Fixed Assets</i>	(8,170)	-
<i>Increase (Decrease) in Accounts Payable</i>	29,937	(1,760,721)
<i>Increase (Decrease) in Interfund Payables</i>	(266,313)	1,257,072
<i>Increase (Decrease) in Unearned Revenue</i>	19,227	-
Total Adjustments	<u>(43,008)</u>	<u>(107,014)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 117,148</u>	<u>\$ (912,841)</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**

## STATEMENT OF FIDUCIARY NET ASSETS

## FIDUCIARY FUNDS

JUNE 30, 2006

	Private-Purpose Trust Fund	Agency Fund
	Foundation Private-Purpose Trust Fund	Student Body Fund
<b>ASSETS:</b>		
<i>Cash in County Treasury</i>	\$ 497,703	\$ -
<i>Cash on Hand and in Banks</i>	-	2,929,723
<i>Accounts Receivable</i>	216,751	-
Total Assets	<u>\$ 714,454</u>	<u>\$ 2,929,723</u>
<b>LIABILITIES:</b>		
<i>Due to Student Groups</i>	\$ -	\$ 2,929,723
Total Liabilities	<u>-</u>	<u>2,929,723</u>
<b>NET ASSETS:</b>		
<i>Held in Trust</i>	714,454	-
Total Net Assets	<u>\$ 714,454</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Private-Purpose Trust Fund
	Foundation Private-Purpose Trust Fund
<b>Additions:</b>	
Investment Income	\$ <u>506,907</u>
Total Additions	<u>506,907</u>
<b>Deductions:</b>	
Administrative Expenses	<u>4,668</u>
Total Deductions	<u>4,668</u>
<b>Change in Net Assets</b>	502,239
Net Assets-Beginning of the Year	<u>212,215</u>
Net Assets-End of the Year	<u>\$ <u>714,454</u></u>

The accompanying notes are an integral part of this statement.



# POWAY UNIFIED SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

### A. Summary of Significant Accounting Policies

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

#### 1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has two component units, the Community Facilities Districts (CFD) and the Public Financing Authority. In addition, the District is not a component unit of any other reporting entity as defined by the GASB statement.

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

**Government-wide Statements:** The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

# **POWAY UNIFIED SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

**Fund Financial Statements:** The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

**General Fund.** This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

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

**Capital Project Fund for Blended Component Units.** This fund is used to account for the transactions that are associated with the capital projects of the District's Community Facilities Districts (CFD) and the Public Financing Authority.

**County School Facilities Fund.** This fund was established to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants.

In addition, the District reports the following fund types:

**Special Revenue Funds:** These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

**Capital Projects Funds:** These funds account for the acquisition and/or construction of all major governmental general fixed assets.

**Debt Service Funds.** These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

**Internal Service Funds:** These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

**Private-Purpose Trust Funds:** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

**Agency Funds:** These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Encumbrances

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

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

**b. Stores Inventories and Prepaid Expenditures**

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

**c. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

**d. Receivable and Payable Balances**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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

f. Deferred Revenue

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

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

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

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

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**B. Compliance and Accountability**

1. **Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. **Deficit Fund Balance or Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Excess of Expenditures Over Appropriations**

As of June 30, 2006, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Other outgo	\$ 643,959
Interest	18,353

**D. Cash and Investments**

1. **Cash in County Treasury:**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$114,750,258 as of June 30, 2006). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$114,750,258. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. **Cash on Hand, in Banks, and in Revolving Fund**

Cash balances on hand and in banks (\$4,001,326 as of June 30, 2006) and in the revolving fund (\$75,810) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. **Investments:**

The District's investments at June 30, 2006 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Dreyfus treasury notes	\$ 141,873,842
FHLMC disc notes	62,946,403
Guaranteed investment contracts	38,881,307
Cash and cash equivalents	372,172
<b>Total Investments</b>	<b>\$ 244,073,724</b>

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**4. Analysis of Specific Deposit and Investment Risks**

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

**a. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

**b. Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

**c. Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

**d. Interest Rate Risk**

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

**e. Foreign Currency Risk**

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

**Investment Accounting Policy**

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**E. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 39,569,499	\$ 19,072,099	\$ -	\$ 58,641,598
Work in progress	84,303,165	111,631,746	53,789,238	142,145,673
Total capital assets not being depreciated	<u>123,872,664</u>	<u>130,703,845</u>	<u>53,789,238</u>	<u>200,787,271</u>
<i>Capital assets being depreciated:</i>				
Buildings	212,751,581	46,357,717	343,700	258,765,598
Land improvements	19,320,324	7,427,550	-	26,747,874
Equipment	26,650,738	1,022,974	140,500	27,533,212
Total capital assets being depreciated	<u>258,722,643</u>	<u>54,808,241</u>	<u>484,200</u>	<u>313,046,684</u>
Less accumulated depreciation for:				
Buildings	(46,646,372)	(5,187,345)	(237,989)	(51,595,728)
Land improvements	(10,354,813)	(960,233)	-	(11,315,046)
Equipment	(16,510,617)	(1,584,921)	(136,643)	(17,958,895)
Total accumulated depreciation	<u>(73,511,802)</u>	<u>(7,732,499)</u>	<u>(374,632)</u>	<u>(80,869,669)</u>
Total capital assets being depreciated, net	<u>185,210,841</u>	<u>47,075,742</u>	<u>109,568</u>	<u>232,177,015</u>
Governmental activities capital assets, net	<u>\$ 309,083,505</u>	<u>\$ 177,779,587</u>	<u>\$ 53,898,806</u>	<u>\$ 432,964,286</u>
	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Capital assets being depreciated:</i>				
Buildings	4,767,384	-	-	4,767,384
Land improvements	4,583	-	-	4,583
Equipment	48,337	8,170	-	56,507
Total capital assets being depreciated	<u>4,820,304</u>	<u>8,170</u>	<u>-</u>	<u>4,828,474</u>
Less accumulated depreciation for:				
Buildings	(1,112,390)	(105,942)	-	(1,218,332)
Land improvements	(4,583)	-	-	(4,583)
Equipment	(48,337)	(583)	-	(48,920)
Total accumulated depreciation	<u>(1,165,310)</u>	<u>(106,525)</u>	<u>-</u>	<u>(1,271,835)</u>
Total capital assets being depreciated, net	<u>3,654,994</u>	<u>(98,355)</u>	<u>-</u>	<u>3,556,639</u>
Business-type activities capital assets, net	<u>\$ 3,654,994</u>	<u>\$ (98,355)</u>	<u>\$ -</u>	<u>\$ 3,556,639</u>



**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

Depreciation was charged to functions as follows:

Instruction	\$ 5,186,654
Instruction-Related Services	914,526
Pupil Services	662,420
Ancillary Services	3,010
Enterprise	6,144
General Administration	809,396
Plant Services	144,409
Business Type Activities	106,525
	<u>\$ 7,833,084</u>

**F. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at June 30, 2006 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
General Fund	Adult Education Fund	83,054
General Fund	Child Development Fund	504
General Fund	Cafeteria Fund	378,649
General Fund	Building Fund	12,599
General Fund	Capital Facilities Fund	43,232
General Fund	Enterprise Fund	366,414
General Fund	Self Insurance Fund	224,212
Adult Education Fund	General Fund	40,954
Child Development Fund	General Fund	373
Cafeteria Fund	General Fund	14
Cafeteria Fund	Child Development Fund	670
Cafeteria Fund	Enterprise Fund	76,091
Special Reserve Fund	Building Fund	1,069,260
Building Fund	County School Facilities Fund	4,119,503
Building Fund	Deferred Maintenance Fund	1,250,000
Capital Facilities Fund	General Fund	25
Capital Facilities Fund	Building Fund	46
Enterprise Fund	General Fund	19,767
Enterprise Fund	Child Development Fund	2,133
Self Insurance Fund	General Fund	1,507,303
	Total	<u>\$ 9,194,803</u>

All amounts due are scheduled to be repaid within one year.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2006 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Special Reserve Fund	General Fund	\$ 190,906
County School Facilities Fund	General Fund	26,607
General Fund	Adult Education Fund	40,954
Building Fund	General Fund	1,250,000
General Fund	Self Insurance Fund	1,725,303
General Fund	Deferred Maintenance Fund	1,250,000
Component Units Fund	Component Units Fund	16,078,275
State School Building Fund	Building Fund	1,000,000
Component Units Fund	Building Fund	9,591,155
Self Insurance Fund	General Fund	218,190
	Total	<u>\$ 31,371,390</u>

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax anticipation notes	\$ 10,825,000	\$ 15,000,000	\$ 10,825,000	\$ 15,000,000

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$ 68,600,000	\$ -	\$ 4,435,000	\$ 64,165,000	\$ 4,785,000
Capital leases	2,722,833	990,992	1,471,383	2,242,442	1,418,341
Certificates of participation	100,000,000	-	-	100,000,000	-
Special tax bonds	205,345,835	177,315,000	3,620,000	379,040,835	4,155,000
Compensated absences *	3,321,786	170,004	-	3,491,790	3,491,790
Total governmental activities	<u>\$ 379,990,454</u>	<u>\$ 178,475,996</u>	<u>\$ 9,526,383</u>	<u>\$ 548,940,067</u>	<u>\$ 13,850,131</u>

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

2. Debt Service Requirements

Debt service requirements on long-term debt, net of certificates of participation, at June 30, 2006 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2007	\$ 13,850,131	\$ 20,232,372	\$ 34,082,503
2008	5,640,996	21,976,782	27,617,778
2009	6,527,770	21,706,477	28,234,247
2010	7,427,390	21,402,146	28,829,536
2011	8,222,945	21,050,216	29,273,161
2012-2016	53,320,000	98,611,956	151,931,956
2017-2021	63,330,000	84,854,305	148,184,305
2022-2026	83,810,835	66,332,894	150,143,729
2027-2031	96,495,000	41,530,906	138,025,906
2032-2036	98,460,000	15,987,443	114,447,443
2037-2041	11,855,000	309,540	12,164,540
Totals	<u>\$ 448,940,067</u>	<u>\$ 413,995,037</u>	<u>\$ 862,935,104</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2006 are as follows:

Year Ending June 30:	
2007	\$ 1,505,194
2008	365,646
2009	225,608
2010	220,892
2011	73,631
Total Minimum Lease Payments	2,390,971
Less Amount Representing Interest	(148,529)
Present Value of Net Minimum Lease Payments	<u>\$ 2,242,442</u>

4. Certificates of Participation

Future commitments for certificates of participation as of June 30, 2006 are as follows:

Year Ending June 30,	Principal
2007	\$ -
2008	-
2009	-
2010	-
2011	-
2012-2016	5,670,000
2017-2021	11,890,000
2022-2026	15,910,000
2027-2031	21,300,000
2032-2036	28,500,000
2037-2041	16,730,000
Totals	<u>\$ 100,000,000</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**I. Joint Ventures (Joint Powers Agreements)**

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSR). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the 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 proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2006 is as follows:

Total Assets	\$	100,115
Total Liabilities		-
Total Fund Balance		100,115
Total Cash Receipts		1,577
Total Cash Disbursements		22,377
Net Change in Fund Balance		(20,800)

**J. Employee Retirement Systems**

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

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005-06 was 9.12% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2006, 2005 and 2004 were \$4,867,201, \$4,856,272 and \$4,822,739, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$0.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

STRS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-06 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2006, 2005 and 2004 were \$10,013,458, \$9,450,619 and \$9,263,916, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$5,482,474.

K. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2006, expenditures of \$624,817 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

L. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

M. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides dental and vision coverage to employees.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

All funds of the District participate in the program, but only the General Fund makes payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a liability for open claims and Incurred But Not Reported (IBNR) claims. The claims and liability of \$2,305,152 is included in the liabilities under accounts payable and is reported in accordance with Financial Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated at the end of the fiscal year. Changes in the Internal Service Fund's claim liability in the fiscal year ended June 30, 2006 are indicated below:

Internal Service Fund:	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Year 2005-06	\$ <u>4,139,198</u>	\$ <u>1,514,471</u>	\$ <u>3,348,517</u>	\$ <u>2,305,152</u>

**N. Subsequent Events**

The district issued \$10,000,000 of Tax Revenue Anticipation Notes (TRANS) with an interest rate of 4.50% dated July 3, 2006. This TRANS was sold to supplement the district's cash flow and matures on July 27, 2007. Repayment requirements are that 50% of principal and interest be repaid on January 31, 2007 and on April 30, 2007.

## *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**POWAY UNIFIED SCHOOL DISTRICT**

**EXHIBIT B-1**

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Revenue Limit Sources:				
State Apportionments	\$ 71,025,372	\$ 70,969,902	\$ 70,969,899	\$ (3)
Local Sources	94,223,043	94,400,674	94,234,657	(166,017)
Federal Revenue	8,383,489	10,401,471	9,334,363	(1,067,108)
Other State Revenue	41,513,764	45,645,564	45,239,944	(405,620)
Other Local Revenue	6,383,772	12,319,647	11,932,089	(387,558)
Total Revenues	<u>221,529,440</u>	<u>233,737,258</u>	<u>231,710,952</u>	<u>(2,026,306)</u>
<b>Expenditures:</b>				
Instruction	145,966,440	156,811,703	145,664,507	11,147,196
Instruction - Related Services	23,533,089	29,220,474	26,066,537	3,153,937
Pupil Services	17,779,661	18,147,558	18,083,180	64,378
Ancillary Services	2,729,999	3,686,534	3,337,477	349,057
Community Services	352,415	384,919	383,005	1,914
Enterprise	41,772	41,873	101	41,772
General Administration	10,361,149	11,261,061	11,085,339	175,722
Plant Services	23,779,040	24,112,185	22,094,912	2,017,273
Other Outgo	321,525	722,747	1,366,706	(643,959)
Debt Service:				
Principal	-	80,784	49,614	31,170
Interest	-	-	18,353	(18,353)
Total Expenditures	<u>224,865,090</u>	<u>244,469,838</u>	<u>228,149,731</u>	<u>16,320,107</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,335,650)</u>	<u>(10,732,580)</u>	<u>3,561,221</u>	<u>14,293,801</u>
Other Financing Sources (Uses):				
Transfers In	218,190	2,685,703	1,685,703	(1,000,000)
Transfers Out	<u>(848,402)</u>	<u>(3,326,376)</u>	<u>(3,016,257)</u>	<u>310,119</u>
Total Other Financing Sources (Uses)	<u>(630,212)</u>	<u>(640,673)</u>	<u>(1,330,554)</u>	<u>(689,881)</u>
Net Change in Fund Balance	(3,965,862)	(11,373,253)	2,230,667	13,603,920
Fund Balance, July 1	<u>16,402,161</u>	<u>16,402,161</u>	<u>16,402,161</u>	-
Fund Balance, June 30	<u>\$ 12,436,299</u>	<u>\$ 5,028,908</u>	<u>\$ 18,632,828</u>	<u>\$ 13,603,920</u>



*Combining Statements and Budget Comparisons  
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
<b>ASSETS:</b>				
<i>Cash in County Treasury</i>	\$ 7,703,181	\$ 7,084,614	\$ 22,159,607	\$ 36,947,402
<i>Cash on Hand and in Banks</i>	276,288	-	-	276,288
<i>Cash in Revolving Fund</i>	810	-	-	810
<i>Accounts Receivable</i>	541,149	-	233,340	774,489
<i>Due from Other Funds</i>	118,103	-	1,069,332	1,187,435
<i>Stores Inventories</i>	192,724	-	-	192,724
Total Assets	<u>\$ 8,832,255</u>	<u>\$ 7,084,614</u>	<u>\$ 23,462,279</u>	<u>\$ 39,379,148</u>
<b>LIABILITIES AND FUND BALANCE:</b>				
Liabilities:				
<i>Accounts Payable</i>	\$ 402,863	\$ -	\$ 302,391	\$ 705,254
<i>Due to Other Funds</i>	1,715,009	-	43,232	1,758,241
<i>Unearned Revenue</i>	35,725	-	-	35,725
Total Liabilities	<u>2,153,597</u>	<u>-</u>	<u>345,623</u>	<u>2,499,220</u>
Fund Balance:				
Reserved Fund Balances:				
<i>Reserve for Revolving Cash</i>	810	-	-	810
<i>Reserve for Stores Inventories</i>	192,724	-	-	192,724
Designated Fund Balances:				
<i>Other Designated</i>	-	-	9,000,000	9,000,000
Unreserved, reported in nonmajor:				
<i>Special Revenue Funds</i>	6,485,124	-	-	6,485,124
<i>Debt Service Funds</i>	-	7,084,614	-	7,084,614
<i>Capital Projects Funds</i>	-	-	14,116,656	14,116,656
Total Fund Balance	<u>6,678,658</u>	<u>7,084,614</u>	<u>23,116,656</u>	<u>36,879,928</u>
Total Liabilities and Fund Balances	<u>\$ 8,832,255</u>	<u>\$ 7,084,614</u>	<u>\$ 23,462,279</u>	<u>\$ 39,379,148</u>

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
<b>Revenues:</b>				
Revenue Limit Sources:				
State Apportionments	\$ 665,502	\$ -	\$ -	\$ 665,502
Federal Revenue	1,444,572	-	-	1,444,572
Other State Revenue	1,765,861	92,974	910,311	2,769,146
Other Local Revenue	6,089,607	7,694,386	9,754,819	23,538,812
Total Revenues	<u>9,965,542</u>	<u>7,787,360</u>	<u>10,665,130</u>	<u>28,418,032</u>
<b>Expenditures:</b>				
Instruction	914,419	-	-	914,419
Instruction - Related Services	339,217	-	-	339,217
Pupil Services	6,927,463	-	-	6,927,463
General Administration	228,470	-	38,001	266,471
Plant Services	2,479,740	-	4,299,049	6,778,789
Debt Service:				
Principal	-	8,055,000	1,413,864	9,468,864
Interest	-	14,492,260	114,408	14,606,668
Total Expenditures	<u>10,889,309</u>	<u>22,547,260</u>	<u>5,865,322</u>	<u>39,301,891</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(923,767)</u>	<u>(14,759,900)</u>	<u>4,799,808</u>	<u>(10,883,859)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	1,290,954	15,151,660	-	16,442,614
Transfers Out	(190,906)	-	(1,000,000)	(1,190,906)
Other Sources	-	-	990,992	990,992
Total Other Financing Sources (Uses)	<u>1,100,048</u>	<u>15,151,660</u>	<u>(9,008)</u>	<u>16,242,700</u>
Net Change in Fund Balance	176,281	391,760	4,790,800	5,358,841
Fund Balance, July 1	6,502,377	6,692,854	18,325,856	31,521,087
Fund Balance, June 30	<u>\$ 6,678,658</u>	<u>\$ 7,084,614</u>	<u>\$ 23,116,656</u>	<u>\$ 36,879,928</u>

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2006

	Adult Education Fund	Child Development Fund
	<u>          </u>	<u>          </u>
<b>ASSETS:</b>		
<i>Cash in County Treasury</i>	\$ 357,378	\$ 35,605
<i>Cash on Hand and in Banks</i>	35,107	-
<i>Cash in Revolving Fund</i>	-	-
<i>Accounts Receivable</i>	217,193	7,131
<i>Due from Other Funds</i>	40,955	373
<i>Stores Inventories</i>	-	-
<b>Total Assets</b>	<u><u>\$ 650,633</u></u>	<u><u>\$ 43,109</u></u>
<b>LIABILITIES AND FUND BALANCE:</b>		
<b>Liabilities:</b>		
<i>Accounts Payable</i>	\$ 123,981	\$ 3,637
<i>Due to Other Funds</i>	83,053	3,307
<i>Unearned Revenue</i>	35,725	-
<b>Total Liabilities</b>	<u><u>242,759</u></u>	<u><u>6,944</u></u>
<b>Fund Balance:</b>		
<b>Reserved Fund Balances:</b>		
<i>Reserve for Revolving Cash</i>	-	-
<i>Reserve for Stores Inventories</i>	-	-
<b>Unreserved, reported in nonmajor:</b>		
<i>Special Revenue Funds</i>	407,874	36,165
<b>Total Fund Balance</b>	<u><u>407,874</u></u>	<u><u>36,165</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 650,633</u></u>	<u><u>\$ 43,109</u></u>

Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 2,355,754	\$ 3,855,460	\$ 1,098,984	\$ 7,703,181
241,181	-	-	276,288
810	-	-	810
264,194	40,434	12,197	541,149
76,775	-	-	118,103
192,724	-	-	192,724
<u>\$ 3,131,438</u>	<u>\$ 3,895,894</u>	<u>\$ 1,111,181</u>	<u>\$ 8,832,255</u>
\$ 228,380	\$ 46,865	\$ -	\$ 402,863
378,649	1,250,000	-	1,715,009
-	-	-	35,725
<u>607,029</u>	<u>1,296,865</u>	<u>-</u>	<u>2,153,597</u>
810	-	-	810
192,724	-	-	192,724
<u>2,330,875</u>	<u>2,599,029</u>	<u>1,111,181</u>	<u>6,485,124</u>
<u>2,524,409</u>	<u>2,599,029</u>	<u>1,111,181</u>	<u>6,678,658</u>
<u>\$ 3,131,438</u>	<u>\$ 3,895,894</u>	<u>\$ 1,111,181</u>	<u>\$ 8,832,255</u>

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Adult Education Fund	Child Development Fund
	<u>                    </u>	<u>                    </u>
<b>Revenues:</b>		
Revenue Limit Sources:		
State Apportionments	\$ 665,502	\$ -
Federal Revenue	90,900	-
Other State Revenue	143,840	312,038
Other Local Revenue	377,970	1,925
Total Revenues	<u>1,278,212</u>	<u>313,963</u>
<b>Expenditures:</b>		
Instruction	622,535	291,884
Instruction - Related Services	339,217	-
Pupil Services	28,466	-
General Administration	37,471	14,973
Plant Services	-	-
Total Expenditures	<u>1,027,689</u>	<u>306,857</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>250,523</u>	<u>7,106</u>
<b>Other Financing Sources (Uses):</b>		
Transfers In	40,954	-
Transfers Out	-	-
Total Other Financing Sources (Uses)	<u>40,954</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	291,477	7,106
<b>Fund Balance, July 1</b>	116,397	29,059
<b>Fund Balance, June 30</b>	<u>\$ 407,874</u>	<u>\$ 36,165</u>

Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ -	\$ -	\$ -	\$ 665,502
1,353,672	-	-	1,444,572
60,042	1,249,941	-	1,765,861
<u>5,594,112</u>	<u>103,404</u>	<u>12,196</u>	<u>6,089,607</u>
<u>7,007,826</u>	<u>1,353,345</u>	<u>12,196</u>	<u>9,965,542</u>
-	-	-	914,419
-	-	-	339,217
6,898,997	-	-	6,927,463
176,026	-	-	228,470
<u>137,978</u>	<u>2,341,762</u>	<u>-</u>	<u>2,479,740</u>
<u>7,213,001</u>	<u>2,341,762</u>	<u>-</u>	<u>10,889,309</u>
<u>(205,175)</u>	<u>(988,417)</u>	<u>12,196</u>	<u>(923,767)</u>
-	1,250,000	-	1,290,954
-	-	(190,906)	(190,906)
<u>-</u>	<u>1,250,000</u>	<u>(190,906)</u>	<u>1,100,048</u>
(205,175)	261,583	(178,710)	176,281
<u>2,729,584</u>	<u>2,337,446</u>	<u>1,289,891</u>	<u>6,502,377</u>
<u>\$ 2,524,409</u>	<u>\$ 2,599,029</u>	<u>\$ 1,111,181</u>	<u>\$ 6,678,658</u>

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING BALANCE SHEET

NONMAJOR DEBT SERVICE FUNDS

JUNE 30, 2006

	Bond Interest & Redemption	Total Nonmajor Debt Service Funds (See Exhibit C-1)
<b>ASSETS:</b>		
<i>Cash in County Treasury</i>	\$ 7,084,614	\$ 7,084,614
<b>Total Assets</b>	<u>\$ 7,084,614</u>	<u>\$ 7,084,614</u>
<b>LIABILITIES AND FUND BALANCE:</b>		
<b>Liabilities:</b>		
<b>Total Liabilities</b>	-	-
<b>Fund Balance:</b>		
Unreserved, reported in nonmajor:		
<i>Debt Service Funds</i>	\$ 7,084,614	\$ 7,084,614
<b>Total Fund Balance</b>	<u>7,084,614</u>	<u>7,084,614</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 7,084,614</u>	<u>\$ 7,084,614</u>



**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Bond Interest & Redemption	Debt Service Fund For Blended Component Units	Total Nonmajor Debt Service Funds (See Exhibit C-2)
<b>Revenues:</b>			
<i>Other State Revenue</i>	\$ 92,974	\$ -	\$ 92,974
<i>Other Local Revenue</i>	<u>7,694,386</u>	<u>-</u>	<u>7,694,386</u>
<b>Total Revenues</b>	<u>7,787,360</u>	<u>-</u>	<u>7,787,360</u>
<b>Expenditures:</b>			
<b>Debt Service:</b>			
<i>Principal</i>	4,435,000	3,620,000	8,055,000
<i>Interest</i>	<u>2,960,600</u>	<u>11,531,660</u>	<u>14,492,260</u>
<b>Total Expenditures</b>	<u>7,395,600</u>	<u>15,151,660</u>	<u>22,547,260</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>391,760</u>	<u>(15,151,660)</u>	<u>(14,759,900)</u>
<b>Other Financing Sources (Uses):</b>			
<i>Transfers In</i>	<u>-</u>	<u>15,151,660</u>	<u>15,151,660</u>
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>15,151,660</u>	<u>15,151,660</u>
<b>Net Change in Fund Balance</b>	391,760	-	391,760
<b>Fund Balance, July 1</b>	<u>6,692,854</u>	<u>-</u>	<u>6,692,854</u>
<b>Fund Balance, June 30</b>	<u>\$ 7,084,614</u>	<u>\$ -</u>	<u>\$ 7,084,614</u>

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2006

	Capital Facilities Fund	Special Reserve Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
<b>ASSETS:</b>			
<i>Cash in County Treasury</i>	\$ 5,514,844	\$ 16,644,763	\$ 22,159,607
<i>Accounts Receivable</i>	57,171	176,169	233,340
<i>Due from Other Funds</i>	72	1,069,260	1,069,332
<b>Total Assets</b>	<u>\$ 5,572,087</u>	<u>\$ 17,890,192</u>	<u>\$ 23,462,279</u>
<b>LIABILITIES AND FUND BALANCE:</b>			
<b>Liabilities:</b>			
<i>Accounts Payable</i>	\$ 27,161	\$ 275,230	\$ 302,391
<i>Due to Other Funds</i>	43,232	-	43,232
<b>Total Liabilities</b>	<u>70,393</u>	<u>275,230</u>	<u>345,623</u>
<b>Fund Balance:</b>			
<b>Designated Fund Balances:</b>			
<i>Other Designated</i>	-	9,000,000	9,000,000
<b>Unreserved, reported in nonmajor:</b>			
<i>Capital Projects Funds</i>	5,501,694	8,614,962	14,116,656
<b>Total Fund Balance</b>	<u>5,501,694</u>	<u>17,614,962</u>	<u>23,116,656</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,572,087</u>	<u>\$ 17,890,192</u>	<u>\$ 23,462,279</u>

**POWAY UNIFIED SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Capital Facilities Fund	State School Building Fund	Special Reserve Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
<b>Revenues:</b>				
<i>Other State Revenue</i>	\$ -	\$ 910,311	\$ -	\$ 910,311
<i>Other Local Revenue</i>	<u>1,266,702</u>	<u>-</u>	<u>8,488,117</u>	<u>9,754,819</u>
<b>Total Revenues</b>	<u>1,266,702</u>	<u>910,311</u>	<u>8,488,117</u>	<u>10,665,130</u>
<b>Expenditures:</b>				
<i>General Administration</i>	38,001	-	-	38,001
<i>Plant Services</i>	800,766	910,311	2,587,972	4,299,049
<b>Debt Service:</b>				
<i>Principal</i>	-	-	1,413,864	1,413,864
<i>Interest</i>	-	-	114,408	114,408
<b>Total Expenditures</b>	<u>838,767</u>	<u>910,311</u>	<u>4,116,244</u>	<u>5,865,322</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>427,935</u>	<u>-</u>	<u>4,371,873</u>	<u>4,799,808</u>
<b>Other Financing Sources (Uses):</b>				
<i>Transfers Out</i>	-	(1,000,000)	-	(1,000,000)
<i>Other Sources</i>	-	-	990,992	990,992
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(1,000,000)</u>	<u>990,992</u>	<u>(9,008)</u>
<b>Net Change in Fund Balance</b>	427,935	(1,000,000)	5,362,865	4,790,800
<b>Fund Balance, July 1</b>	5,073,759	1,000,000	12,252,097	18,325,856
<b>Fund Balance, June 30</b>	<u>\$ 5,501,694</u>	<u>\$ -</u>	<u>\$ 17,614,962</u>	<u>\$ 23,116,656</u>

## *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

*Supplementary Information Section*

**POWAY UNIFIED SCHOOL DISTRICT**  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE  
 YEAR ENDED JUNE 30, 2006

**TABLE D-1**

	<u>Revised Second Period Report</u>	<u>Revised Annual Report</u>
Elementary:		
Kindergarten	2,152.47	2,153.25
Grades 1 through 3	6,691.95	6,694.90
Grades 4 through 8	11,906.33	11,910.08
Home and Hospital	1.28	1.99
Special education	<u>482.74</u>	<u>486.85</u>
Elementary totals	<u>21,234.77</u>	<u>21,247.07</u>
High School:		
Grades 9 through 12, regular classes	9,785.17	9,724.88
Special education	307.16	309.26
Continuation education	252.34	265.84
Home and Hospital	<u>2.19</u>	<u>3.59</u>
High school totals	<u>10,346.86</u>	<u>10,303.57</u>
Classes for adults:		
Concurrently enrolled	7.71	16.57
Not concurrently enrolled	<u>145.65</u>	<u>207.32</u>
ADA totals	<u>31,734.99</u>	<u>31,774.53</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	134,099	
High School	245,420	

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

**POWAY UNIFIED SCHOOL DISTRICT**

TABLE D-2

SCHEDULE OF INSTRUCTIONAL TIME  
 YEAR ENDED JUNE 30, 2006

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2005-06 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	36,000	180	-	Complied
Grades 1 through 3	47,149	50,400	52,850	180	-	Complied
Grades 4 through 5	49,684	54,000	54,505	180	-	Complied
Grades 6 through 8	60,703	54,000	61,705	180	-	Complied
Grades 9 through 12	54,441	64,800	66,785	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

**POWAY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2006**

TABLE D-3

General Fund	(Budget) 2007	2006	2005	2004
Revenues and other financial sources	\$ 237,360,441	\$ 233,396,655	\$ 220,440,166	\$ 212,496,548
Expenditures, other uses and transfers out	<u>240,877,482</u>	<u>231,165,988</u>	<u>218,794,319</u>	<u>210,282,357</u>
Change in fund balance (deficit)	<u>(3,517,041)</u>	<u>2,230,667</u>	<u>1,645,847</u>	<u>2,214,191</u>
Ending fund balance	<u>\$ 15,115,787</u>	<u>\$ 18,632,828</u>	<u>\$ 16,402,161</u>	<u>\$ 14,756,314</u>
Available reserves	<u>\$ 14,686,021</u>	<u>\$ 18,250,509</u>	<u>\$ 15,964,449</u>	<u>\$ 14,114,623</u>
Available reserves as a percentage of total outgo	<u>6.1%</u>	<u>7.9%</u>	<u>7.3%</u>	<u>6.7%</u>
Total long-term debt	<u>\$ 535,089,936</u>	<u>\$ 548,940,067</u>	<u>\$ 379,990,454</u>	<u>\$ 268,919,696</u>
Average daily attendance at P-2	<u>31,677</u>	<u>31,735</u>	<u>31,975</u>	<u>31,959</u>

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

The district's general fund balance has increased by \$6,090,705 over the past three years. The fiscal year 2006-07 budget projects a decrease of \$3,517,041. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has increased by \$289,053,216 over the past three years.

Average daily attendance (ADA) has increased by 61 over the past three years.



**POWAY UNIFIED SCHOOL DISTRICT**

**TABLE D-4**

*RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET  
REPORT WITH AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006*

The fund balances for all funds as reported in the district's unaudited financial statements are in agreement with the fund balances reported in the accompanying audited financial statements.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

**POWAY UNIFIED SCHOOL DISTRICT**  
*SCHEDULE OF CHARTER SCHOOLS*  
*YEAR ENDED JUNE 30, 2006*

**TABLE D-5**

No charter schools are chartered by Poway Unified School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
None	N/A

**POWAY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2006**

**TABLE D-6**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U. S. DEPARTMENT OF THE INTERIOR</u></b>			
Direct Program:			
Wildlife Restoration *	15.611	-	\$ <u>619</u>
Total U. S. Department of the Interior			<u>619</u>
<b><u>U. S. DEPARTMENT OF HOMELAND SECURITY</u></b>			
Passed Through State Department of Education:			
FEMA	97.036	056560	<u>1,761</u>
Total U. S. Department of Homeland Security			<u>1,761</u>
<b><u>U. S. DEPARTMENT OF EDUCATION</u></b>			
Direct Programs:			
Alcohol Abuse Reduction	84.184A	-	378,235
Character Education	84.215S	-	373,876
Elementary and Secondary Counseling	84.215E	-	387,997
Project Assert	84.184E	-	123,061
Safe and Drug Free Schools	84.184L	-	250,227
Impact Aid - P.L. 81.874	84.041	-	<u>133,322</u>
Total Direct Programs			<u>1,646,718</u>
Passed Through State Department of Education:			
Adult Education	84.002	03925	90,900
Title I	84.010	03064	955,584
Special Education *	84.027	03379	4,455,090
Vocational Education	84.048	03922	150,765
Transitional Partnership	84.158	03410	132,786
Preschool *	84.173	03430	413,084
Title IV Drug Free	84.186	03453	90,548
Title I Even Start	84.213	03105	253,720
21st Century Learning	84.287	04124	165,216
Title V Innovative Education	84.298	04110	65,105
Title II Technology	84.318	04045	30,000
Title III Immigrant Education	84.365	04201	122,781
Title III LEP	84.365	04203	214,924
Title II Teacher Quality	84.367	04305	632,109
Advanced Placement	84.369	04363	<u>3,554</u>
Total Passed Through State Department of Education			<u>7,776,166</u>
Total U. S. Department of Education			<u>9,422,884</u>
<b><u>U. S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed Through State Department of Education:			
National School Lunch Program *	10.555	03396	<u>1,353,671</u>
Total U. S. Department of Agriculture			<u>1,353,671</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>10,778,935</u></b>

\* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

**POWAY UNIFIED SCHOOL DISTRICT**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

1. Basis of Presentation

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

2. Subrecipients

Of the federal expenditures presented in the schedule, Poway Unified School District provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title II Teacher Quality	84.367	\$ 263
Title V Innovative	84.298	<u>2,338</u>
Total Provided to Subrecipients		<u>\$ 2,601</u>

*Other Independent Auditor's Reports*

**WILKINSON HADLEY & CO., LLP**  
250 E. Douglas Ave., Suite 200  
El Cajon, CA 92020  
Tel (619) 447-6700 Fax (619) 447-6707

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees  
Poway Unified School District  
Poway, California 92064-2098

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Poway Unified School District as of and for the year ended June 30, 2006, which collectively comprise the Poway Unified School District's basic financial statements and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Poway Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses; however, we noted certain other matters that we have reported on in the Schedule of Findings and Questioned Costs.

Compliance and Other Matters

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

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

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
September 8, 2006

**WILKINSON HADLEY & CO., LLP**  
250 E. Douglas Ave., Suite 200  
El Cajon, CA 92020  
Tel (619) 447-6700 Fax (619) 447-6707

Report on Compliance with Requirements Applicable  
To each Major Program and Internal Control over Compliance  
In Accordance With OMB Circular A-133

Board of Trustees  
Poway Unified School District  
Poway, California 92064-2098

Members of the Board of Trustees:

Compliance

We have audited the compliance of Poway Unified School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Poway Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Poway Unified School District's management. Our responsibility is to express an opinion on Poway Unified School District's compliance based on our audit.

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

In our opinion, Poway Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Poway Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Poway Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

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

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
September 8, 2006



**WILKINSON HADLEY & CO., LLP**  
 250 E. Douglas Ave., Suite 200  
 El Cajon, CA 92020  
 Tel (619) 447-6700 Fax (619) 447-6707

Auditor's Report on State Compliance

Board of Trustees  
 Poway Unified School District  
 Poway, California 92064-2098

Members of the Board of Trustees:

We have audited the basic financial statements of the Poway Unified School District ("District") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2005-06*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
<b>Attendance Accounting:</b>		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Not Applicable
<b>Instructional Time:</b>		
School Districts	4	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Yes
<b>Instructional Materials:</b>		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes
<b>School Construction Funds:</b>		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes

Alternative Pension Plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	No
School Accountability Report Card	3	Yes
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Only One School Serving Grades K-3	4	Not Applicable
Contemporaneous Records of Attendance, For Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	Not Applicable
Additional Nonclassroom-Based Instruction, For Charter Schools	1	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction, For Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	Not Applicable

We did not apply the audit procedures for the California School Age Families Education program because the District did not offer the program during the current fiscal year.

Based on our audit, we found that, for the items tested, Poway Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Poway Unified School District had not complied with the state laws and regulations.

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

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
September 8, 2006

*Findings and Recommendations Section*

**POWAY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**A. Summary of Auditor's Results**

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?      Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?      Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?      Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?      Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.367	Title II Teacher Quality
10.555	National School Lunch

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes      No



**POWAY UNIFIED SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2005-1 Compensated Absences</p> <p>In review of compensated absences, several employees exceeded the maximum carryover of vacation accrual allowed with no justification or approval from District management.</p> <p>Reduce the amount of vacation carryover for employees that exceed the maximum amount allowed or require written justification and approval from District management for the excess over the stated policy amount.</p>	<p>Being Implemented</p>	<p>See Current Year Finding</p>
<p>Finding 2005-2 Student Body Funds</p> <p>In review of student body funds, cash transmittal forms were not completed or signed properly at the middle school and high school tested. In addition, there was not sufficient documentation for expenditures and deposits, invoices were not stamped paid, and deposits were not timely at the elementary site tested.</p> <p>Require all cash transmittal forms to be signed and completed properly at the middle school and high school. Provide sufficient support for all expenditures and deposits, stamp and deface all invoices, and deposit all revenues on a timely basis at the elementary school.</p>	<p>Implemented</p>	
<p>Finding 2005-3 Cash Clearing Account</p> <p>In review of cash clearing accounts, actual reconciled balances were not properly disclosed in the financial statements. As a result, audit adjustments were required to reconcile the cash in the financial statements to the actual reconciled bank balances.</p> <p>Implement procedures to ensure clearing account balances in the financial statements agree to the reconciled bank balances at year end.</p>	<p>Implemented</p>	

**POWAY UNIFIED SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2005-4 K-3 Class Size Reduction</p> <p>In review of Form J-7CSR, a clerical error caused the District to understate the number of students eligible for class size reduction in kindergarten by one student.</p> <p>File an amended Form J-7CSR and report the correct number of students in kindergarten. Establish a method to ensure all class size averages are mathematically correct as listed on Form J-7CSR for future reporting periods.</p>	<p>Implemented</p>	

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## APPENDIX C

### FORM OF BOND COUNSEL OPINION

[Delivery Date]

Poway Unified School District  
Public Financing Authority  
Poway, California

Poway Unified School District Public Financing Authority  
Lease Revenue Bonds, Series 2007  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Poway Unified School District Public Financing Authority (the "Authority") in connection with the issuance of its Poway Unified School District Public Financing Authority Lease Revenue Bonds, Series 2007 (the "Series 2007 Bonds"), in the aggregate initial principal amount of \$34,783,991. In such connection, we have reviewed the Indenture, dated as of August 1, 2007 (the "Indenture"), by and among the Authority, the Poway Unified School District (the "District") and Zions First National Bank, as trustee (the "Trustee"), the Lease Agreement, dated as of August 1, 2007 (the "Lease Agreement"), by and between the District and the Authority, the Ground Lease, dated as of August 1, 2007 (the "Ground Lease"), by and between the District and the Authority, the Tax Certificate of the Authority, dated as of the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the District and the Trustee, certificates of the Authority, the District, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2007 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Lease Agreement, the Ground Lease and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2007 Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2007 Bonds, the Indenture, the Lease Agreement, the Ground Lease and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the

exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint powers authorities and school districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in the Lease Agreement or the Ground Lease or the accuracy or sufficiency of the description of any such property. We also express no opinion regarding the accreted value table or calculation set forth or referred to in any of the Series 2007 Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2007 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2007 Bonds constitute the valid and binding special obligations of the Authority, payable solely from the Lease Revenues and the other assets pledged therefor under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Authority.

3. The Indenture, the Lease Agreement and the Ground Lease have been duly executed and delivered by, and constitute valid and binding obligations of, the District.

4. Interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2007 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Series 2007 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

**APPENDIX D**

**FORM OF MUNICIPAL BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL  
SECURITY  
ASSURANCE®**

**ENDORSEMENT NO. 1 TO  
MUNICIPAL BOND  
INSURANCE POLICY  
(California Insurance  
Guaranty Association)**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 560NY (CA 1/91)

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**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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**CONTINUING DISCLOSURE AGREEMENT**

**by and between**

**POWAY UNIFIED SCHOOL DISTRICT**

**and**

**ZIONS FIRST NATIONAL BANK,  
AS TRUSTEE**

**Dated as of August 1, 2007**

**Poway Unified School District  
Public Financing Authority  
Lease Revenue Bonds, Series 2007**

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## CONTINUING DISCLOSURE AGREEMENT

**THIS CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”), dated as of August 1, 2007, is by and between ZIONS FIRST NATIONAL BANK, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as Trustee (the “Trustee”), and the POWAY UNIFIED SCHOOL DISTRICT, a school district organized and existing under and by virtue of the laws of the State of California (the “District”).

### W I T N E S S E T H :

**WHEREAS**, the Poway Unified School District Public Financing Authority Lease Revenue Bonds, Series 2007 (the “Series 2007 Bonds”) are being issued pursuant to the Indenture, dated as of August 1, 2007 (the “Indenture”), by and among the Poway Unified School District Public Financing Authority (the “Authority”), the District and the Trustee;

**WHEREAS**, the Series 2007 Bonds are payable primarily from certain base rental payments (the “Base Rental Payments”) to be made by the District pursuant to a Lease Agreement, dated as of August 1, 2007 (the “Lease Agreement”), by and between the District and the Authority; and

**WHEREAS**, this Disclosure Agreement is being executed and delivered by the District and the Trustee for the benefit of the holders and beneficial owners of the Series 2007 Bonds and in order to assist the underwriters of the Series 2007 Bonds in complying with S.E.C. Rule 15c2-12(b)(5);

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

**Section 1. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**“Annual Report”** means any Annual Report provided by the District pursuant to, and as described in, Sections 2 and 3 hereof.

**“Disclosure Representative”** means the Deputy Superintendent of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Trustee from time to time.

**“Dissemination Agent”** means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Trustee a written acceptance of such designation.

**“Listed Events”** means any of the events listed in subsection (a) of Section 4 hereof.

**“National Repository”** means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

**“Official Statement”** means the Official Statement, dated August 9, 2007, relating to the Series 2007 Bonds.

**“Participating Underwriter”** means any of the original underwriters of the Series 2007 Bonds required to comply with the Rule in connection with offering of the Series 2007 Bonds.

**“Repository”** means each National Repository and each State Repository.

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

**“State Repository”** means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

**Section 2. Provision of Annual Reports.** (a) The District shall, or shall cause the Dissemination Agent to, not later than eight months after the end of the District’s fiscal year (which currently would be March 1), commencing with the report for the 2006-07 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 hereof; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection (f) of Section 4 hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the Repositories, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a) of this Section, the Trustee shall send a notice to the Municipal Securities Rulemaking Board and each State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided

pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

**Section 3. Content of Annual Reports.** The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) The District's Average Daily Attendance and Base Revenue Limit for the last completed fiscal year.

(ii) The number of District employees for the last completed fiscal year, broken down into the following categories: non-management certificated; certificated management; classified non-management; classified management; and total number of all employees.

(iii) The District's contributions to State Public Employees' Retirement System and State Teachers' Retirement System for the last completed fiscal year.

(iv) The District's audited Statement of Income, Expenditures and Changes in Fund Balance for the General Fund, for the last completed fiscal year.

(v) The District's adopted budget for the current fiscal year, together with any amendments thereto.

(vi) Information regarding the investment policies and practices with respect to District funds and the status of the investment of District funds, similar to the information included in the Official Statement, including the annual report for the last completed fiscal year relating to the Pooled Surplus Investments Fund maintained by the county in which the District is located pursuant to California Government Code Sections 53600 *et seq.*, together with the most recent monthly report for such investment pool, so long as the District has money on deposit therein.

(vii) Assessed Value of taxable property within the District and the District's total property tax levy, in each case for the current fiscal year.

(viii) The balances in the funds and accounts held by the Trustee under the Indenture, and a statement of the Reserve Requirement, as of the September 30 next preceding the date the Annual Report is due.

(ix) Outstanding borrowings and long-term obligations, including:

(1) general obligation bonds, certificates of participation, capital leases (including the Lease Agreement) and operating leases;

(2) a description of any obligations of the type referred to in (1) above that have been issued, entered into or incurred since the beginning of the District's current fiscal year; and

(3) a description of any obligations of the type referred to in (1) above that the District reasonably expects to issue, enter into or incur within the 60 day period following the date of filing of the Annual Report.

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

**Section 4. Reporting of Significant Events.** (a) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2007 Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.

- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled Series 2007 Bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f) of this Section.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) of this Section or otherwise, the District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f) of this Section.

(e) If in response to a request under subsection (b) of this Section, the District determines that the Listed Event would not be material under applicable Federal securities law, the District shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f) of this Section.

(f) If the Trustee has been instructed by the District to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in paragraphs (viii) and (ix) of subsection (a) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Series 2007 Bonds pursuant to the Indenture.

**Section 5. Termination of Reporting Obligation.** The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2007 Bonds. If such termination occurs prior to the final principal payment date of the Series 2007 Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under subsection (f) of Section 4 hereof.

**Section 6. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a

successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**Section 7. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the District and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the District), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of subsection (a) of Section 2 hereof, Section 3 hereof or subsection (a) of Section 4 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Series 2007 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series 2007 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by holders of the Series 2007 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of holders.

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories.

**Section 8. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to

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

**Section 9. Default.** In the event of a failure of the District or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate amount of principal amount of Outstanding Series 2007 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any holder or beneficial owner of the Series 2007 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

**Section 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article X of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Neither the Trustee nor the Dissemination Agent (unless the Dissemination Agent is the District) shall have any obligation to review or determine the adequacy, accuracy or completeness of any reports to be delivered by the District hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2007 Bonds.

**Section 11. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Series 2007 Bonds, and shall create no rights in any other person or entity.

**Section 12. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.



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

**POWAY UNIFIED SCHOOL DISTRICT**

By: \_\_\_\_\_

**ZIONS FIRST NATIONAL BANK, AS  
TRUSTEE**

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

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

Name of Issuer: Poway Unified School District Public Financing Authority  
Name of Issue: Poway Unified School District Public Financing Authority Lease  
Revenue Bonds, Series 2007  
Date of Issuance: August 29, 2007

NOTICE IS HEREBY GIVEN that the Poway Unified School District (the “District”) has not provided an Annual Report with respect to the above-named Series 2007 Bonds as required by Section 8.12 of the Indenture, dated as of August 1, 2007, by and among Zions First National Bank, as Trustee, the Poway Unified School District Public Financing Authority and the District. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

ZIONS FIRST NATIONAL BANK, as  
Trustee, on behalf of the Poway Unified  
School District

cc: Poway Unified School District

**APPENDIX F**  
**COUNTY OF SAN DIEGO INVESTMENT POLICY**

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**SAN DIEGO COUNTY TREASURER'S  
POOLED MONEY FUND  
INVESTMENT POLICY  
January 2, 2007**

The attached Investment Policy and Practices of the Treasurer are based on prudent money management principles and California State law, specifically Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686. Section 53635 shall apply to a local agency that is a county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body. Section 53601.7 provides permissive authority to adopt policy to manage funds much like a money market fund. This Section will not be implemented for the Pooled Money Fund. The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this policy statement. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds the objectives of this office shall be:

- 1. The primary objective shall be to safeguard the principal of the funds under the Treasurer's control.**
- 2. The secondary objective shall be to meet the liquidity needs of the participants.**
- 3. The third objective shall be to achieve an investment return on the funds under control of the Treasurer within the parameters of prudent risk management.**

The monies entrusted to the County Treasurer (the Fund) will comprise an actively managed portfolio. By this it is meant that the Treasurer and his staff will observe, review, and react to changing conditions that affect the Fund; this shall be viewed as a full time responsibility by the Treasurer and his staff. The authority to execute investment transactions that will affect the Fund will be limited to:

**Treasurer  
Deputy Treasurer  
Chief Investment Officer  
Investment Officers  
Assistant Manager, Treasurer-Tax Collector**

The Treasurer and the above staff will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the Fund.

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**2007 SAN DIEGO COUNTY TREASURER'S  
POOLED MONEY FUND INVESTMENT POLICY**

The purpose of the Treasurer's Policy is to implement the legislated parameters of the investment authority of the Treasurer's Pooled Money Fund (the "Fund"). As an elected official of the County of San Diego, the Treasurer must manage public monies in a way that is consistent with investment oversight, and sound investment practices. To have a policy which only concerns itself with maximizing return is a very dangerous course. The basic concept of investment return is based on a risk/reward relationship. Therefore, the higher the return, the higher the risk. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Pool depositors and the public have confidence that public monies are secure. The Policy stated below will concern itself with risk management.

1. **SECURITY OF PRINCIPAL POLICY** - The Policy issues directed to protecting the principal entrusted to this office are:
  - A. Limiting the Fund's exposure to each type of security.
  - B. Limiting the Fund's exposure to each issue and issuer of debt.
  - C. Determining the minimum credit requirement for each type of security.
2. **LIQUIDITY POLICY** - The Policy issues directed to provide necessary liquidity to the participants are:
  - A. Limiting the length of maturity for securities in the Portfolio.
  - B. Limiting the Fund's exposure to Moderately Liquid and Illiquid securities.
3. **RETURN POLICY** - The Policy issues directed to achieving a return are:
  - A. Attaining a market rate of return taking into account the investment risk constraints and liquidity needs.
  - B. Return is of least importance compared to the safety and liquidity policies described above.
  - C. A majority of the investments shall be limited to low risk securities in anticipation of earning a fair return relative to the risk being taken.
4. **MATURITY POLICY**
  - A. The maximum maturity allowed by the California Government Code is 5 years with shorter limitations specified for certain types of securities. As depicted in the following table, the goal for the maturity structure of the

Portfolio shall be to have 50% of the Portfolio in short term instruments of one year or less with the remainder spread over 1-5 years on the yield curve depending on opportunities in the marketplace. The maturity table below will be used to ensure that maturities are spread over the yield curve and not concentrated in any one year.

- 50% under 1 year
  - 25% Overnight to 90 days
  - 25% 91 days to 1 year
- 50% 1-5 years
- 1.50 years Effective Duration

- B. The Portfolio will be considered in compliance with the Maturity Policy if it meets the maturity targets above at the time of purchase. In the event a change in the size of the Portfolio causes the targets to be exceeded, the Investment Group will review the Portfolio and Cash Flows to determine if the Portfolio should be repositioned to return below the targets. Until such time as the Portfolio is within maturity targets, all securities purchased shall be of a maturity or duration that will lower the maturity and or duration of the Portfolio, until such time as the Portfolio is once again within the targets. In the event the Portfolio exceeds the maturity targets, a variance report shall be made to the Oversight Committee as part of the normal monthly reporting to the Oversight Committee.

## 5. **PROHIBITED SECURITIES**

- A. The California Government Code does not authorize a local agency to invest in any of the following derivative notes:
1. Inverse Floater
  2. Range Notes
  3. Interest-only strips derived from a pool of mortgages
  4. Any security that could result in zero interest accrual

## 6. **CREDIT RATING POLICY**

- A. The Investment Policy sets forth minimum credit ratings for each type of security. These credit limits apply to the initial purchase of a security and does not automatically force the sale of a security if the credit ratings of the security fall below the Policy limits.
- B. The monitoring of credit ratings consists of the following procedures:
- (1) When a credit rating downgrade occurs, the Investment Group will evaluate the downgrade on a case-by-case situation to determine whether to hold or sell the security after further analysis of the credit rating on an ongoing basis.



- (2) In the event a security in the Pool receives a credit rating downgrade, the Investment Group will report the rating change to the Oversight Committee in the monthly report. In the same manner, the Oversight Committee will be informed on the Investment Group's decision to hold or sell a downgraded security.
  - (3) The Investment Group shall meet quarterly to review and update the approved list of securities and establish credit criteria for each category of security.
- C. To ensure that the Pool maintains an overall credit rating of AAA, the asset allocation with respect to credit quality will be maintained within the guidelines provided in the table below:

**Credit Rating Table**

	<u>Min. Fund %</u>	<u>Max Fund %</u>
AAA	67	100
AA	0	33
A	0	13

- 1) In order to evaluate the overall weighted average credit of the county pool, S&P has provided a bond fund credit quality-rating matrix. This matrix, in an excel spreadsheet, allows investment officers to evaluate the effect of lower than AAA rated securities on the overall S&P rating of the fund.
- 2) Investments below A1 (short term) or A (long term) rated are prohibited in this policy. For securities maturing under 365 days, the short-term rating will be used if available. All commercial paper matures less than one year, therefore will score as an AAA security. AA rated securities are given a .2 factor and A rated are given a .5 factor. A credit quality rating is determined by multiplying the percentage of a less than AAA rated security by its factor. All sectors of securities are added together and an overall factor of 7 or less is deemed by S & P to warrant an AAA fund rating.

**7. INTERNAL CONTROLS**

- A. The Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:
  - (1) The cost of a control should not exceed the benefits likely to be derived; and

- (2) The valuation of costs and benefits requires estimates and judgments by management.
- B. Accordingly, the Deputy Treasurer shall establish and maintain internal controls that shall address the following points:
- (1) Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
  - (2) Separation of Transaction Authority from Accounting and Record Keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
  - (3) Custodial Safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
  - (4) Avoidance of Physical Delivered Bearer Securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.
  - (5) Clear Delegation of Authority to Subordinate Staff Members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
  - (6) Written Confirmation of Telephone Wire Transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person.
  - (7) Development of a Wire Transfer Agreement with the Lead Bank or Third Party Custodian - This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.
  - (8) Development of the Annual Treasurer's Investment Manual. Annually, Investment staff will review and update internal control policies as stated in the manual.

- C. Provide for an annual independent review by an external auditor to assure compliance with policies and procedures.
8. **PERMISSIBLE INVESTMENTS** - Government Codes 53601, 53601.1, 53601.2, 53635, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in paragraphs 9-21 below.
9. **GOVERNMENT OBLIGATIONS** - The Fund invests in two categories of Government Obligations: U.S. Treasury and Agency obligations. Both are issued at the Federal level. U.S. Treasury obligations are bills, notes and bonds issued by the Treasury and are direct obligations of the Federal Government. Agency obligations are notes and bonds of federal agencies, and government sponsored enterprises. Agencies are not the direct obligation of the Treasury but involve federal sponsorship or guarantees.
- A. **Maximum Maturity** - The maximum maturity of an issue shall be the current 5-year issue or an issue, which, at the time of the investment, has a term remaining to maturity not in excess of 5 years.
  - B. **Maximum Exposure of Portfolio** - The maximum exposure to the Portfolio for this category is unlimited.
  - C. **Maximum Exposure Per Issue** - The maximum exposure to the Portfolio of a single issue shall be 5% of the Portfolio value.
  - D. **Maximum Exposure Per Issuer** - The maximum exposure to the Portfolio for an individual issuer shall be:
    - (1) **Treasury** - Unlimited, Treasury securities are the safest haven for investments in the world.
    - (2) **Agency** - No more than 25% of the Portfolio value shall be invested in any single issuer.
  - E. **Minimum Credit Requirement** - None; U.S. Treasury and Agency securities are the highest credit in the world.
  - F. **Liquidity Category** - Liquid
10. **LOCAL AGENCY OBLIGATIONS** - Bonds, notes, warrants or other evidences of indebtedness of any local agency or by a department, board or authority of any local agency within this State.
- A. **Maximum Maturity** - The maximum maturity of an issue shall be 5 years.

- B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 15%.
  - C. Maximum Exposure Per Issue - The maximum exposure to the Portfolio of a single issue shall be 5% of the Portfolio value.
  - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Portfolio value.
  - E. Minimum Credit Requirement - Issuers outside of the County must be at or above the following investment grade from one of these ratings firms:
    - (1) Standard & Poor's – SP-1 A (long-term when applicable)
    - (2) Fitch - F1 A (long-term when applicable)
    - (3) Moody's - MIG 1 A (long-term when applicable)

(For 1 year or less, use short-term rating)  
(For over 1 year, use long-term ratings)
  - F. Liquidity Category - Moderately Liquid
11. **BANKER'S ACCEPTANCE** - This is a draft or bill of exchange, accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the banker's acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust receipts, and other documents evidencing ownership and insurance of the goods financed. Since its inception in 1914, there has been no known loss of principal to investors through the use of Banker's Acceptances.
- A. Maximum Maturity - the maximum maturity of an issue shall be 180 days.
  - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 40%.
  - C. Maximum Exposure Per Issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio value.
  - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
  - E. Minimum Credit Requirement – The security must be at or above the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.
    - (1) Standard & Poor's - A1
    - (2) Moody's - P1

(3) Fitch - F1

F. Liquidity Category – Liquid

12. **COMMERCIAL PAPER** - These are short-term, unsecured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, or some other support agreement.

- A. Maximum Maturity - The maximum maturity of an issue shall be 270 days.
- B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 40%.
- C. Maximum Exposure Per Issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio for maturities greater than 5 days, 10% of the Portfolio value for paper maturing in 5 days or less.
- D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio when the dollar weighted average maturity is greater than 5 days, 10% of the Portfolio when the dollar weighted average maturity is 5 days or less.
- E. Minimum Credit Requirements – The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor’s, security would need to be authorized by Standard & Poor’s with a shadow rating prior to purchase.
  - (1) Standard & Poor’s – SP-1 A (long-term when applicable)
  - (2) Fitch – F1 A (long-term when applicable)
  - (3) Moody’s – MIG 1 A (long-term when applicable)

F. Liquidity Category - Liquid

13. **MEDIUM-TERM NOTES** - These are Corporate Notes, Deposit Notes, and Bank Notes sold by an agent in the open market on a continually offered basis. Issuers include well recognized banks and bank holding companies, thrifts, finance companies, insurance companies, and industrial corporations. These medium term notes are debt obligations generally unsecured, although some issues come to market on a collateralized or secured basis.

- A. Maximum Maturity - The maximum maturity of an issue shall be 5 years.
- B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 30%.

- C. Maximum Exposure Per Issue – the maximum exposure to a single issue shall be 2.5% of the Portfolio issue.
  - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
  - E. Minimum Credit Requirements – The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor’s, security would need to be authorized by Standard & Poor’s with a shadow rating prior to purchase.
    - (1) Standard & Poor’s –A-1 or A (long-term when applicable)
    - (2) Moody’s –P-1 or A (long-term when applicable)
    - (3) Fitch –F-1 or A (long-term when applicable)

(MTN’s 1 year or less, use short-term rating.)  
(For MTN’s over 1 year, use long-term rating.)
  - F. Liquidity Category - Liquid
14. **NEGOTIABLE CERTIFICATES OF DEPOSIT** - These are issued by commercial banks and thrift institutions against funds deposited for specified periods of time and earn specified or variable rates of interest. Negotiable certificates of deposit (NCD) differ from other certificates of deposit by their liquidity. NCD's are traded actively in secondary markets.
- A. Maximum Maturity - The maximum maturity of an issue shall be 5 years.
  - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 30%.
  - C. Maximum Exposure Per Issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio value.
  - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
  - E. Minimum Credit Requirement – The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor’s, security would need to be authorized by Standard & Poor’s with a shadow rating prior to purchase.
    - (1) Standard & Poor’s - A-1 or A (long-term when applicable)
    - (2) Moody's - P-1 or A (long-term when applicable)
    - (3) Fitch - F-1 or A (long-term when applicable)

(For NCD’s 1 year or less, use short-term rating)

(For NCD's over 1 year, use long-term rating)

F. Liquidity Category – Liquid

15. **REPURCHASE AGREEMENT** - A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e. The County Fund); the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed-upon future date.
- A. Maximum Maturity - The maximum maturity of repurchase agreements shall be one year.
  - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 40%.
  - C. Maximum Exposure Per Issue - The maximum exposure to a single RP issue shall be 10% of the Portfolio value for RP's with maturities greater than 5 days, 15% of the Portfolio for RP's maturing in 5 days or less.
  - D. Maximum Exposure Per Broker/Dealer - The maximum exposure to a single broker/dealer of RP shall be 10% of the Portfolio when the dollar weighted average maturity is greater than 6 days, 15% of the Portfolio when the dollar weighted average maturity is 6 days or less.
  - E. Eligible Broker/Dealers – Broker/Dealers shall be primary dealers of the Federal Reserve Bank of New York. Issuers must sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank.
  - F. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be a security authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing 6 days to 1 year shall be Treasuries and Government Agencies.
  - G. Delivery of Collateral – Broker/Dealers shall deliver the underlying securities to either the County's safekeeping bank or a mutually agreed upon third party custodian bank. When a third party custodian is used, it will be the custodian's responsibility to transfer funds and securities between the broker/dealer and the County Fund in accordance with the terms of the repurchase agreement.
  - H. Liquidity Category - Liquid

16. **REVERSE REPURCHASE AGREEMENT** - Reverse repurchase agreements (RRPs) are essentially the mirror image of RPs. In this instance, the County Fund is the seller of securities and the broker or bank is the investor.

Due to the nature of RRP's, the policy regarding this instrument is different from the above RP policy.

- A. **Maximum Maturity** – The maximum maturity of a securities lending loan shall be 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the RRP.
  - B. **Maximum Exposure of Portfolio** – No more than 20% of the Portfolio shall be invested in RRP's and/or securities lending at any one time.
  - C. **Maximum Exposure Per Issue** – The maximum exposure to a single RRP issue shall be 5% of the Portfolio value.
  - D. **Maximum exposure Per Broker/Dealer** – No more than 10% of the Portfolio shall be invested in RRP's with any one broker/dealer at any one time.
  - E. **Purpose of RRP's** - The uses of RRP's shall be to invest the proceeds from the agreement into permissible securities that have the highest short-term credit ratings; to supplement the yield on securities owned; or to provide funds for the immediate payment of an obligation. The maturity of the RRP and the maturity of the security purchased shall be the same.
  - F. **Eligible Securities** - A RRP may only be entered into with a security, authorized in California Government Code 53601, that has been owned and paid for 30 days prior to the settlement of the RRP.
  - G. **Eligible Broker/Dealer** – Broker/Dealers shall be primary broker/dealers of the Federal Reserve Bank of New York.
  - H. **Liquidity Category** - Liquid
17. **COLLATERALIZED CERTIFICATES OF DEPOSIT** - This is the deposit of funds made by the County Treasurer in state or national banks or state or federal savings and loan associations or federal credit unions or FDIC insured industrial loan companies in California per California Government Code Section 53652. The deposit of the funds will be made under the following conditions:
- A. The deposit may not exceed the total of the paid up capital and surplus of a depository.



- B. The depository must maintain securities with a market value of at least 10% in excess of the total amount of the Treasurer's deposits. These securities will be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed upon third party custodian bank.
- C. The Treasurer will waive the first \$100,000 of collateral for each depository, so long as that amount is insured by an agency of the Federal Government. The documents listed below in D-4 will not be required for deposits of \$100,000 or less.
- D. The Treasurer will select depositories from those agreeing to pay the highest available rate of interest. In the event that the highest available interest rate is offered to the County by more than one depository, the following criteria will be applied to determine which ~~one~~ Financial Institution will receive County deposits:
  - (1) If the deposit is a renewal of an already existing deposit it will be extended with the same institution.
  - (2) If the funds available are insufficient to match the request of banks and savings and loan associations, the Treasurer will distribute a fair share of the available funds to the institutions on the basis of the ratio of their total deposits to deposits within San Diego County.
  - (3) When two institutions offer the same rate of interest, the Treasurer will give consideration to the institution that has the best performance in making home mortgage loans within the low and moderate income areas of the County.
  - (4) Each institution which receives County deposits must provide the Treasurer with an up-to-date Contract, Annual Report, Affirmative Action Policy, Community Reinvestment Act Statement and EEO-1 Form.
  - (5) Maximum maturity shall be 1 year.
  - (6) Maximum exposure to the Portfolio for collateralized Certificates of Deposit shall be 10%.
  - (7) Institutions at or above the following investment grade, as determined by the respective rating firms, may pledge mortgage based collateral for County deposits:
    - (a) Fitch - F1
    - (b) Moody's - P1

(c) Standard & Poor's - A1

E. Liquidity Category – Illiquid

18. **COVERED CALL OPTION/PUT OPTION** - An option is the right to buy or sell a specific security within a specific time period at a specific price.

A. A covered call is when the Treasurer sells the option to another party, giving them the right to buy an existing security in the Portfolio at a specific price within a specific time period.

B. A put option is when the Treasurer sells the option to another party, giving them the right to sell to the Treasurer a security at a specific price within a specific time period.

C. The seller of a covered call option/put option is paid at the time of the sale of the option. At the end of the option period, if the option is not exercised, the right to buy or sell the security is canceled.

D. The Treasurer will act only as a seller of covered call and put options with the following exception: Treasurer may buy an option to offset an existing open option position.

E. Securities subject to covered calls shall not be used for Reverse Repurchase Agreements.

F. Cash sufficient to pay for outstanding puts shall be invested in securities maturing on or before the expiration date of the options.

G. Maximum maturity - The maximum maturity of a covered call option/put option shall be 90 days.

H. Maximum exposure - No more than 10% of the Portfolio may have options written against it at any given time.

I. Credit risk - Options shall only be written with primary dealers.

J. Liquidity Category - Liquid

19. **MONEY MARKET MUTUAL FUND** - Shares of beneficial interest issued by management companies. Such shares represent ownership of a diversified Portfolio of securities, which are redeemable at their net asset value. The Government Code allows for purchases of mutual funds, but the County Fund will limit use to money market mutual funds managed to maintain a \$1.00 share price.

A. Maximum exposure - The maximum exposure to the Portfolio for this category shall be 15%.

- B. Purchase price - The purchase price of the mutual fund shall not include any commission.
- C. Maximum exposure per fund - The maximum exposure to a single mutual fund shall be 10% of the Portfolio value.
- D. Minimum credit requirement - Mutual funds must have the following investment grade from at least one of these rating firms or retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of Five Hundred Million Dollars:
  - (1) Standard & Poor's - AAaf
  - (2) Moody's - AaaF
  - (3) Fitch - AaaF
- E. Liquidity Category – Liquid

20. **LOCAL AGENCY INVESTMENT FUND STATE OF CALIFORNIA (LAIF)** - The Local Agency Investment Fund (LAIF), a voluntary program created by statute, began in 1977 as an investment alternative for California's local governments and special districts. The LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1953 and has oversight provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

A. Maximum Exposure – The maximum exposure to the Portfolio for this category shall be 10%, subject to limitations placed upon deposits by CAIF.

B. Liquidity Category – Liquid

21. **INVESTMENT TRUST OF CALIFORNIA (Cal TRUST)** is a pooled investment program through the CalTRUST Joint Powers Authority, authorized by Government Code Section 53601(o). CalTRUST provides three pooled account options (Short-Term Account provides daily liquidity: the Medium-Term and Long-Term Accounts permit monthly deposits and withdrawals. All of the accounts comply with the limitations and withdrawals. All of the accounts comply with the limitations and restrictions placed on local investments by the Government Code; and no leverage is permitted in any of the accounts.

A. Maximum Exposure – The maximum exposure to the Portfolio for this category shall be (2.5%), subject to limitations placed upon deposits by

B. Liquidity Category – Liquid

22. **PASS-THROUGH SECURITIES** - These will be limited to equipment lease-backed certificates, consumer receivable pass-through certificates or consumer receivable-backed bonds.
- A. Maximum maturity - The maximum maturity of an issue shall be 5 years.
  - B. Maximum exposure - The maximum exposure to the Portfolio for this category shall be 20%.
  - C. Maximum exposure per issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio value.
  - D. Maximum exposure per issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
  - E. Minimum credit requirement issuer – Issuers, if rated, must have the following investment grade from one of these rating firms:
    - (1) Fitch –A
    - (2) Moody's –A
    - (3) Standard & Poor's –A
  - F. Minimum credit requirement security - The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.
    - (1) Standard & Poor's –A-1 or AA (long-term when applicable)
    - (2) Moody's –P-1 or AA (long-term when applicable)
    - (3) Fitch –F-1 or AA (long-term when applicable)

(For 1 year or less, use short-term rating)  
 (For over 1 year, use long-term rating)
  - G. Liquidity Category - Liquid
23. **WHEN-ISSUED SECURITIES** - The Fund may invest in new issues of Government Obligations offered on a when-issued basis; that is, delivery and payment take place after the date of the commitment to purchase, normally within 15 days. Both price and interest rate are fixed at the time of commitment. This allows the Fund to lock in an interest rate that may not be available on the issue date. The Fund does not earn interest on the securities until settlement, and the market value of the securities may fluctuate between purchase and settlement. Such securities can be sold before settlement.
24. **LIQUIDITY LIMITATIONS** - The Fund may not invest more than 20% of the total Portfolio in combination of Local Agency Obligations, which are classified

as Moderately Liquid, and Collateralized Certificates of Deposit, which are classified as Illiquid. All other Investment Policy sanctioned asset categories are classified as Liquid.

25. **MAXIMUM EXPOSURE FOR ANY ONE ISSUER** - If a single issuer is involved in more than one of the above listed investment categories, the exposure to the issuer is limited to 5% of the Portfolio value per category and the maximum aggregate total exposure to a single issuer shall not exceed 10% of the Portfolio value. The aforementioned does not apply to repurchase agreements. The limits for repurchase agreements are set forth in the Treasurer's Policy in Paragraph 15.
26. **CRITERIA FOR SELECTING BROKERS AND DEALERS** - In order to eliminate risk in making investments under this Policy, all investments will be made only through qualified dealers.
  - A. A qualified dealer must be a bank, savings and loan association, or an investment securities dealer. Commercial Paper and Certificate of Deposit issuers may be considered qualified dealers for direct issuance of their paper.
  - B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application and qualify for recommendations by the Investment Committee to the County Treasurer.
  - C. The dealer must ensure that its staff is aware of the County Treasurer's Investment Policy and the California Government Code Sections 53601 and 53635.
  - D. Investment securities dealers for Repurchase and Reverse Repurchase Agreements must be primary dealers regularly reporting to the Federal Reserve Bank.
  - E. The dealer is required to have a net capital in excess of \$1 million with liquidity lines of \$50 million or more.
  - F. The dealer is required to maintain an active secondary market for securities sold to the County and must be competitive in price for bids and offers.
  - G. The dealer will be monitored by the Investment Committee to ensure the services the County requires are delivered in a timely and efficient manner.
  - H. The primary account representative must be in the institutional or middle market fixed income division with 5 years or more experience covering large municipalities.

- I. A qualified dealer must not have made any political contributions to the Treasurer, any member of the Board of Supervisors, or any candidate for these offices within any consecutive 48-month period following January 1996. The exception is if the broker/dealer is entitled to vote for any of these offices, the contributions shall not be in excess of \$250 to each official per election.
  - J. Each dealer every two years will be required to respond to the County's Request for Information (RFI) providing the County with up to date financial and investment experience information.
27. **SECURITIES LENDING** - This is a program conducted by an agent authorized to execute securities lending under the guidelines listed under RRP's and as detailed in the "Services for Securities Lending Agreement." A securities lending transaction is when the Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future. The loans must be secured continuously by cash collateral or securities and maintained at a value of at least equal to 102 % of the market value of the securities loaned. During the term of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer of the securities loaned. The Fund will have the right to call the loan and receive the securities loaned at any time with one day's notice.
- A. **Maximum Maturity** - The maximum maturity of a securities lending loan shall be 92 days.
  - B. **Maximum Exposure of Portfolio** - No more than 20% of the Portfolio shall be exposed to securities lending and/or RRP's at any one time.
  - C. **Maximum Exposure Per Loan** - The maximum exposure per loan shall be 5% of the total Portfolio.
  - D. **Maximum Exposure Per Counterpart** - No more than 10% of the Portfolio shall be on loan with any single counterpart at any one time.
  - E. **Reinvestment** shall be limited to Government Code and the County's authorized investment list.
28. **DELEGATION OF INVESTMENT AUTHORITY TO THE COUNTY TREASURER** - The State of California gives the Board of Supervisors the ability to delegate the investment authority to the County Treasurer for a one-year period in accordance with Section 53607 of the California Government Code. The delegation will require renewal each year.
29. **SAFEKEEPING AUTHORITY**

- A. The State of California gives the Board of Supervisors the ability to delegate the deposit for safekeeping authority to the County Treasurer in accordance with Section 53608 of the California Government Code. Board Resolution 109 adopted September 29, 1959 delegated this authority to the County Treasurer.
  - B. In exercising this safekeeping function, the Treasurer will require depositories to provide evidence that they are taking reasonable measures to prevent unauthorized access to the depository's electronic data files.
  - C. The Treasurer will attempt to reach agreement with one or more county treasurers within the State to assume management of the Treasurer's Pool if the Treasurer's office is unable to perform its duties due to a disaster, act of war, or terrorist attack.
30. **COUNTY TREASURY OVERSIGHT COMMITTEE** - The Board of Supervisors has established a County Treasury Oversight Committee pursuant to Sections 27130-27137 of the California Government Code. The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the County Treasury Oversight Committee and shall be reviewed and approved at a public hearing by the Board of Supervisors.
31. **RULES GOVERNING THE ACCEPTANCE OF HONORARIA, GIFTS, AND GRATUITIES:**
- A. The County Treasury Oversight Committee:
    - (1) Gifts and Gratuity limits: Members may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the Treasurer conducts business.
    - (2) Honorarium limit - Members may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the Treasurer conducts business.
    - (3) Employment - A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of the local treasurer or a candidate for a legislative body of the local agency that has deposited funds in the County Treasury in the previous three years or during the period the employee is a member of the Oversight Committee. A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.

- (4) Contributions - A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

B. The County Treasurer and Designated Employees:

- (1) Gifts and Gratuity limits - The Treasurer and designated employees may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from a single source that does business with the County Treasurer's Pool.
- (2) Honorarium limits - The Treasurer and designated employees may not accept any honorarium.
- (3) Form 700 "Statement of Economic Interests" - The Treasurer and designated employees are required to file a 700 form annually.

32. **REPORTING** - The Treasurer shall prepare an investment report monthly.

A. The report will be provided to the following officials:

- (1) Board of Supervisors
- (2) Oversight Committee
- (3) Chief Administration Officer
- (4) Auditor & Controller
- (5) Pool Participants
- (6) Annual filing

B. The report will include the following:

- (1) A summary of Pool Portfolio Statistics
- (2) The type of investment, issuer, date of maturity, par, and dollar amount invested on all securities, investments and moneys held by the Pooled Money Fund; and shall additionally include a description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program. The report shall also include a current market value and the source of the valuation as of the date of the report for all securities held by the Pooled Money Fund.
- (3) Securities Lending Portfolio
- (4) Pool Purchases, Sales and Maturities



- (5) Pooled Money Fund Cash Flow Forecast
  - (6) Included in the monthly report shall be a statement of compliance with the Investment Policy and a statement of the Pool's ability to meet cash flow requirements for the next six months.
33. **ANNUAL AUDIT** - The Treasury Oversight Committee shall cause an audit to be conducted annually on a fiscal year basis to determine if the County Treasury is in compliance with Section 27130-27137 of the California Government Code.
34. **COSTS AND EARNINGS APPORTIONMENT**
- A. Prior to quarterly interest distribution, actual investment costs incurred by the Treasurer will be deducted from the interest earnings of the pool. The costs, which are authorized by Government Code Section 27013, are made up of direct costs (salaries, banking services, computer services, and supplies), and indirect costs (department overhead and external overhead).
  - B. The Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor and Controller conducts the apportionment process based on the net earnings of the Pool each quarter.
  - C. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund. If at quarter-end there is a negative average daily balance in a participant's fund, that fund will be charged the higher of the apportionment rate for the quarter or the overnight Repo rate the Pool invests in.
  - D. The apportionment rate is set approximately seven business days after each calendar quarter end. Apportionments are not paid out by warrants; all earnings are credited to the participants' fund balance.
35. **TERMS AND CONDITIONS FOR DEPOSITING FUNDS BY VOLUNTARY PARTICIPANTS** – The State of California Government Code Section 53684 allows local agencies, upon adoption of a resolution by the governing body of the agency, the option of depositing excess funds in the County Treasury for the purpose of investment by the County Treasurer.
- A. The County, in its regional role to assist and aid other local agencies, adopted Board Resolution 11 on March 24, 1987, to allow agencies to deposit excess funds with the County Treasurer for investment. The limitation on acceptance of voluntary deposits and this Investment Policy is structured to help to ensure that, pursuant to Section 27133 of the California Government Code, the Treasurer shall be able to find that all

proposed deposits/withdrawals will not adversely affect the interests of the other depositors in the County Treasury Pool.

- B. The policy for the acceptance of local agency deposits is:
  - (1) The local agency must sign the Investment Management Agreement. The fund will allow a maximum of 25% of the total Pooled Money Fund in voluntary deposits.
  - (2) The maximum amount of transactions per month shall be 10 per local agency.
  - (3) The local agency must provide cash flows on a quarterly bases indicating projected withdrawals from the Pooled Money Fund.
  
- C. Before any deposits for new accounts from non-participating Voluntaries can be accepted by the County Treasurer, the local agency must perform the following:
  - (1) Provide a resolution adopted by the Board or governing body that authorizes the local agency to deposit excess funds in the County Treasury for the purpose of investment by the County Treasurer. The resolution must:
    - (a) be signed by an authorized official
    - (b) indicate the resolution number and date passed by the Board or governing body,
    - (c) indicate the persons authorized to initiate deposits to and instruct withdrawals from the Pool,
    - (d) bear the seal of the local agency, if the local agency has a seal.
  - (2) Provide wire/ACH transfer instructions for cash withdrawals from the Pool. All withdrawals and external deposits will be by the Fed Wire or Automated Clearing House (ACH).
  - (3) Establish a trust account through the County Auditor and Controller's General Accounting Division.

**36. CRITERIA FOR WITHDRAWAL OF FUNDS FROM THE COUNTY POOL BY VOLUNTARY PARTICIPANTS**

- A. Before a local agency withdraws funds from the Pool it must submit a withdrawal request form a minimum of 2 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored

at the discretion of the treasurer if the withdrawal does not cause the maturity status of the Pool to exceed its limits, or jeopardize its ability to meet cash flow requirements.

- B. When funds are requested for withdrawal, the County Treasurer must find that the withdrawal will not adversely affect the interests of all other depositors in the Pool.

37. **GRANDFATHERED AGENCIES**

- A. The grandfathered agencies, including the Community Colleges, who use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function 100% in this manner and will be treated as a mandatory participant (this assumes that the agency shall continue to make their deposits into the Pool).
- B. They can also opt to be treated as a voluntary participant and elect to withdraw funds in the same fashion as the other voluntary participants. However, any agency so opting shall be subject to all of the restrictions placed upon the other voluntary participants.

## GLOSSARY OF TERMS

**BANKERS ACCEPTANCE** - Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a banker's acceptance is merely a check, drawn on bank by an importer or exporter of goods.

**COLLATERALIZED CERTIFICATE OF DEPOSIT** - An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

**COMMERCIAL PAPER** - Money Market instrument representing a short-term promissory note of a large corporation at a specified rate of return for a specified period of time.

**COVERED CALL OPTION** - The sale of an option to another party giving them the right to buy an existing security in the Treasurer's Pool at a specified price within a specified time period.

**DOLLAR WEIGHTED AVERAGE MATURITY** - The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

**DURATION** - Is a measure of the price volatility of the Portfolio and reflects an estimate of the projected increase or decrease in the value of the Portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

**EARNINGS APPORTIONMENT** - Is the quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

**EFFECTIVE DURATION OR OPTION-ADJUSTED DURATION** - Is the approximate percentage price change of a bond for a 100 basis point parallel shift in the yield curve allowing for the cash flow to change as a result of the change in yield.

**GOVERNMENT OBLIGATIONS** - Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees. Agency issuers include:

Federal National Mortgage Association (FNMA)  
Federal Home Loan Bank (FHLB)  
Federal Farm Credit Bank (FFCB)  
Federal Agriculture Mortgage Corporation (FAMCA)

Federal Home Loan Mortgage Corporation (FHLMC)  
Government National Mortgage Corporation (GNMA)  
Student Loan Marketing Association (SLMA)  
World Bank

**GRANDFATHERED AGENCIES** - Such as community colleges and some fire districts that use the County's banking and accounting services.

**ILLIQUID** – Non-existent, or thinly traded secondary market resulting in the inability to access funds prior to maturity, or possibly liquidate at the cost of principal.

**INVESTMENT GROUP** - Shall be made up of the Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

**INVESTMENT MANAGEMENT AGREEMENT** – An agreement between a voluntary participant and the San Diego County Treasurer-Tax Collector. The agreement addresses the terms and conditions of local agencies deposit of funds for investment into the Pooled Investment Fund.

**LIQUID** - Low expected yield give up due to liquidation, based on historical bid/offer spreads.

**LOCAL AGENCY OBLIGATION** - An indebtedness issued by a local agency, department, board, or authority within the State of California.

**LONG-TERM** - The term used to describe a security when the maturity is greater than one year.

**MEDIUM TERM NOTES** - They are Corporate Notes and Deposit Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

**MONEY MARKET MUTUAL FUND** - A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

**MODERATELY LIQUID** – Modest expected yield give up due to liquidation, based on historical bid/offer spreads.

**NEGOTIABLE CERTIFICATE OF DEPOSIT** - A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

**PASS-THROUGH SECURITIES** - A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

**PORTFOLIO VALUE** - The total book value amount of all the securities held in the Treasurer's Pooled Money Fund.

**PRUDENT RISK** - An investment system in which the investor will invest conservatively to receive a stable income with little risk.

**PUT OPTION** - The sale of an option to another party giving them the right to sell to the Treasurer's Pool a security at a specified price within a specified time period.

**REPURCHASE AGREEMENT** - A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e. The County Fund), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

**REVERSE REPURCHASE AGREEMENT** - The mirror image of Repurchase Agreements. In this instance the County Pool is the seller of securities to an investor (i.e. brokers).

**SAFEKEEPING** - A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

**SECURITIES LENDING** - A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entities for collateral, which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

**SHORT-TERM** - The term used to describe a security when the maturity is one year or less.

**SOMEWHAT LIQUID** - A security that is at a lesser degree of ease to buy or sell because there is a smaller secondary market of buyers and sellers willing to trade the security.

**VOLUNTARY PARTICIPANTS** - Local agencies that are not required to deposit their funds with the County Treasurer.

**WHEN-ISSUED SECURITIES** - A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

**APPENDIX G**

**ACCRETED VALUE TABLE**

**POWAY UNIFIED SCHOOL DISTRICT  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE BONDS, SERIES 2007**

<u>Date</u>	<u>Convertible CAB Bond (6/01/2010 Conversion - 4.1%)</u>
08/29/2007	\$4,470.95
12/01/2007	4,517.55
06/01/2008	4,610.15
12/01/2008	4,704.65
06/01/2009	4,801.10
12/01/2009	4,899.55
06/01/2010	5,000.00

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