

*In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, subject however, to certain qualifications described herein, under existing laws, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although such interest is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liabilities. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS — Tax Matters" herein.*

**\$75,000,000**  
**GENERAL OBLIGATION BONDS OF**  
**SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2002-1 OF THE**  
**POWAY UNIFIED SCHOOL DISTRICT, 2002 ELECTION, SERIES A**  
**(SAN DIEGO COUNTY, CALIFORNIA)**

**Dated: Date of Delivery****Due: August 1, as shown below**

The General Obligation Bonds of School Facilities Improvement District No. 2002-1 of the Poway Unified School District, 2002 Election, Series A (the "Series A Bonds"), in the aggregate principal amount of \$75,000,000, are being issued by the Poway Unified School District (the "School District") on behalf of the School Facilities Improvement District No. 2002-1 of the Poway Unified School District (the "Improvement District"). The Series A Bonds were authorized at a special election of the registered voters of the School District held on November 5, 2002, at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$198,000,000 principal amount of general obligation bonds of the Improvement District to finance the construction of new facilities, such as multipurpose rooms, and renovation and improvement at existing schools and to fund a portion of the cost of the construction of a new elementary school.

The Series A Bonds represent a general obligation of the School District on behalf of itself and the Improvement District and are secured by taxes levied against property within the Improvement District. The Board of Supervisors of the County of San Diego (the "County") has the power and is obligated to annually levy *ad valorem* taxes upon property within the Improvement District without limitation of rate or amount (except as to certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Series A Bonds.

The Series A Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Series A Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the Series A Bonds. Interest accrues from their date of issuance, and is payable semiannually by check mailed on February 1 and August 1 of each year, commencing February 1, 2004. Payment to registered owners of \$1,000,000 or more in principal amount of the Series A Bonds, at the registered owner's written request, will be by wire transfer to an account in the continental United States of America. The Series A Bonds are issuable as fully registered Series A Bonds in denominations of \$5,000 principal amount or any integral multiple thereof. Payments of principal of and interest on the Series A Bonds will be paid by the Paying Agent for the Series A Bonds, initially the Treasurer-Tax Collector of the County, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Series A Bonds. (See "THE SERIES A BONDS — Book-Entry-Only System.")

**The Series A Bonds are subject to optional redemption prior to maturity as described herein.**

The scheduled payment of principal and interest on the Series A Bonds will be insured by a municipal bond insurance policy to be issued simultaneously with delivery of the Series A Bonds by MBIA Insurance Corporation.



*This cover page contains information for general reference only. It is not a summary of all the provisions of the Series A Bonds. Potential investors must read the entire official statement to obtain information essential in making an informed investment decision.*

**MATURITY SCHEDULE**

(See Inside Cover)

Please refer to the inside cover page for a summary of the principal amounts, interest rates, and reoffering yields for the Series A Bonds.

The Series A Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the School District and subject to certain other conditions. McFarlin & Anderson LLP, Lake Forest, California is acting as Disclosure Counsel. Certain legal matters will be passed on for the School District by Bowie, Arneson, Wiles & Giannone, Newport Beach, California. It is anticipated that the Series A Bonds, in book-entry form, will be available for delivery to DTC, in New York, New York on or about June 5, 2003.

**Stone & Youngberg LLC**

The date of this Official Statement is May 20, 2003.

**\$75,000,000**  
**GENERAL OBLIGATION BONDS OF**  
**SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2002-1 OF THE**  
**POWAY UNIFIED SCHOOL DISTRICT, 2002 ELECTION, SERIES A**  
**(SAN DIEGO COUNTY, CALIFORNIA)**

**MATURITY SCHEDULE**  
**Base CUSIP No. 738850<sup>1</sup>**  
**\$52,730,000 Series A Serial Bonds**

<u>Maturity August 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u>	<u>Maturity August 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u>
2004	\$6,400,000	4.00%	1.00%	MB9	2014	\$1,755,000	4.00%	3.40%*	MM5
2005	4,435,000	2.00	1.20	MC7	2015	1,970,000	3.75	3.50*	MN3
2006	4,785,000	2.00	1.43	MD5	2016	2,195,000	5.00	3.57*	MP8
2007	620,000	2.50	1.85	ME3	2017	2,455,000	5.00	3.66*	MQ6
2008	745,000	2.50	2.20	MF0	2018	2,730,000	5.00	3.75*	MR4
2009	890,000	2.50	2.45	MG8	2019	3,035,000	5.00	3.85*	MS2
2010	1,025,000	4.00	2.78	MH6	2020	3,360,000	5.00	3.95*	MT0
2011	1,190,000	4.00	2.98	MJ2	2021	3,695,000	5.00	4.05*	MU7
2012	1,365,000	4.00	3.10	MK9	2022	4,065,000	5.00	4.09*	MV5
2013	1,560,000	4.00	3.25	ML7	2023	4,455,000	5.00	4.15*	MW3

**\$22,270,000 5.00% Term Bonds due August 1, 2027 – Yield 4.33%\* CUSIP No. 738850MY9**

\* Priced to call on August 1, 2013.

<sup>1</sup> Copyright 2002, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

**COUNTY OF SAN DIEGO, CALIFORNIA**

**BOARD OF SUPERVISORS**

Greg Cox, *Chairman, District 1*  
Dianne Jacob, *Vice Chairwoman, District 2*  
Pam Slater, *Supervisor, District 3*  
Ron Roberts, *Supervisor, District 4*  
Bill Horn, *Supervisor, District 5*

---

**POWAY UNIFIED SCHOOL DISTRICT**

**BOARD OF EDUCATION**

Linda Vanderveen, *President*  
Jeff Mangum, *Vice President*  
Andy Patapow, *Clerk of the Board*  
Steve McMillan, *Member*  
Penny Ranftle, *Member*

**SCHOOL DISTRICT CHIEF ADMINISTRATORS**

Donald A. Phillips, Ed.D., *Superintendent*  
John P. Collins, *Deputy Superintendent*  
Keith L. Bradford, C.P.A., J.D., *Associate Superintendent – Business Support Services*

---

**PROFESSIONAL SERVICES**

**BOND COUNSEL AND SCHOOL DISTRICT COUNSEL**

Bowie, Arneson, Wiles & Giannone  
Newport Beach, California

**DISCLOSURE COUNSEL**

McFarlin & Anderson LLP  
Lake Forest, California

**BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT**

Treasurer-Tax Collector of the County of San Diego  
San Diego, California

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE SCHOOL DISTRICT TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION WITH RESPECT TO THE SERIES A BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS.

Statements contained in this Official Statement which involve time 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 fact. The information set forth herein has been furnished by the School District, or other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. 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 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. The information and expressions of opinion 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 School District since the date hereof.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

**IN CONNECTION WITH THE OFFERING SERIES A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

THE SERIES A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
The School District and the Improvement District .....	1
Sources of Payment for the Series A Bonds .....	1
Purpose of Issue .....	2
Description of the Series A Bonds .....	2
Tax Matters .....	2
Authority for Issuance of the Series A Bonds .....	2
Offering and Delivery of the Series A Bonds .....	3
Municipal Bond Insurance .....	3
Continuing Disclosure .....	3
Professionals Involved in the Bond Offering .....	3
Other Information .....	3
THE SERIES A BONDS .....	4
Authority for Issuance .....	4
Purpose of Issue .....	4
Security .....	4
Description of the Series A Bonds .....	5
Book-Entry-Only System .....	5
Paying Agent .....	6
Payment .....	6
Optional Redemption .....	6
Mandatory Redemption .....	7
Selection of Series A Bonds for Redemption .....	7
Notice of Redemption .....	7
Partial Redemption of Series A Bonds .....	8
Effect of Notice of Redemption .....	8
Defeasance .....	8
Registration, Transfer and Exchange of Series A Bonds .....	9
MBIA INSURANCE CORPORATION INSURANCE POLICY .....	10
The MBIA Insurance Corporation Insurance Policy .....	10
MBIA .....	11
MBIA Information .....	11
Financial Strength Ratings of MBIA .....	12
ESTIMATED SOURCES AND USES OF FUNDS .....	12
DEBT SERVICE SCHEDULE .....	13
APPLICATION OF PROCEEDS OF SERIES A BONDS .....	13
Improvement Fund .....	13
Debt Service Fund .....	14
Permitted Investments .....	14
SAN DIEGO COUNTY TREASURY POOL .....	14
General .....	14
The Treasury Pool's Portfolio .....	15
Investments of the Treasury Pool .....	15
Certain Information Relating to the Pool .....	16
CONSTITUTIONAL AND STATUTORY PROVISIONS	
AFFECTING DISTRICT REVENUES AND APPROPRIATIONS .....	18
Article XIII A of the California Constitution .....	18
Legislation Implementing Article XIII A .....	19
Taxation of State-Assessed Utility Property .....	19

Article XIII B of the California Constitution .....	20
Proposition 98 .....	20
Proposition 111 .....	21
Proposition 218 .....	22
Future Initiatives and Legislation .....	22
EFFECT OF STATE BUDGET ON REVENUES .....	22
THE IMPROVEMENT DISTRICT .....	24
General Information .....	24
TAX BASE FOR REPAYMENT OF SERIES A BONDS .....	25
Ad Valorem Property Taxation .....	25
Assessed Valuations .....	25
Tax Levies and Delinquencies .....	26
Alternative Method of Tax Distribution – “Teeter Plan” .....	26
Tax Rates .....	28
Largest Property Owners .....	28
Direct and Overlapping Bonded Debt .....	29
THE SCHOOL DISTRICT .....	31
General Information .....	31
Administration .....	31
Enrollment .....	31
Labor Relations .....	32
Retirement Programs .....	32
Insurance .....	33
DISTRICT FINANCIAL INFORMATION .....	33
Accounting Practices .....	33
Financial Statements .....	34
Budget Process .....	36
General Fund Budget .....	37
State Funding of Education .....	38
Revenue Sources .....	38
District Obligations .....	39
Assessed Valuations .....	41
Tax Levies and Delinquencies .....	42
Largest Property Owners .....	42
LEGAL MATTERS .....	43
Tax Matters .....	43
Continuing Disclosure .....	43
Legality for Investment in California .....	43
Absence of Material Litigation .....	43
RATINGS .....	43
UNDERWRITING .....	44
ADDITIONAL INFORMATION .....	44
APPENDIX A – AUDITED FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT ...	A-1
APPENDIX B – THE ECONOMY OF THE SCHOOL DISTRICT .....	B-1
APPENDIX C – PROPOSED FORM OF OPINION OF BOND COUNSEL .....	C-1
APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT .....	D-1
APPENDIX E – SPECIMEN COPY OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY TO BE ISSUED BY MBIA INSURANCE CORPORATION .....	E-1
APPENDIX F – BOOK-ENTRY SYSTEM .....	F-1

**\$75,000,000**  
**GENERAL OBLIGATION BONDS OF**  
**SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2002-1 OF THE**  
**POWAY UNIFIED SCHOOL DISTRICT , 2002 ELECTION, SERIES A**  
**(SAN DIEGO COUNTY, CALIFORNIA)**

**INTRODUCTION**

*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 offering of Series A Bonds to potential investors is made only by means of the entire Official Statement.*

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of General Obligation Bonds of School Facilities Improvement District No. 2002-1 of the Poway Unified School District, 2002 Election, Series A, in the principal amount of \$75,000,000 (the "Series A Bonds").

**The School District and the Improvement District**

The Poway Unified School District (the "School District") is located northeast of the City of San Diego (the "City"). The School District was originally formed in 1962. The School District currently covers approximately 99.1 square miles in the central portion of the County of San Diego (the "County") and includes the City of Poway and portions of the City and the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-one (21) elementary schools, five (5) middle schools, four (4) high schools, one (1) continuation high school and one (1) adult school. The School District had approximately 32,713 students enrolled as of March 2003.

The Board of Education (the "Board") of the School District has formed School Facilities Improvement District No. 2002-1 of the Poway Unified School District (the "Improvement District") consisting of all of the territory located within the boundaries of the School District except the noncontiguous territory located within the boundaries of existing Mello-Roos community facilities districts formed by the School District. The Improvement District encompasses approximately 65 square miles, representing approximately 71 percent of the territory of the School District. The Improvement District was formed following a public hearing on August 6, 2002, pursuant to the provisions of Chapter 2 of Part 10 of Division 1 of Title 1 of the California Education Code (commencing with Section 15300 thereof) (the "Act") and proceedings taken by the School District. On November 5, 2002, the electors of the Improvement District voted on a question whether \$198,000,000 in bonds should be issued on behalf of the Improvement District. More than the requisite 55% of the electors voting on the proposition voted in favor of such issuance. See "THE SERIES A BONDS – Authority for Issuance," "THE IMPROVEMENT DISTRICT," "THE SCHOOL DISTRICT" and "DISTRICT FINANCIAL INFORMATION" herein.

**Sources of Payment for the Series A Bonds**

The Series A Bonds represent an obligation of the School District, on behalf of the Improvement District, payable solely from *ad valorem* property taxes levied and collected by the County pursuant to law. The Board of Supervisors of the County is obligated to annually levy *ad valorem* taxes for the payment of the principal of, and the interest on, the Series A Bonds upon all property within the Improvement District subject to taxation by the School District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "THE SERIES A BONDS – Security" herein.

## **Purpose of Issue**

The proceeds of the Series A 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. The School District will follow the statutory process for determination of school facilities to be funded with Series A Bond proceeds. A portion of the Series A Bond proceeds will be used to reimburse the School District for eligible costs previously incurred.

## **Description of the Series A Bonds**

The Series A Bonds. The Series A Bonds will mature on August 1 in the years indicated on the inside cover page hereof.

Registration. The Series A Bonds will be issued in fully registered form only, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Series A Bonds (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry-only 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 A Bonds. See APPENDIX F – "BOOK-ENTRY SYSTEM." In event that the book-entry-only system described below is no longer used with respect to the Series A Bonds, the Series A Bonds will be registered in accordance with the Resolution. See "THE SERIES A BONDS – Registration, Transfer and Exchange of Series A Bonds."

Denominations. Individual purchases of interests in the Series A Bonds will be available to purchasers of the Series A Bonds in the denominations of \$5,000 principal amount, or any integral multiple thereof.

Redemption. The Series A Bonds maturing on or after August 1, 2013, may be redeemed prior to maturity, at the option of the School District, in whole or in part on any Interest Payment Date beginning on August 1, 2012. See "THE SERIES A BONDS – Optional Redemption" herein. The Series A Term Bonds maturing on August 1, 2027, are subject to redemption prior to their stated maturity date from mandatory sinking fund payments beginning on August 1, 2024. See "THE SERIES A BONDS – Mandatory Redemption" herein.

Payments. Interest on the Series A Bonds accrues from their date of issuance, and is payable semiannually on February 1 and August 1 (each a "Bond Payment Date"), commencing February 1, 2004.

Bond Insurance. Payment of the principal of and interest when due on the Series A Bonds will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Series A Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" and "RATINGS" herein.

## **Tax Matters**

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, compliance with certain covenants, interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, such interest is not an item of tax preference for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Series A Bonds or the accrual or receipt of such interest. See "LEGAL MATTERS – Tax Matters" herein.

## **Authority for Issuance of the Series A Bonds**

The Series A Bonds are issued pursuant to certain provisions of the State of California Constitution and the Education Code and other applicable law, and pursuant to resolutions adopted by the Board of Education of the School District and the Board of Supervisors of the County. The election was held pursuant



to the provisions of the "Safer Schools, Smaller Classes and Financial Accountability Act" (also known as "Proposition 39") and related State of California (the "State") legislation. See "THE SERIES A BONDS – Authority for Issuance" herein.

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

The Series A Bonds are offered when, as and if issued, subject to the approval as to their legality by Bowie, Arneson, Wiles & Giannone, Bond Counsel. It is anticipated that the Series A Bonds will be available for delivery in New York, New York on or about June 5, 2003.

### **Municipal Bond Insurance**

The scheduled payment of principal of and interest on the Series A Bonds when due will be guaranteed under an insurance policy to be issued simultaneously with the delivery of the 2003 Bonds by MBIA Insurance Corporation ("MBIA"). See "MBIA INSURANCE CORPORATION INSURANCE POLICY – The MBIA Insurance Corporation Insurance Policy," "– MBIA," "– MBIA Information" and "– Financial Strength Ratings of MBIA" and APPENDIX E – "Form of Specimen Municipal Bond Insurance Policy."

### **Continuing Disclosure**

The School District will covenant for the benefit of bondowners to make available certain financial information and operating data relating to the School District and the Improvement District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is set forth in APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

### **Professionals Involved in the Bond Offering**

Several professional firms have provided services to the School District with respect to the sale and delivery of the Series A Bonds. Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, will deliver its legal opinion in substantially the form set forth in Appendix C. McFarlin & Anderson LLP, Lake Forest, California, has served as special disclosure counsel to the School District with respect to the Series A Bonds. Bowie, Arneson, Wiles & Giannone, Newport Beach, California, is acting as counsel to the School District on matters related to the Series A Bonds. The Treasurer-Tax Collector of the County will act as Paying Agent with respect to the Series A Bonds. The payment of fees and expenses of such firms and the County with respect to the Series A Bonds is contingent on the sale and delivery of the Series A Bonds. The School District's financial statements for the Fiscal Year ended June 30, 2002, which are included as Appendix A, have been audited by Wilkinson & Hedley, LLP, El Cajon, California.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Series A Bonds are available from the Associate Superintendent, Business Support Services of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098, telephone number (858) 679-2552. The School District may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Series A 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 fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each of such documents, statutes and constitutional provisions.

The information from sources other than the School District set forth herein has been obtained from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the School District. The information and expressions of opinions

herein are subject to change without notice and neither 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 School District since the date hereof. This Official Statement is submitted in connection with the sale of the Series A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

## **THE SERIES A BONDS**

### **Authority for Issuance**

The Series A Bonds are issued pursuant to the provisions of Article 5 of Chapter 2 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California, Article XIII A of the California Constitution, and other applicable law (the "Act"), and pursuant to resolutions adopted by the Board of Education of the School District on April 21, 2003, and by the Board of Supervisors of the County on May 6, 2003 (collectively, the "Resolutions"). The election was held pursuant to the provisions of the "Safer Schools, Smaller Classes and Financial Accountability Act" (also known as "Proposition 39") and related State legislation. The School District received authorization at an election held on November 5, 2002, by an affirmative vote of approximately 57% of the votes cast by eligible voters within the Improvement District (the "Authorization") to issue not to exceed \$198,000,000 of general obligation bonds (the "Bonds"). The Series A Bonds represent the first series of bonds within the Authorization. After the sale of the Series A Bonds, there will be \$123,000,000 principal remaining from the Authorization for the issuance of additional bonds.

### **Purpose of Issue**

The proceeds of the Series A 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. The School District will follow the statutory process for determination of school facilities to be funded with Bond proceeds. A portion of the Series A Bond proceeds will be used to reimburse the School District for eligible costs previously incurred. To the extent State funds are received, other school facilities may be funded with Series A Bond proceeds.

### **Security**

The Board of Supervisors of the County has power to and is obligated to annually levy *ad valorem* taxes for the payment of the principal of, and the interest on the Series A Bonds upon all property within the Improvement District subject to taxation by the School District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Series A Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Series A Bonds when due. Such taxes, when collected, will be deposited into the Series A Poway Unified School District Debt Service Fund (the "Debt Service Fund"), which is maintained by the County and is kept separate and distinct from all other District and County funds, and which is required by the Act to be applied for the payment of principal of and interest on the Series A Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Series A Bonds and to make timely payment of principal of and interest on the Series A Bonds when due, and will maintain the Debt Service Fund pledged to the repayment of the Series A Bonds, the Series A Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of, premium, if any, and interest on the Series A Bonds as the same becomes due and payable, shall be transferred by the County to the Paying Agent (as defined herein). The Paying Agent will in turn remit the funds to DTC for remittance of such principal, premium, if any, and interest to its Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Series A Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Series A Bonds will be determined by the relationship between the assessed valuation of taxable property in the Improvement District and the amount of debt service due on the Series A Bonds in any year. Fluctuations in the annual

debt service on the Series A Bonds and the assessed value of taxable property in the Improvement District may cause the annual tax rate to fluctuate. Economic and other factors beyond the School District's control, such as general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the School District and necessitate a corresponding increase in the annual tax rate. In future years, the School District expects to issue additional series of Bonds in the amount of the remaining Authorization. For further information regarding the Improvement District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF SERIES A BONDS" herein.

### **Description of the Series A Bonds**

The Series A Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive physical certificates representing their interests in the Series A Bonds.

Interest with respect to the Series A Bonds accrues from their date of issuance, and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2004. Interest on the Series A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Each Series A Bond shall be issued in denominations of \$5,000 or integral multiples thereof, and bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16<sup>th</sup> day of the month next preceding any Bond Payment Date to the Bond Payment Date, inclusive, in which event it shall bear interest from such Bond Payment Date, or unless it is authenticated on or before January 15, 2004, in which event it shall bear interest from their date of issuance; provided, however, that if at the time of authentication of any Series A Bond, interest is then in default on outstanding Series A Bonds, such Series A Bond shall bear interest from the Bond Payment Date to which interest has previously been paid or made available for payment thereon.

Interest payments on any Series A Bond shall be paid on each Bond Payment Date by check mailed by first class mail to the person in whose name the Bond is registered, and to that person's address appearing on the Bond Register on the Record Date immediately preceding such payment date. An owner of an aggregate principal amount of Series A Bonds of \$1,000,000 or more may request, in writing, prior to the close of business on the Record Date preceding each Bond Payment Date, to the Paying Agent that such owner be paid interest by wire transfer to the bank within the continental United States of America and account number on file with the Paying Agent as of the Record Date. Payments of principal, and redemption premiums, if any, with respect to the Series A Bonds, shall be payable at maturity or redemption upon surrender at the office of the Paying Agent as designated by the Paying Agent to the County and the School District in writing. The principal of and interest on the Series A Bonds shall be payable in lawful money of the United States of America.

See the maturity schedule on the inside cover page hereof and "DEBT SERVICE SCHEDULE."

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series A Bonds. The Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series A Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX F – "BOOK-ENTRY SYSTEM."

## **Paying Agent**

The Treasurer-Tax Collector of the County will act as the initial registrar, transfer agent and paying agent for the Series A Bonds (the "Paying Agent"). As long as DTC is the registered owner of the Series A Bonds and DTC's book-entry method is used for the Series A Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC.

The Paying Agent, the School District, the County and the Underwriter of the Series A Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Series A Bonds.

## **Payment**

Payment of interest on any Series A Bond on any Bond Payment Date shall be made to the person appearing on the registration books of the Paying Agent as the owner thereof as of the close of business on the 15th day of the month immediately preceding such Bond Payment Date whether or not such day is a business day (the "Record Date"), such interest to be paid by check mailed to such owner on the Bond Payment Date at his or her address as it appears on such registration books or at such other address as he or she may have filed with the Paying Agent for that purpose on or before the Record Date. The owner in an aggregate principal amount of \$1,000,000 or more may request in writing to the Paying Agent that such owner be paid interest by wire transfer to the bank in the continental United States of America and account number on file with the Paying Agent as of the Record Date.

The principal, and redemption price, if any, payable on the Series A Bonds shall be payable upon maturity or redemption upon surrender at the principal office of the Paying Agent. The interest, principal, and premiums, if any, on the Series A Bonds shall be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Series A Bonds when duly presented for payment at maturity, and to cancel all Series A Bonds upon payment thereof. The Series A Bonds are obligations of the Improvement District and do not constitute an obligation of the County except as provided in the Resolutions. No part of any fund of the County is pledged or obligated to the payment of the Series A Bonds.

## **Optional Redemption**

The Series A Bonds maturing on or before August 1, 2012, are not subject to optional redemption prior to their fixed maturity dates. The Series A Bonds maturing on or after August 1, 2013, may be redeemed prior to maturity, at the option of the School District, in whole or in part from any source of available funds on August 1, 2012, or on any Interest Payment Date thereafter at the following redemption price, expressed as a percentage of the principal amount of such Series A Bonds to be redeemed, plus accrued interest represented thereby to the redemption date:

<u>Redemption Dates (all dates inclusive)</u>	<u>Redemption Price</u>
August 1, 2012 and February 1, 2013	101%
August 1, 2013 and thereafter	100

## **Mandatory Redemption**

The Term Bonds maturing on August 1, 2027, are subject to mandatory sinking fund redemption prior to their maturity, by lot, without premium, on August 1, in the years and in the amounts as set forth below:

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
August 1, 2024	\$ 4,875,000
August 1, 2025	5,315,000
August 1, 2026	5,790,000
August 1, 2027 (maturity)	<u>6,290,000</u>
Total	\$22,270,000

## **Selection of Series A Bonds for Redemption**

Whenever less than all the outstanding Series A Bonds are to be redeemed, the Paying Agent, upon written instruction from the School District, shall select the Series A Bonds for redemption as so directed and if not directed, in inverse order of maturity. Within a maturity, the Paying Agent shall select Series A Bonds for redemption by lot. Redemption by lots shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Series A Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof.

## **Notice of Redemption**

The Paying Agent, upon written instruction from the School District, shall give notice (a "Redemption Notice") of the redemption of the Series A Bonds. Such Redemption Notice shall specify: (a) the Series A Bonds or designated portions thereof (in the case of redemption of the Series A Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Series A Bonds to be redeemed, (f) the serial or registration numbers of the Series A Bonds to be redeemed in whole or in part and, in the case of any Series A Bond to be redeemed in part only, the principal amount of such Series A Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Series A Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Series A Bond or portion thereof being redeemed the redemption price thereof, together with the interest accrued to the redemption date, and that from and after such date, interest with respect thereto shall cease to accrue.

The Paying Agent shall take the following actions with respect to such Redemption Notice:

- a. At least 30 but not more than 45 days prior to the redemption date, such Redemption Notice shall be given to the respective owners of Series A Bonds designated for redemption by registered or certified mail, postage prepaid, at their addresses appearing on the Bond Register (as defined herein).
- b. At least 32 but not more than 45 days prior to the redemption date such Redemption Notice shall be given by (i) registered or certified mail, postage prepaid, (ii) telephonically confirmed facsimile transmission, or (iii) overnight delivery service, to each of the Securities Depositories defined in the Resolutions.
- c. At least 32 but not more than 45 days prior to the redemption date such Redemption Notice shall be given by (i) registered or certified mail, postage prepaid, or (ii) overnight delivery service, to one of the Information Services defined in the Resolutions.

Neither failure to receive or failure to send any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Series A Bonds. Each check issued or other transfer of funds made by the Paying Agent for the purpose of

redeeming Series A Bonds shall bear or include the CUSIP number identifying, by issue and maturity, the Series A Bonds being redeemed with the proceeds of such check or other transfer.

### **Partial Redemption of Series A Bonds**

Upon the surrender of any Series A Bond redeemed in part only, the Paying Agent shall authenticate and deliver to the owner thereof a new Series A Bond or Series A Bonds of like tenor and maturity and of authorized denominations equal in principal amount to the unredeemed portion of the Series A Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such owner, and the School District shall be released and discharged thereupon from all liability to the extent of such payment.

### **Effect of Notice of Redemption**

Notice having been given pursuant to the Resolutions, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside in the Debt Service Fund, the Series A Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Series A Bonds to be redeemed as provided in the Resolutions; together with interest accrued to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given pursuant to the Resolutions, then from and after such redemption date, interest with respect to the Series A Bonds to be redeemed shall cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Series A Bonds shall be held in trust for the account of the owners of the Series A Bonds so to be redeemed.

All Series A Bonds paid at maturity or redeemed prior to maturity pursuant to the Resolutions shall be cancelled upon surrender thereof and be delivered to or upon the order of the School District. All or any portion of a Series A Bond purchased by the School District shall be cancelled by the Paying Agent.

### **Defeasance**

All or any portion of the outstanding maturities of the Series A Bonds may be defeased at any time prior to maturity in the following ways:

- a. Cash. By irrevocably depositing with a bank or trust company in escrow, an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Series A Bonds outstanding and designated for defeasance, including all principal and interest and premium, if any; or
- b. United States Obligations. By irrevocably depositing with a bank or trust company in escrow, noncallable United States Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Series A Bonds outstanding and designated for defeasance (including all principal and interest represented thereby and prepayment premiums, if any), at or before their maturity date;

then, notwithstanding that any of such Series A Bonds shall not have been surrendered for payment, all obligations of the Improvement District with respect to all such designated outstanding Series A Bonds shall cease and terminate, except only the obligation of the Paying Agent or an independent escrow agent selected by the School District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of such designated Series A Bonds not so surrendered and paid all sums due with respect thereto.

United States Obligations shall mean direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidences

of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed "AAA" by Standard & Poor's and "Aaa" by Moody's Investors Service.

### **Registration, Transfer and Exchange of Series A Bonds**

So long as any of the Series A Bonds remain outstanding, the School District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Series A Bonds as provided in the Resolutions (the "Bond Register"). Subject to the provisions of the Resolutions, the person in whose name a Series A Bond is registered on the Bond Register shall be regarded as the absolute owner of that Series A Bond for all purposes of the Resolutions. Payment of or on account of the principal of and premium, if any, and interest on any Series A Bond shall be made only to or upon the order of that person; neither the School District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided in the Resolutions. All such payments shall be valid and effectual to satisfy and discharge the School District's liability upon the Series A Bonds, including interest, to the extent of the amount or amounts so paid.

*In the event that the book-entry system as described above is no longer used with respect to the Series A Bonds, the following provisions will govern the transfer and exchange of the Series A Bonds.*

Any Series A Bond may be exchanged for Series A Bonds of like tenor, maturity and principal amount upon presentation and surrender at the principal corporate trust office of the Paying Agent, together with a request for exchange signed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Series A Bond may (but only if the School District determines no longer to maintain the book-entry only status of the Bonds, DTC determines to discontinue providing such services and no successor securities depository is named or DTC requests the School District to deliver certificated securities to particular DTC Participants) be transferred on the Bond Register only upon presentation and surrender of the Series A Bond at the office of the Paying Agent accompanied by delivery of a written instrument of transfer in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Series A Bond or Series A Bonds of like tenor and of any authorized denomination or denominations requested by the owner equal to the principal amount of the Series A Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Series A Bonds, the County shall sign and the Paying Agent shall authenticate and deliver Series A Bonds in accordance with the provisions of the Resolutions. All fees and costs of transfer shall be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Series A Bonds issued upon any exchange or transfer shall be valid obligations of the School District, evidencing the same debt, and entitled to the same security and benefit under the Resolutions as the Series A Bonds surrendered upon that exchange or transfer.

Any Series A Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer shall be cancelled by the Paying Agent. The School District and the County may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Series A Bonds that the School District and the County may have acquired in any manner whatsoever, and those Series A Bonds shall be promptly cancelled by the Paying Agent. Written reports of the surrender and cancellation of Series A Bonds shall be made to the School District and the County by the Paying Agent each year. The cancelled Series A Bonds shall be destroyed by the Paying Agent in accordance with its procedures as confirmed in writing to the School District.

Neither the School District, the County nor the Paying Agent will be required (a) to issue or transfer any Series A Bonds during a period beginning with the opening of business on the 15th business day next preceding either any Bond Payment Date or any date of selection of Series A Bonds to be redeemed and

ending with the close of business on the Bond Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Series A Bonds which have been selected or called for redemption in whole or in part.

### **MBIA INSURANCE CORPORATION INSURANCE POLICY**

Concurrently with the issuance of the Series A Bonds, MBIA Insurance Corporation will issue its Municipal Bond New Issue Insurance Policy for the Series A Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement (see Appendix E hereof).

#### **The MBIA Insurance Corporation Insurance Policy**

*The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. The School District takes no responsibility for the accuracy or completeness thereof. Reference is made to Appendix E for a specimen of MBIA's Policy.*

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the School District to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the Series A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series A Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Series A Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series A Bonds or presentment of such other proof of ownership of the Series A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series A Bonds in any legal proceeding related to payment of insured amounts on the Series A Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series A Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.



## **MBIA**

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading “MBIA INSURANCE CORPORATION INSURANCE POLICY” and in APPENDIX E - “Specimen Financial Guaranty Insurance Policy.” Additionally, MBIA makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds.

### **MBIA Information**

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended March 13, 2002, June 30, 2002 and September 30, 2002) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

## Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series A Bonds. MBIA does not guaranty the market price of the Series A Bonds nor does it guaranty that the ratings on the Series A Bonds will not be revised or withdrawn.

In the event MBIA were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage 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.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series A Bonds are expected to be applied as follows:

### Sources of Funds

Principal Amount of Series A Bonds	\$75,000,000.00
Original Premium	4,417,524.40
Total Sources	<u>\$79,417,524.40</u>

### Uses of Funds

Net Construction Proceeds	\$75,000,000.00
Debt Service Fund	3,266,582.40
Costs of Issuance <sup>(1)</sup>	625,942.00
Underwriter's Discount	525,000.00
Total Uses	<u>\$79,417,524.40</u>

<sup>(1)</sup> Includes, among other things, the fees and expenses of Bond Counsel, the fees and expenses of Disclosure Counsel, fees and expenses of the Paying Agent, fees and expenses of the School District Consultants, premium for Municipal Bond Insurance Policy, rating fees, the cost of printing the preliminary and final Official Statements and other costs associated with issuing, selling and delivering the Series A Bonds.

## DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Series A Bonds (assuming no optional redemptions).

<b>Year Ending August 1</b>	<b>Annual Principal Payment</b>	<b>Annual Interest Payment</b>	<b>Total Annual Debt Service</b>
2004	\$6,400,000	\$3,766,475.56	\$10,166,475.56
2005	4,435,000	3,003,450.00	7,438,450.00
2006	4,785,000	2,914,750.00	7,699,750.00
2007	620,000	2,819,050.00	3,439,050.00
2008	745,000	2,803,550.00	3,548,550.00
2009	890,000	2,784,925.00	3,674,925.00
2010	1,025,000	2,762,675.00	3,787,675.00
2011	1,190,000	2,721,675.00	3,911,675.00
2012	1,365,000	2,674,075.00	4,039,075.00
2013	1,560,000	2,619,475.00	4,179,475.00
2014	1,755,000	2,557,075.00	4,312,075.00
2015	1,970,000	2,486,875.00	4,456,875.00
2016	2,195,000	2,413,000.00	4,608,000.00
2017	2,455,000	2,303,250.00	4,758,250.00
2018	2,730,000	2,180,500.00	4,910,500.00
2019	3,035,000	2,044,000.00	5,079,000.00
2020	3,360,000	1,892,250.00	5,252,250.00
2021	3,695,000	1,724,250.00	5,419,250.00
2022	4,065,000	1,539,500.00	5,604,500.00
2023	4,455,000	1,336,250.00	5,791,250.00
2024 <sup>(1)</sup>	4,875,000	1,113,500.00	5,988,500.00
2025 <sup>(1)</sup>	5,315,000	869,750.00	6,184,750.00
2026 <sup>(1)</sup>	5,790,000	604,000.00	6,394,000.00
2027 <sup>(1)</sup>	6,290,000	314,500.00	6,604,500.00
	<b>\$75,000,000</b>	<b>\$52,248,800.56</b>	<b>\$127,248,800.56</b>

<sup>(1)</sup> Amounts shown from August 1, 2024, through August 1, 2027, represent mandatory sinking fund payments on the Series A Term Bonds maturing August 1, 2027.

## APPLICATION OF PROCEEDS OF SERIES A BONDS

### Improvement Fund

The proceeds from the sale of the Series A Bonds, to the extent of the principal amount thereof, shall be paid to the County to the credit of the fund known as the School Facilities Improvement District No. 2002-1 of the Poway Unified School District, Series A Bonds Improvement Fund (the "Improvement Fund") and shall be kept separate and distinct from all other School District and County funds. The proceeds shall be used solely for the purpose for which the Series A Bonds are being issued and such proceeds shall be applied solely to authorized purposes which relate to the construction, rehabilitation, modernization or replacement of school facilities, which may include the furnishing and equipping of school facilities or the acquisition or lease of real property for schools. Series A Bond proceeds are also expected to be used to reimburse the School District for eligible costs previously incurred. The School District intends to use the proceeds of the Series A Bonds to construct, rehabilitate, modernize or replace school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for schools. Any excess proceeds of the Series A Bonds not needed for the authorized purposes for which the Series A Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal of and

interest on the Series A Bonds. If, after payment in full of the Series A Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the general fund of the School District. Interest earned on the investment of monies held in the Improvement Fund shall be retained in the Improvement Fund.

### **Debt Service Fund**

Any premium received by the County from the sale of the Series A Bonds shall be kept separate and apart in the Debt Service Fund and be used only for payment of principal of and interest on the Series A Bonds, provided that accrued interest, if any, received on the sale of the Series A Bonds shall be deposited in the Debt Service Fund. The *ad valorem* property taxes levied by the County for the payment of the Series A Bonds, when collected, will be deposited into the Debt Service Fund. The Series A Bonds shall be paid from the Debt Service Fund. Interest earnings on the investment of monies held in the Debt Service Fund shall be retained in the Debt Service Fund and used by the School District to pay principal of and interest on the Series A Bonds when due.

### **Permitted Investments**

The County Treasurer is authorized to invest the proceeds of the sale of the Series A Bonds and all proceeds of taxes for payment of the Series A Bonds in the County's Investment Pool (or other investment pools of the County into which the School District may lawfully invest its funds). Upon the written direction of the School District, the County Treasurer may invest Series A Bond proceeds or proceeds of taxes collected for payment of the Series A Bonds in any investment permitted by law, including, but not limited to investment agreements which comply with the requirements of each rating agency then rating the Series A Bonds necessary in order to maintain the then-current rating on the Series A Bonds or in the Local Agency Investment Fund established by the State Treasurer.

## **SAN DIEGO COUNTY TREASURY POOL**

*The following information concerning the pooled investment fund of the County (the "Treasury Pool") has been provided by the Treasurer-Tax Collector of the County (the "Treasurer") and has not been confirmed or verified by the School District. 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.*

In accordance with Government Code Section 53600 *et seq.*, the Treasurer manages funds deposited with it by the School 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 of the County 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 of the County. 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, are required under state law to be deposited into the County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, may invest 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 the laws of the State of California, 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 significant losses that may be required to be allocated among all Depositors in the Pool.

The County has established an oversight committee as required by State law. The members of the oversight committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the oversight committee is to review and monitor the investment policy of the Treasurer.

### **The Treasury Pool's Portfolio**

As of February 28, 2003, the securities in the Treasury Pool had a market value of \$3,530,500,391 and a book value of \$3,522,590,771, for a net unrealized gain of \$7,909,620. As of February 28, 2003, the weighted average days to maturity of the Pool portfolio was approximately 313 days.

As of February 28, 2003, approximately 3.05% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 3.93% by community college districts, 39.01% by the County, 50.77% by school districts, and 3.24% by unapportioned tax/int. funds.

On May 16, 2001, Standard & Poor's rated the Pool's ability to meet its financial commitments "AAAF" (long-term) and "S1" (short-term volatility).

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

*Authorized Investments.* Investments of the Pool are placed in those securities authorized by various sections of the Government Code of the State of California, 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), asset backed (including mortgage related) and pass-through securities. Generally, investments in any repurchase agreement may not 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 deferred 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 Treasurer'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 the primary goals of the Treasurer when investing public funds to be 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 a 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 in one year or less, with the remainder of the portfolio being invested one-to-five 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 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.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County’s securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

#### **Certain Information Relating to the Pool**

The following table reflects information with respect to the Pool as of February 28, 2003. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on February 28, 2003, the Pool necessarily would have received the values specified.

**TREASURER-TAX COLLECTOR**  
**SAN DIEGO COUNTY PORTFOLIO STATISTICS**  
as of March 31, 2003

Percent of Portfolio	Book Value	Market Price		Accrued Interest		Market Value		Unrealized Gain/(Loss)		Yield to Maturity		Weighted Average Days to Maturity
		Price		Interest		Value		Gain/(Loss)		Maturity		
Federal Farm Credit Bank Notes	0.72%	\$ 25,000,000	100.02%	\$ 113,750	\$ 25,005,040	\$ 5,040				1.95%		556
Federal Home Loan Bank Notes	2.67%	92,507,838	101.33%	923,816	93,224,640	716,801				2.92%		518
Federal Nat'l Mortgage Assoc. Notes	20.19%	703,122,396	100.78%	6,525,611	705,488,815	2,366,419				3.05%		775
Federal Home Loan Mortg. Corp. Notes	15.05%	523,612,949	100.46%	4,469,331	526,029,272	2,416,323				3.02%		823
Corporate Medium Term Notes	0.78%	27,201,168	100.40%	453,686	27,208,992	7,824				1.76%		174
Money Market Funds	6.10%	213,100,000	100.00%	275,094	213,100,000	0				1.22%		1
Repurchase Agreements	5.72%	200,000,000	100.00%	30,722	200,000,000	0				1.38%		1
Negotiable Certificates of Deposit	12.18%	424,997,763	100.14%	3,562,382	425,588,916	591,153				1.78%		257
Commercial Paper	36.59%	1,278,886,813	99.87%	0	1,278,986,408	99,595				1.41%		40
Collateralized Certificates of Deposit	0.01%	392,000	100.00%	3,914	392,000	0				2.46%		96
Totals For March 2003	100.00%	\$3,488,820,927	100.29%	\$16,358,306	\$3,495,024,081	\$ 6,203,155				2.02%		344
Totals for February 2003	100.00%	\$3,522,590,771	100.34%	\$15,586,699	\$3,530,500,391	\$ 7,909,620				2.09%		313
Change From Prior Month		(\$33,769,844)	-0.05%		(\$35,476,310)	(\$1,706,466)				-0.07%		31
Overall Portfolio Effective Duration	0.44 years											

	Fiscal Year		Calendar Year	
	March '03	Annualized	To Date Return	Annualized
Return	0.176%	2.076%	0.543%	2.204%
Book Value	0.137%	1.616%	0.461%	1.871%
Market Value				

Source: County of San Diego, Treasurer-Tax Collector.

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

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

*Principal of and interest on the Series A Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE SERIES A BONDS - Security" herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 98, 111, and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and of the School District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Series A Bonds. The tax levied by the County for payment of the Series A Bonds was approved by the School District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.*

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

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

Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

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

County of Orange v. Orange County Assessment Appeals Board No. 3. In a Minute Order issued on November 2, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, Case No. 00CC03385, the Orange County Superior Court held that the Orange County assessor violated the 2% annual inflation adjustment provision of Article XIII A when the assessor tried to "recapture" the taxable value of a single family residential property by increasing its assessed value by approximately 4% in a single year. The assessor had not increased the assessed value of the property during a year in which the market value of the property was determined by the assessor to have declined below its taxable value pursuant to Article XIII A. In the following year, the assessor established the taxable value of the property by determining that its then-current market value was greater than if the 2% annual inflation adjustment had been applied in the previous year. The assessor enrolled the property at a taxable value that recaptured the foregone 2% inflation



adjustment from the previous year, resulting in a one-year increase of approximately 4%. The State Board of Equalization has approved this methodology for increasing assessed values in similar circumstances.

On December 12, 2002, the Orange County Superior Court rejected a stipulation proposed by all parties in the case designed to let the case proceed to appellate review and issued a ruling which defined the class as all people in Orange County subject to recapture. On January 30, 2003, the Superior Court granted a motion to require the County Tax Collector to issue notices to taxpayers and immediately put a hold on implementation of the ruling pending issuance of a final ruling. The School District is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the School District. However, the obligation of the County to levy *ad valorem* taxes upon all taxable property within the Improvement District in an amount sufficient for the payment of principal of and interest on the Series A Bonds would not be impaired.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

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

All taxable property is shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

### **Taxation of State-Assessed Utility Property**

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

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

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

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIII B to the California Constitution ("Article XIII B"). Under Article XIII B, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including appropriations for debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit was originally to be based on certain Fiscal Year 1978-79 expenditures, and adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any consecutive two-year period exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. In the event the School District receives any proceeds of taxes in excess of the allowable limit in any fiscal year, the School District may implement a statutory procedure to concurrently increase the School District's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIII B were modified by Proposition 111 in 1990 (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 111").

### **Proposition 98**

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is approximately 35% of the State general fund.

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's 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. (See "DISTRICT FINANCIAL INFORMATION – Effect of State Budget on Revenues").

## Proposition 111

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

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

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.
- c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in Fiscal Year 1990-91. It is based on the actual limit for Fiscal Year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.
- e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) a certain percentage of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

## **Proposition 218**

An initiative measure entitled “Right to Vote on Taxes Act,” also known as Proposition 218 (the “Initiative”), was approved by California voters at the November 5, 1996, statewide general election, and became effective on November 6, 1996. The Initiative added Articles XIIC and XIID to the California Constitution, and all references herein to Articles XIIC and XIID are references to the text as set forth in the Initiative.

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

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The initiative power is, however, limited by the United States Constitution’s prohibition against state or local laws “impairing the obligation of contracts.” The Series A Bonds represent a contract between the School District and the bondholder secured by the collection of *ad valorem* property taxes. While not free from doubt, it is likely that, once the Series A Bonds are issued, the taxes securing them would not be subject to reduction or repeal. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

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

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

## **Future Initiatives and Legislation**

The Initiative was adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County, the City, the School District or local districts to increase revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

## **EFFECT OF STATE BUDGET ON REVENUES**

Most public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see “DISTRICT FINANCIAL INFORMATION – State Funding of Education” herein). State funds typically make up the majority of a district’s revenue limit. School districts also receive substantial funding from the State for various categorical programs. Revenues received by the School District from all State sources accounted for about 54% of total general fund revenues in 2001-02.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “CONSTITUTIONAL AND STATUTORY PROVISIONS

AFFECTING DISTRICT REVENUES AND APPROPRIATIONS”), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

California Teachers’ Association v. Gould. During several years in the early 1990s, the State realized less tax receipts than it had previously budgeted, so that in each of those years public education received more in funding than its minimum entitlement under Proposition 98. (See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 98.”) The State legislature characterized the overfunded amounts as “loans” to be repaid from the Proposition 98 entitlement in future years. The aggregate amount of these loans is approximately \$1.76 billion. The validity of the loan characterization and repayment mechanism were challenged by the California Teachers’ Association (“CTA”), which sought to void the obligation to repay the loan amounts.

On April 26, 1994, a Sacramento County superior court entered a judgment that K-14 districts are not obligated to repay the inter-year loans. The decision was appealed by the State, and pending such appeal the CTA and the State reached a settlement which became final on April 12, 1996. Pursuant to the settlement agreement, no new inter-year loans will be created; the existing loans are required to be repaid over an eight-year period, with K-14 schools contributing \$825 million from funds allocated to education under Proposition 98, and the State contributing the balance of \$938 million. The schools’ contribution of \$825 million will be counted toward the Proposition 98 guarantee in future years.

Education Provisions of the California State Budget. The Governor is required by the State Constitution to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a 2/3 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 retains veto power over specific items of expenditure. State income tax, sales tax, and other receipts can fluctuate significantly from year to year depending on economic conditions in the State and the nation. Because funding for K-12 education is closely related to overall State income, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The School District cannot predict how State income or State education funding will vary over the entire term to maturity of the Bonds, and the School District takes no responsibility for informing owners of the Bonds as to any such annual fluctuations. Information about the State budgeting process, the State Budget and State spending for education is available at various State-maintained websites, including (i) the State’s website, where recent official statements for State bonds are posted, (ii) the California State Treasurer’s Internet home page which includes the States’s audited financial statements, various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State, the State’s Rule 15c2-12 filings for State bond issues, financial information which includes an overview of the State economy and government, State finances, State indebtedness, litigation and discussion of the State budget and its impact on school districts; (iii) the California Department of Finance’s internet home page which includes the text of the budget and information regarding the State budget, and (iv) the State Legislative Analysts’ office which prepares analyses of the proposed and adopted State budgets. *The State has not entered into any contractual commitment with the School District, the County, the underwriter or the owners of the Series A Bonds to provide State budget information to the School District or the owners of the Series A Bonds. Although the State sources of information listed above are believed to be reliable, neither the School District nor the underwriter assumes any responsibility for the accuracy of the state budget information set forth or referred to therein.*

Expenditure Reductions For 2001-02 and 2002-03 State Budgets. In response to lower State revenues during 2001-02 than had been estimated in the 2001-02 State Budget, on November 14, 2001, the Governor announced a proposal for reducing expenditures in the 2001-02 State Budget by approximately \$2.25 billion, including \$843.5 million of funding for various programs affecting K-12 school districts. The resulting reductions in the 2001-02 State Budget affected programs already appropriated in the 2001-02 State Budget. Some of the Governor’s proposals were enacted by a special session of the State Legislature convened in January 2002.

The Governor’s expenditure reductions for the 2001-02 State Budget did not affect revenue limit apportionments to K-12 school districts, but resulted in reduced revenues for various special programs. Examples of K-12 school programs the Governor reduced include one-time block grants to offset higher energy costs, block grants for low-performing schools, performance incentives and teacher training awards.

The School District incorporated these changes as well as others to the 2001-02 operating budget, resulting in approximately \$5 million reduction in expenditures. The 2002-03 State Budget was signed by the Governor on September 5, 2002, after the statutory deadline for adoption of the State Budget. The 2002-03 State Budget proposed total 2002-03 Proposition 98 funding of approximately \$43.9 billion, of which the General Fund share was approximately \$28.9 billion. The foregoing, takes into account the Governor's proposed mid-year (2002-03) cuts of \$1.9 billion in December, 2002 for K-14 (including community colleges) education revisions which were made response to a projected \$34.8 billion general fund budget shortfall.

2003-04 State Budget. Governor Davis introduced the proposed 2003-04 State Budget on January 10, 2003, which addresses California's projected \$34.8 billion general fund budget shortfall. The total 2003-04 Proposition 98 funding proposed by the Governor was approximately \$44.1 billion, a slight increase over the revised 2002-03 funding level. However, the proposed 2003-04 State Budget reflects a \$1.5 billion across-the-board reduction in funding for K-12 education, \$438 million in one-time fund shifts in Prop. 98 funds, and \$343 million in specific program cuts. These reductions are in addition to the mid-year (2002-03) cut proposed by the Governor in December, 2002 for K-14 (including community colleges) education. The Governor's 2003-04 budget proposes additional mid-year cuts of \$803.9 million for K-14 education. The proposed 2003-04 State Budget is subject to revision by the Legislature and the Governor prior to final approval. The Governor and the Legislature have not always met the statutory deadline for application of the State Budget (e.g. the State Budget due June 2002 was approved September 5, 2002).

There is no assurance that these will be the only reductions to the 2003-04 State Budget affecting K-12 school district funding.

The School District cannot predict and will have no control over the outcome of any further reductions to the 2003-04 State Budget affecting the funding of K-12 school districts. It should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series A Bonds is payable from the general fund of the School District. The Series A Bonds are payable from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment of the Series A Bonds. See "THE SERIES A BONDS -- Security" herein.

Future Budgets. The School District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with the projected State budget deficit and the changing State revenues and expenditures. Future State Budgets will be affected by national and state economic conditions and other factors. However, the obligation of the County to levy *ad valorem* taxes upon all taxable property within the School District for the payment of the Bonds would not be impaired.

**The Series A Bonds are a general obligation of the School District, on behalf of the Improvement District. The State is not obligated and will not pay debt service on the Series A Bonds.**

## **THE IMPROVEMENT DISTRICT**

### **General Information**

The Improvement District was formed on August 6, 2002, pursuant to the provisions of the Act and proceedings taken by the School District. The Improvement District includes all of the territory located within the boundaries of the School District excepting only noncontiguous territory located within the boundaries of existing Mello-Roos community facilities districts formed by the School District and a community facilities district which is proposed to be formed. The area of the Improvement District is about 65 square miles, representing approximately 66% of the territory of the School District. The Improvement District encompasses territory with approximately 45,236 residential units, with an estimated population in 2002 of about 130,795 persons, accounting for approximately 81% of the total population of the School District. All of the necessary filings under State Law connected with formation of the Improvement District have been made with the State Board of Equalization.

The Series A Bonds represent a general obligation of the School District, on behalf of the Improvement District, payable from *ad valorem* taxes levied on taxable parcels within the Improvement District.

## **TAX BASE FOR REPAYMENT OF SERIES A BONDS**

*The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the Improvement District. The Series A Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the Improvement District. The School District's general fund is not a source for the repayment of the Series A Bonds.*

### **Ad Valorem Property Taxation**

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

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) 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 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 tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

### **Assessed Valuations**

The assessed valuation of property in the Improvement District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

Property within the Improvement District had a net taxable assessed valuation for Fiscal Year 2002-03 of \$13,355,462,681, representing about 75.5% of the total assessed valuation of the School District. Shown in the following table are the assessed valuations for the Improvement District for the last several years. Information regarding the assessed valuations for the School District for the last 24 years are set forth under the caption "DISTRICT FINANCIAL INFORMATION – Assessed Values."

**ASSESSED VALUATION  
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2002-1  
OF THE POWAY UNIFIED SCHOOL DISTRICT  
FISCAL YEARS 1998-99 TO 2002-03**

<u>Fiscal Year</u>	<u>Land Value<sup>(1)</sup></u>	<u>Improved Value<sup>(1)</sup></u>	<u>Total Assessed Value</u>
1998-99	\$3,563,230,847	\$6,252,262,632	\$ 9,815,493,479
1999-00 <sup>(2)</sup>	N/A	N/A	N/A
2000-01	4,081,281,771	7,058,427,122	11,139,708,893
2001-02	4,692,696,033	7,679,432,247	12,372,128,280
2002-03	4,948,139,791	8,407,322,890	13,355,462,681

<sup>(1)</sup> Assessed values for all parcels were not available at the time of calculation due to the fact that Assessor's parcel data was not updated to reflect some parcel splits. In these cases, values were estimated based on prior year Assessor's parcel data. Values were based on data provided to David Taussig & Associates, Inc. by the San Diego County Auditor Controller.

<sup>(2)</sup> Values were not available for this fiscal year because the School District did not seek voters' approval. The School District sought voter approval of a general obligation bond issue in Fiscal Years 1998-99, 2000-01, 2001-02 and 2002-03.

**Tax Levies and Delinquencies**

Information regarding the secured tax charges and delinquencies for all taxes collected in the Improvement District is not available from the County. As described below, the County has implemented an alternative method for the distribution of secured property taxes to local agencies, known as the "Teeter Plan" pursuant to which a participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the County has actually collected the levies. The Teeter Plan may be discontinued under certain circumstances.

**Alternative Method of Tax Distribution – "Teeter Plan"**

*The following information has been provided by the County for inclusion in this Official Statement.*

The County has implemented an alternative method for the distribution of secured property taxes to local agencies, known as the "Teeter Plan." The Teeter Plan provisions are now set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The County Board of Supervisors adopted



the Teeter Plan on June 29, 1993. The County's Teeter Plan applies to the School District and to the Series A Bonds.

The *ad valorem* property tax to be levied to pay the principal of and interest on the Series A Bonds is subject to the Teeter Plan, beginning in 2003-04. The School District will receive 100% of the *ad valorem* property tax levied to pay the Series A Bonds irrespective of actual delinquencies in the collection of the tax by the County.

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

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of assessments (if a county has elected to include assessments), 100% of the assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the assessment. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

## Tax Rates

There are a total of 244 tax rate areas in the Improvement District. The table below provides representative total *ad valorem* tax rates levied by all taxing entities in Tax Rate Areas 08-050 (located in the City representing assessed value of approximately 34% of the total assessed value of \$13,355,462,681 in the Improvement District) and 17-030 (located in the unincorporated area of the County representing approximately 3.3% of the total assessed value of \$13,355,462,681 in the Improvement District). The tables below show the tax rates for each Tax Rate Area.

### POWAY UNIFIED SCHOOL DISTRICT

#### 2002-03 Typical Tax Rate (TRA 08-050)

General Tax Rate	1.00000
City of San Diego	.00711
Metropolitan Water District	.00670
San Diego County Water Authority	<u>.00075</u>
Total	1.01456

#### 2002-03 Typical Tax Rate (TRA 17-030)

General Tax Rate	1.00000
City of Poway	.01020
Metropolitan Water District	.00670
San Diego County Water Authority	<u>.00075</u>
Total	1.01765

*Source: David Taussig & Associates, Inc.*

## Largest Property Owners

The following table shows the 20 largest owners of taxable property in the Improvement District as determined by secured assessed valuation in Fiscal Year 2002-03.

**LARGEST LOCAL SECURED PROPERTY OWNERS  
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2002-1 OF THE  
POWAY UNIFIED SCHOOL DISTRICT**

Property Owner	Estimated Secured Tax Charge <sup>(1)</sup>	Primary Land Use	Fiscal Year 2002-03 Assessed Valuation	% of SFID
Sony Corp. of America	\$1,922,794.24	Industrial	\$189,019,255.00	1.41%
Hewlett-Packard Co.	1,799,232.12	Industrial	177,089,689.00	1.33%
Casa de Las Campanas Inc.	794.52	Institutional	68,316,207.00	0.51%
FBTC Leasing Corp.	607,712.24	Industrial	59,745,131.00	0.45%
Metropolitan Life Insurance Co.	555,810.62	Residential	53,811,709.00	0.40%
NCR Corp.	536,528.14	Commercial	52,525,048.00	0.39%
Kilroy Realty LP	506,462.28	Commercial	49,335,067.00	0.37%
Miller Brothers Investment	472,358.76	Commercial	45,777,600.00	0.34%
Lincoln-Reep Pointe II Opco LLC	458,316.96	Commercial	45,038,475.00	0.34%
BAE Systems Mission Solutions Inc.	457,814.50	Industrial	45,018,000.00	0.34%
Rreef American Reit II Portfolio LP	405,089.78	Commercial	40,209,420.00	0.30%
B F M I T Rancho Bernardo LLC	360,184.52	Residential	35,281,722.00	0.26%
Cymer Inc.	444,496.12	Commercial	34,401,215.00	0.26%
Prudential Insurance Co. of America	371,350.74	Industrial	34,384,000.00	0.26%
NK San Diego LLC	347,548.52	Industrial	34,003,740.00	0.25%
TRW Inc.	347,871.60	Industrial	33,975,110.00	0.25%
Canyon Rim LP	108,932.40	Residential	33,939,914.00	0.25%
Unisys Corp.	330,778.58	Commercial	32,407,309.00	0.24%
Nacar of San Diego Inc.	302,835.24	Industrial	29,148,673.00	0.22%
Camino Bernardo Villas LTD	<u>277,115.24</u>	Residential	<u>27,106,484.00</u>	<u>0.20%</u>
Total	\$10,614,027.12		\$1,120,533,768.00	8.37%

<sup>(1)</sup>Local Secured Assessed Valuation; excluding tax-exempt property.

*Source: David Taussig & Associates, Inc.*

### **Direct and Overlapping Bonded Debt**

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by National Tax Data Incorporated and effective April 8, 2003. The Debt Report is included for general information purposes only. The School 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 Improvement District in whole or in part. Such long-term obligations generally are not payable from revenues of the School District (except as indicated) nor are they necessarily obligations secured by land within the Improvement 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 contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the School District; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the School District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the School District, as determined by multiplying the total outstanding debt of each agency by the percentage of the School District's assessed valuation represented in column 2.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT  
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2002-1 OF THE  
POWAY UNIFIED SCHOOL DISTRICT  
General Obligation Bonds**

**Detailed Direct and Overlapping Debt**

**I. Assessed Value**

**2002-2003 Secured Roll Assessed Value (Less Exemptions)**

**\$12,912,970,384**

**II. Secured Property Taxes**

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Levy	
					Parcels	Amount
Basic Levy	PROP13	870,124	\$2,125,563,017.81	6.07508%	41,513	\$129,129,703.84
Voter Approved Debt		857,638	139,221,811.88	1.43753%	41,028	2,001,348.76
City of Poway Ann-O-Reno Lane Street Improvement		2	1,352.54	100.00000%	2	1,352.54
City of Poway Assessment District No. 96-1	1915	164	51,187.04	100.00000%	164	51,187.04
City of Poway Assessment District No. 2001-1	1915	20	29,734.70	100.00000%	20	29,734.70
City of Poway Budwin Lane Road Street Improvement		12	5,460.48	100.00000%	12	5,460.48
City of Poway CFD No. 1	CFD	133	2,297,594.22	100.00000%	133	2,297,594.22
City of Poway CFD No. 88-1	CFD	93	2,417,548.34	100.00000%	93	2,417,548.34
City of Poway Fire Protection Fees	FIRE	14,476	562,005.82	99.66773%	14,430	560,138.42
City of Poway Jerome Drive Street Improvement		6	2,468.88	100.00000%	6	2,468.88
City of Poway Joshua Tree Court Street Improvement		2	1,443.84	100.00000%	2	1,443.84
City of Poway Landscape Maintenance Districts	LMD	3,282	1,108,404.56	100.00000%	3,282	1,108,404.56
City of Poway Roadway Lighting District Zone A, B & C	LLD	14,632	656,650.58	99.82550%	14,587	655,504.70
City of Poway Sewer Maintenance	SEWER	2	8,486.32	100.00000%	2	8,486.32
City of Poway Weed Abatement	ABATEME	93	27,058.00	97.79732%	92	26,462.00
City of San Diego CFD No. 2, Impv Area 1	CFD	854	1,866,541.30	14.22906%	243	265,591.28
City of San Diego Landscape Maintenance Districts	LMD	41,392	2,406,984.46	18.17203%	22,780	437,398.00
City of Santee Fire Protection District Special Tax	FIRE	14,407	864,505.60	0.00949%	1	82.00
Metropolitan Water District of Southern California Standby Charge	STANDBY	392,404	5,535,434.76	11.71470%	41,003	648,459.52
Olivenhain Municipal Water District Assessment District No. 96-1	1915	18,639	1,508,023.32	6.41919%	590	96,802.88
Olivenhain Municipal Water District Sanitation (Four-S Ranch)		1,657	1,133,195.94	41.08351%	553	465,556.68
Rancho Santa Fe Community Services District CFD No. 1	CFD	467	2,043,151.78	12.32455%	7	251,809.22
Rancho Santa Fe Community Services District Sewer	CSA	467	260,071.00	0.71865%	7	1,869.00
Rancho Santa Fe Fire Protection District	FIRE	8,459	176,952.50	12.82124%	616	22,687.50
San Diego County Assessment District No. 97-1	1915	438	1,636,272.66	58.33629%	48	954,540.80
San Diego County County Service Area No. 17	CSA	45,466	953,993.04	1.11200%	510	10,608.36
San Diego County Service Area Zone F	CSA	14,345	132,314.56	99.75876%	14,304	131,995.36
San Diego County Mosquito/Rat Control	VECTOR	810,107	2,053,207.50	5.49286%	41,295	112,779.72
San Diego County Street Lighting Zone A	OPENSPEC	77,768	225,156.96	0.13479%	151	303.50
San Diego County Zone Parks & Recreation	REC	1,502	120,623.70	29.63898%	513	35,751.64
San Diego County Water Authority Water Availability Standby Charge	STANDBY	398,589	4,820,874.38	11.67182%	41,079	562,684.00
2002-2003 TOTAL PROPERTY TAX LIABILITY						\$142,295,758.10
TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2002-2003 ASSESSED VALUATION						1.10%

**III. Land Secured Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of Poway Assessment District No. 96-1	1915	\$ 586,470	\$ 475,000	100.00000%	164	\$ 475,000
City of Poway Assessment District No. 2001-1	1915	290,350	277,637	100.00000%	20	277,637
City of Poway CFD No. 1	CFD	88,890,000	17,665,000	100.00000%	133	17,665,000
City of Poway CFD No. 88-1	CFD	38,000,000	31,285,000	100.00000%	93	31,285,000
City of San Diego CFD No. 2, Impv Area 1	CFD	56,020,000	56,020,000	14.22906%	243	7,971,119
Olivenhain Municipal Water District Assessment District No. 96-1	1915	22,530,000	20,690,000	6.41919%	590	1,328,130
Rancho Santa Fe Community Services District CFD No. 1	CFD	29,025,000	29,025,000	12.42439%	8	3,606,179
San Diego County Assessment District No. 97-1	1915	21,755,000	16,490,000	58.33629%	48	9,619,655
TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS						\$72,227,720

**IV. General Obligation Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of Poway Municipal Water District Debt Service	GO	\$ 6,300,000	\$ 1,500,000	98.36410%	15,209	\$1,475,461.56
City of San Diego Public Safety Communication System Debt Service	GO	25,500,000	16,920,000	11.47473%	37,621	1,941,524.82
Metropolitan Water District of Southern California Debt Service	GO	850,000,000	503,074,000	1.02705%	41,513	5,166,797.28
Padre Dam Municipal Water Improvement District Debt Service	GO	8,400,000	915,000	0.00022%	1	2.01
San Diego County Water Authority Debt Service	GO	30,000,000	3,220,000	6.33784%	41,513	204,078.47
TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (1)						\$8,787,864

<b>TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT</b>	<b>\$81,015,584.03</b>
<b>ASSESSED VALUE TO ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT</b>	<b>159.39:1</b>

(1) Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.

Source: National Tax Data Incorporated.

## THE SCHOOL DISTRICT

*The information in this section concerning the School District is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series A Bonds is payable from the general fund of the School District. The Series A Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE SERIES A BONDS – Security" herein.*

### General Information

The Poway Unified School District (the "School District") is located north of the City of San Diego (the "City"). The School District was originally formed in 1962. The School District currently covers approximately 99.1 square miles in the central portion of the County of San Diego (the "County") and includes the City of Poway and portions of the City and the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-one (21) elementary schools, five (5) middle schools, four (4) high schools, one (1) continuation high school and one (1) adult school. The School District had approximately 32,713 students enrolled as of March 2003.

### Administration

The School District is governed by the Board of Education (the "Board"). The five Board members are elected to four-year terms in alternate slates of three and two in elections held every two years. If a vacancy arises during any term, the vacancy is filled by an appointment by a majority vote of the remaining Board members and, if there is no majority, by a special election. The School District is governed by a five-member Board, each of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

Board Member	Office	Term Expires
Linda Vanderveen	President	December 3, 2004
Jeff Mangum	Vice-President	December 1, 2006
Andy Patapow	Clerk	December 3, 2004
Steve McMillan	Member	December 1, 2006
Penny Ranftle	Member	December 1, 2006

The administrative staff of the School District includes Donald A. Phillips, Superintendent, John P. Collins, Deputy Superintendent and Keith L. Bradford, Associate Superintendent, Business Support Services.

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs a Deputy Superintendent, an Associate Superintendent of Business Support Services, two Assistant Superintendents for Learning Support Services and an Assistant Superintendent of Personnel Support Services.

### Enrollment

From fiscal year 1994-95 through fiscal year 2001-02, the School District's enrollment increased by 3,470, an average of approximately 2 percent per year. Information concerning enrollment for these years, as well as fiscal year 2002-03 are set forth below:

**Poway Unified School District  
Student Enrollment**

<b>Fiscal Year</b>	<b>Enrollment</b>	<b>District Average Daily Attendance</b>	<b>District Base Revenue Limit</b>
1994-95	29,152	29,020	\$3,468.39
1995-96	30,043	29,787	3,615.36
1996-97	30,626	30,416	3,809.77
1997-98	31,339	31,074	3,912.12
1998-99	31,845	30,916 <sup>(1)</sup>	4,214.70
1999-00	32,536	31,279	4,274.70
2000-01	32,532	31,173	4,412.70
2001-02	32,507	31,319	4,597.38
2002-03	32,754	31,628	4,679.70

*Source: California Department of Education and the School District.*

<sup>(1)</sup> The decrease in the rate of growth from Fiscal Year 1997-98 is due to State legislation that changed the method of calculating ADA to eliminate excused absences from the total. The legislation also increased the Base Revenue Limit so that the change in methodology did not result in a loss of revenue for districts.

**Labor Relations**

As of August 1, 2002, the School District employed approximately 2,362 certificated employees and approximately 1,616 classified employees. The certificated employees, except management and some part-time employees, are represented by the bargaining units as noted below:

**Poway Unified School District  
District Employees**

<b>Labor Organization</b>	<b>Approximate Number of Employees In Organization</b>	<b>Contract Expiration Date</b>
Poway Federation of Teachers (PFT), Local 2357	1,750	6/30/02 <sup>(1)</sup>
Service Employees International Union	483	6/30/04
California School Employees Association	1,224	6/30/04

<sup>(1)</sup> The Poway Federation of Teachers contract expired June 30, 2002 but is still in effect as of April 1, 2003. The School District and the Poway Federation of Teachers are waiting for additional information regarding the State budget before continuing their discussions regarding the contract

*Source: The School District.*

**Retirement Programs**

The School District participates in the State of California Teachers' Retirement System ("STRS"). This plan covers certificated employees. The School District's contribution to STRS for Fiscal Year 1999-00 was \$7,653,513, in Fiscal Year 2000-01 was \$8,814,311, in Fiscal Year 2001-02 was \$9,265,362 and in Fiscal Year 2002-03 is budgeted at \$9,278,909. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees' Retirement Systems ("PERS"). This plan covers certificated employees who elect and all classified personnel who are employed

1,000 or more hours per fiscal year. The School District's contribution to PERS since 1998 has been \$0.00. The contribution for Fiscal Year 2002-03 is budgeted at \$1,049,889.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in retirement benefits. The contribution rates are based on statewide rates set by the STRS and PERS retirement boards. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the School District's share.

## **Insurance**

The School 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 School District believes to be adequate based on actual risk exposure and as may be required by statute.

The State of California has authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. Under this program, the Fund provides coverage for individual claims up to a limit of \$350,000. Commercial insurance is purchased to defray claim costs exceeding the self-insured retention level.

The School District operates a Self-Insurance Program to cover general liability claim losses up to a limit of \$100,000 per claim and property losses up to \$100,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems breakdown (\$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.

## **DISTRICT FINANCIAL INFORMATION**

*The information in this section concerning the operations of the School District and the School District's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series A Bonds is payable from the general fund of the School District. The Series A Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE SERIES A BONDS – Security" herein.*

## **Accounting Practices**

The accounting practices of the School District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts.

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

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

## Financial Statements

The School District's general fund finances the legally authorized activities of the School District for which restricted funds are not provided. General Fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the School District for the Fiscal Year ended June 30, 2002, and prior fiscal years are on file with the School District and available for public inspection at the office of the Associate Superintendent, Business Support Services of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098, telephone number (858) 679-2552. The audited financial statements for the year ended June 30, 2002, are included in Appendix A hereto.

The following table shows information from the School District's audited financial statements for 1999-00, 2000-01 and 2001-02.

### AUDITED FINANCIAL STATEMENTS POWAY UNIFIED SCHOOL DISTRICT BALANCE SHEET – GENERAL FUND

	June 30, 2000	June 30, 2001	June 30, 2002
<b>Assets</b>			
Cash in County Treasury	\$17,234,100	\$16,480,819	\$11,243,700
Cash on Hand and in Banks	66,774	162,332	171,392
Cash in Revolving Fund	75,000	75,000	75,000
Cash with Fiscal Agent/trustee	9,742,573	9,783,442	-
Accounts Receivable	6,647,605	8,495,413	11,183,068
Due from Other Funds	707,238	736,323	1,892,564
Stores Inventory	475,553	481,424	591,47
Other Current Assets	-	6,424	-
Total Assets	<u>\$34,768,843</u>	<u>\$36,221,177</u>	<u>\$25,157,671</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts Payable	\$2,827,110	\$3,670,986	\$3,777,019
Due to Other Funds	201,091	225,641	339,684
Current Loans	9,500,000	9,500,000	-
Deferred Revenue	<u>2,068,852</u>	<u>2,207,844</u>	<u>2,743,519</u>
Total Liabilities	<u>\$14,597,053</u>	<u>\$15,604,471</u>	<u>\$6,860,222</u>
Fund Balance:			
Reserved Fund Balances:			
Reserved for Revolving Fund/Cash	\$75,000	\$75,000	\$75,000
Reserved for Stores Inventories	475,553	481,424	591,947
Reserved for Prepaid Items	-	6,423	-
Reserved for Legally Restricted Balance	-	7,613,303	6,979,737
Designated Fund Balances:			
Designated for Economic Uncertainties	4,884,000	5,325,000	4,325,170
Other Designated Fund Balance	11,797,229	5,323,939	3,326,657
Unreserved, Undesignated Fund Balance	<u>2,940,008</u>	<u>1,791,617</u>	<u>2,998,938</u>
Total Fund Balance	<u>\$20,171,790</u>	<u>\$20,616,706</u>	<u>\$18,297,449</u>
Total Liabilities and Fund Balances	<u>\$34,768,843</u>	<u>\$36,221,177</u>	<u>\$25,157,671</u>

*Source: School District audited financial statements.*



**AUDITED FINANCIAL STATEMENTS  
POWAY UNIFIED SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES – GENERAL FUND  
FOR THE FISCAL YEARS ENDED JUNE 30**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Revenues</b>			
Revenue Limit Sources:			
State Apportionments	\$ 58,679,433	\$ 66,808,017	\$ 67,661,619
Local Sources	<u>67,508,854</u>	<u>74,207,244</u>	<u>80,532,723</u>
Total Revenue Limit	\$126,188,287	\$141,015,261	\$148,194,342
Revenue from Federal Sources	4,219,316	4,804,100	6,458,859
Revenue from Other State Sources	46,371,721	52,752,335	47,060,794
Revenue from Local Sources	<u>8,917,138</u>	<u>9,436,003</u>	<u>8,860,621</u>
Total Revenues	<u>\$185,696,462</u>	<u>\$208,007,699</u>	<u>\$210,574,616</u>
<b>Expenditures</b>			
Current:			
Certificated Salaries	\$ 99,077,921	\$111,700,497	\$116,719,581
Classified Salaries	28,220,053	32,128,324	33,753,717
Employee Benefits	24,204,261	27,776,808	29,620,842
Books and Supplies	6,603,805	8,498,686	11,660,413
Contract Services and Operating Expenses	14,814,774	17,495,943	18,814,624
Capital Outlay	5,938,515	6,654,296	2,202,197
Debt Service: Principal and Interest	<u>1,903,260</u>	<u>1,599,693</u>	<u>1,608,927</u>
Total Expenditures	<u>\$180,762,589</u>	<u>\$205,854,247</u>	<u>\$214,380,301</u>
Excess (deficiency) of Revenue over (under) Expenditures	<u>4,933,873</u>	<u>2,153,452</u>	<u>(3,805,685)</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	-	-	598,965
Interfund Transfers Out	(1,673,600)	(1,712,584)	(1,875,000)
Other Sources	272,600	-	2,765,648
Other Uses	<u>(42,518)</u>	<u>4,048</u>	<u>(3,185)</u>
Total Other Financing Sources (Uses)	<u>(1,443,518)</u>	<u>(1,708,537)</u>	<u>1,486,158</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	3,490,355	444,916	(2,319,257)
Fund Balance/Equity, July 1	<u>16,681,435</u>	<u>20,171,790</u>	<u>20,616,706</u>
Fund Balance/Equity, June 30	<u>\$20,171,790</u>	<u>\$20,616,706</u>	<u>\$18,297,449</u>

*Source: School District audited financial statements.*

## **Budget Process**

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

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

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the School District to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the School District to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent’s recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent’s recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

The School District’s most recent Interim Financial Reports have received “positive” certifications pursuant to AB 1200.

## General Fund Budget

The School District's General Fund budgets for the Fiscal Years ending June 30, 2000, June 30, 2001, and June 30, 2002, and the revised June 30, 2003, budget are set forth below:

### GENERAL FUND BUDGET FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002 AND 2003

	Audited Actual 1999-00	Audited Actual 2000-01	Audited Actual 2001-02	Revised Budget 2002-03 <sup>(1)</sup>
<b>Revenues</b>				
Revenue Limit Sources:				
State Apportionments	\$ 58,679,433	\$ 66,808,017	\$ 67,661,619	\$ 64,618,000
Local Sources	<u>67,508,854</u>	<u>74,207,244</u>	<u>80,532,723</u>	<u>86,982,515</u>
Total Revenue Limit	\$126,188,287	141,015,261	\$148,194,342	\$151,600,515
Federal	4,219,316	4,804,100	6,458,859	7,891,197
Other State	46,371,721	52,752,335	47,060,794	42,807,296
Other Local	<u>8,917,138</u>	<u>9,436,003</u>	<u>8,860,621</u>	<u>5,600,308</u>
Total Revenues	<u>\$185,696,462</u>	<u>\$208,007,699</u>	<u>\$210,574,616</u>	<u>\$207,899,316</u>
<b>Expenditures</b>				
Current:				
Certificated Salaries	\$ 99,077,921	111,700,497	\$116,719,581	117,735,721
Classified Salaries	28,220,053	32,128,324	33,753,717	33,036,876
Employee Benefits	24,204,261	27,776,808	29,620,842	30,623,619
Books and Supplies	6,603,805	8,498,686	11,660,413	8,182,437
Services and Other Operating Expenses	14,814,774	17,495,943	18,814,624	17,436,474
Capital Outlay	5,938,515	6,654,296	2,202,197	2,282,411
Debt Service: Principal and Interest	<u>1,903,260</u>	<u>1,599,693</u>	<u>1,608,927</u>	<u>2,068,953</u>
Total Expenditures	<u>\$180,762,589</u>	<u>\$205,854,247</u>	<u>\$214,380,301</u>	<u>\$216,366,491</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,933,873</u>	<u>2,153,452</u>	<u>(3,805,685)</u>	<u>(3,467,175)</u>
Other Financing Sources (uses):				
Operating transfers in	-	-	598,965	445,344
Operating transfers out	(1,673,600)	(1,712,584)	(1,875,000)	(2,019,000)
Other Sources	272,600	-	2,765,648	2,005,055
Other Uses	<u>(42,518)</u>	<u>4,047</u>	<u>(3,185)</u>	<u>2,911</u>
Total Other Financing Sources (uses)	<u>(1,443,518)</u>	<u>(1,708,537)</u>	<u>1,486,158</u>	<u>434,310</u>
Excess (deficiency) of Revenues and Other Resources over (under) Expenditures and Other Uses	3,490,355	444,915	(2,319,257)	(3,032,865)
Fund Balances/Equity, July 1	<u>16,681,435</u>	<u>20,171,790</u>	<u>20,616,706</u>	<u>18,297,449</u>
Fund Balances/Equity, June 30	<u>\$20,171,790</u>	<u>\$20,616,705</u>	<u>\$18,297,449</u>	<u>\$15,264,584</u>

<sup>(1)</sup>Fiscal Year 2002-03 Budget is the revised budget adopted by the Board on February 10, 2003.

Source: Poway Unified School District.

## State Funding of Education

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

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of average daily attendance ("A.D.A."). Prior to Fiscal Year 1998-99, daily attendance numbers included students who were absent from school for an excused absence, such as illness. Effective in Fiscal Year 1998-99, only actual attendance is counted in the calculation of A.D.A. This change is essentially fiscally neutral for school districts which maintain the same excused absence rate. The rate per student was recalculated to provide the same total funding to school districts in the base year as would have been received under the old system. In the future, school districts which can improve their actual attendance rate will receive additional funding.

The following table shows the School District's A.D.A. and the School District revenue limit per A.D.A. for the most recent five years. The School District's attendance rate in 2002-03 was approximately 96% and the A.D.A. in 2002-03 was 31,511.

### AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT FISCAL YEARS 1997-98 TO 2002-03 POWAY UNIFIED SCHOOL DISTRICT

Fiscal Year	Average Daily Attendance	Annual Change in A.D.A.	District Revenue Limit per A.D.A. <sup>(1)</sup>
1998-99 <sup>(2)</sup>	30,916	(0.99)%	4,214.70
1999-00	31,279	1.17%	4,274.70
2000-01	31,173	(0.34)%	4,412.70
2001-02	31,319	0.47%	4,597.38
2002-03	31,628	0.99%	4,679.70

*Note: All amounts are rounded to the nearest whole number.*

<sup>(1)</sup> Effective Fiscal Year 1998-99, State legislation changed the method of calculating A.D.A. to eliminate excused absences from the total. The legislation also increased the Base Revenue Limit so that the change in methodology did not result in a loss of revenue for districts.

<sup>(2)</sup> The State's practice of deficit revenue limit funding, which reduced the amount of revenue limit funds received by school districts, was eliminated effective in fiscal year 2000-01.

*Source: California Department of Education and the School District.*

Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts.

## Revenue Sources

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

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

Funding of the School District's revenue limit is provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the School District's revenue limit and its local property tax revenues.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 3.07% of general fund revenues in 2001-02 and are budgeted to equal approximately 3.80% of such revenues in 2002-03.

Other State Revenues. As discussed above, the School District receives State apportionment of basic and equalization aid in an amount equal to the difference between the School District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the School District receives substantial other State revenues.

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, School Improvement Program, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation, instructional materials and mentor teachers. Other State revenues, excluding State Lottery Revenue, comprised approximately 20.29% of general fund revenues in 2001-02 and are budgeted to equal approximately 18.59% of such revenues in 2002-03.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised approximately 2.06% of general fund revenues in 2001-02 and are budgeted to equal approximately 2.0% of such revenues in 2002-03.

Other Local Revenues. In addition to property taxes, the School District receives additional local revenues from items such as leases and rentals, interest earnings, transportation fees, interagency services, and other local sources. Other local revenues comprised approximately 4.21% of general fund revenues in 2001-02 and are budgeted to equal approximately 2.69% of general fund revenues in 2002-03.

## **District Obligations**

General Obligation Bonds. The School District and the Improvement District have no outstanding general obligation bonds other than the Series A Bonds. The annual debt service for the Series A Bonds is shown in "DEBT SERVICE SCHEDULE" herein.

Capital Leases. The School District leases facilities and equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments as of June 30, 2002 are set forth below. The School District entered into an additional five-year lease since such date. The principal component under such lease aggregate \$435,000. In its discretion, the School District may use a portion of the proceeds of the Series A Bonds to prepay a portion of the leases resulting in a reduction in the lease payments from those presented below.

<u>Year Ending June 30</u>	<u>Lease Payments</u>
2003	\$2,701,816
2004	1,463,997
2005	1,463,997
2006	1,280,592
2007	<u>1,111,228</u>
Total Minimum Lease Payments	\$8,021,630
Less amount representing interest	<u>(725,110)</u>
Present Value of Net Minimum Lease Payments	<u>\$7,296,520</u>

*Source: School District Audit Report dated June 30, 2002.*

Tax and Revenue Anticipation Notes. The School District entered into the San Diego Area Local Governments 2002 Pooled Tax and Revenue Anticipation Notes in the amount of \$10,000,000 with an interest rate to yield 3.0%. The notes mature on June 30, 2003, and were sold to supplement the School District's cash flow.

Community Facilities Districts. Development of property located within the School District has caused a need for school facility funding. To finance these additional school facilities, the School District has to date formed 11 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) and is in the process of forming an additional community facilities district. The following table sets forth the formation date, the authorized debt, the amount of authorized debt issued (the "Special Tax Bonds"), and the amount of remaining debt authorized for each community facilities district ("CFD") formed by the School District.

<b>CFD</b>	<b>Formation Date</b>	<b>Authorized Debt</b>	<b>Amount Issued</b>	<b>Remaining Authorization</b>
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	12,635,000	67,365,000
CFD No. 3	September 22, 1997	13,000,000	5,485,000	7,515,000
CFD No. 4	December 15, 1997	32,000,000	-0-	32,000,000
CFD No. 5	August 4, 1997	5,000,000	1,670,000	3,330,000
CFD No. 6	March 24, 1998	130,000,000	25,000,000	105,000,000
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	-0-	30,000,000
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	December 17, 1998	80,000,000	-0-	80,000,000
CFD No. 9	November 9, 1998	15,000,000	-0-	15,000,000
CFD No. 10	August 27, 2001	45,000,000	-0-	45,000,000
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	-0-	3,000,000
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	Not yet formed			
CFD No. 12	June 24, 2002	18,000,000	-0-	18,000,000

<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 \$8,000,000 of bonds in February, 1998, \$80,000,000 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.

Source: School District.

Neither the full faith and credit nor the general taxing power of the School District or any political subdivision thereof is pledged to the payment of the Special Tax Bonds. The Special Tax Bonds are not general obligations of the School District or the Improvement District but are limited obligations payable solely from the proceeds of a special tax authorized pursuant to the Mello-Roos Act.

### Assessed Valuations

The assessed valuation of property in the School District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

Property within the School District had a total assessed valuation for Fiscal Year 2002-03 of \$18,327,618,284. Shown in the following table are the assessed valuations for the School District.

#### ASSESSED VALUATION POWAY UNIFIED SCHOOL DISTRICT FISCAL YEARS 1979-80 TO 2002-03

Fiscal Year	Local Secured Assessed Value	Unsecured Assessed Value	Utility	Total Assessed Valuation	Annual % Change*
1979-80	\$1,682,357,240	\$62,289,384	\$48,401,000	\$1,793,047,624	—
1980-81	2,057,967,348	42,588,916	55,540,600	2,156,096,864	20.25%
1981-82	2,417,970,640	52,629,905	63,361,010	2,533,961,555	17.53%
1982-83	2,737,560,114	57,787,640	74,174,180	2,869,521,934	13.24%
1983-84	2,966,873,304	64,373,859	90,509,900	3,121,757,063	8.79%
1984-85	3,364,677,753	88,949,143	99,320,690	3,552,947,586	13.81%
1985-86	3,961,539,685	90,665,294	110,915,300	4,163,120,279	17.17%
1986-87	4,629,659,515	94,925,369	126,254,260	4,850,839,144	16.52%
1987-88	5,349,242,383	141,634,887	137,776,040	5,628,653,310	16.03%
1988-89	6,360,084,626	177,286,501	2,027,850	6,539,398,977	16.18%
1989-90	7,535,281,580	206,870,286	2,107,850	7,744,259,716	18.42%
1990-91	8,687,270,364	327,913,786	2,107,850	9,017,292,000	16.44%
1991-92	9,387,445,714	371,054,059	3,561,950	9,762,061,723	8.26%
1992-93	9,901,530,522	330,080,341	3,376,580	10,234,987,443	4.84%
1993-94	10,369,177,006	356,126,157	3,561,560	10,728,864,723	4.83%
1994-95	10,550,150,826	412,924,155	2,430,440	10,965,505,421	2.21%
1995-96	10,681,985,267	425,993,042	2,517,730	11,110,496,039	1.32%
1996-97	10,685,240,963	460,605,666	2,517,730	11,148,364,359	0.34%
1997-98	11,016,319,374	521,417,132	2,517,730	11,540,254,236	3.52%
1998-99	11,859,248,298	533,388,384	2,517,730	12,395,154,412	7.41%
1999-00	13,160,066,017	631,733,523	2,406,883	13,794,206,423	11.29%
2000-01	14,447,498,580	634,187,060	2,406,883	15,084,092,523	9.33%
2001-02	15,872,125,024	784,219,595	684,163	16,657,028,782	10.45%
2002-03	17,455,156,787	871,777,334	684,163	18,327,618,284	10.03%

\* Calculation based on prior year assessed value divided by increase in the current year assessed value from the prior year assessed value.

Source: California Municipal Statistics, Inc.

## Tax Levies and Delinquencies

The following table shows the secured tax charges and delinquencies for all taxes collected in the School District by the County between 1997-98 and 2001-02.

### SECURED TAX CHARGES AND DELINQUENCY RATES POWAY UNIFIED SCHOOL DISTRICT FISCAL YEARS 1997-98 THROUGH 2001-02

Fiscal Year	Secured Tax Charge <sup>(1)</sup>	Amount Delinquent June 30
1997-98	\$37,522,343.47	N/A <sup>(2)</sup>
1998-99	40,147,807.14	N/A <sup>(2)</sup>
1999-00	44,445,399.41	N/A <sup>(2)</sup>
2000-01	48,239,816.27	N/A <sup>(2)</sup>
2001-02	53,071,776.71	N/A <sup>(2)</sup>

<sup>(1)</sup> 1% General Fund apportionment.

<sup>(2)</sup> San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

Source: *California Municipal Statistics, Inc.*

## Largest Property Owners

The following table shows the 20 largest owners of taxable property in the School District as determined by secured assessed valuation in Fiscal Year 2002-03.

### LARGEST LOCAL SECURED PROPERTY OWNERS POWAY UNIFIED SCHOOL DISTRICT

Property Owner	Estimated Secured Tax Charge <sup>(1)</sup>	Primary Land Use	Fiscal Year 2002-03 Assessed Valuation	% of Total
Sony Corp. of America	\$1,922,794.24	Industrial	\$189,019,255.00	1.07%
Hewlett-Packard Co.	1,799,232.12	Industrial	177,089,689.00	1.00%
Community I LLC	815,943.28	Commercial	77,122,031.00	0.44%
Casa de Las Campanas Inc.	794.52	Institutional	68,316,207.00	0.39%
Kilroy Realty LP	622,931.54	Commercial	60,779,467.00	0.34%
FBTC Leasing Corp.	607,712.24	Industrial	59,745,131.00	0.34%
Santaluz LLC	1,526,425.50	Residential	55,704,278.00	0.31%
Metropolitan Life Insurance Co.	555,810.62	Residential	53,811,709.00	0.30%
NCR Corp.	536,528.14	Commercial	52,525,048.00	0.30%
Miller Brothers Investment	472,358.76	Commercial	45,777,600.00	0.26%
Lincoln-Recp Pointe II Opco LLC	458,316.96	Commercial	45,038,475.00	0.25%
BAE Systems Mission Solutions Inc.	457,814.50	Industrial	45,018,000.00	0.25%
Herco Technology Corp.	423,380.78	Commercial	41,466,183.00	0.23%
Calwest Industrial Properties LLC	420,167.56	Industrial	40,800,571.00	0.23%
Rreef American Reit II Portfolio LP	405,089.78	Commercial	40,209,420.00	0.23%
B R E PROPERTIES INC	455,699.18	Residential	35,816,802.00	0.20%
B F M I T Rancho Bernardo LLC	360,184.52	Residential	35,281,722.00	0.20%
Shea Homes LTD Partnership	364,642.96	Residential	35,233,402.00	0.20%
Cymer Inc.	444,496.12	Commercial	34,401,215.00	0.19%
Prudential Insurance Co. of America	371,350.74	Industrial	34,384,000.00	0.19%
Total	\$13,021,674.06		\$1,227,540,205.00	6.92%

<sup>(1)</sup> Local Secured Assessed Valuation; excluding tax-exempt property.

Source: *David Taussig & Associates, Inc.*



## LEGAL MATTERS

### Tax Matters

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Series A Bonds is excluded from gross income for federal tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although it should be noted that for purposes of calculating the alternative minimum tax imposed on corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The opinions of Bond Counsel set forth in the preceding paragraph are subject to the condition that the School District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series A Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The School District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds. Bond Counsel expresses no opinion regarding other tax consequences arising with respect to the Series A Bonds.

In the further opinion of Bond Counsel, interest on the Series A Bonds is exempt from State of California personal income taxation.

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

### Continuing Disclosure

The School District has covenanted for the benefit of owners and Beneficial Owners of the Series A Bonds to provide certain financial information and operating data relating to the School District (the "Annual Report") by not later than seven months following the end of the School District's fiscal year (which shall be February 1 of each year, so long as the School District's fiscal year ends on June 30), commencing with the report for the 2002-03 Fiscal Year (which will be due not later than February 1, 2004), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the School District with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed by the School District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the appropriate State information depository, if any. The specific nature of the information to be made available and to be contained in the notices of material events is set forth in Appendix D, "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The School 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.

### Legality for Investment in California

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

### Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Series A Bonds, and a certificate or certificates to that effect will be furnished to purchasers at the time of the original delivery of the Series A Bonds. The School District is not aware of any litigation pending or threatened questioning the political existence of the School District or contesting the School District's ability to receive *ad valorem* taxes or contesting the School District's ability to issue and retire the Series A Bonds.

## RATINGS

Moody's Investors Service and Standard & Poor's have assigned ratings of "Aaa" and "AAA," respectively, to the Series A Bonds with the understanding that, upon delivery of the Series A Bonds, the Policy will be issued with respect to such maturities of the Series A Bonds by the Bond Insurer. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies furnishing the same, at the following addresses: Moody's Investors Service, One Front Street, Suite 1900, San Francisco, California 94111; Standard & Poor's Ratings Group, 25 Broad

way, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Some information provided to the rating agencies by the School District may not appear in this Official Statement. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Series A Bonds. Absent the Policy, the Series A Bonds have been rated "Aa3" by Moody's Investors Service and "A+" by Standard & Poor's.

### **UNDERWRITING**

The Series A Bonds were purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Series A Bonds at a price of \$78,266,582.40, which is equal to the principal amount of the Series A Bonds, plus a net premium of \$3,266,582.40 (original premium in the amount of \$4,417,524.40, less the costs of issuance of \$1,150,942.00). The Contract of Purchase relating to the Series A Bonds provides that the Underwriter will purchase all of the Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Series A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

### **ADDITIONAL INFORMATION**

Quotations from and summaries and explanations of the Series A Bonds, the Resolutions providing for issuance of the Series A Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from District records. This Official Statement has been approved by the School District Board of Education.

### **POWAY UNIFIED SCHOOL DISTRICT**

By: /s/ Keith L. Bradford

Keith L. Bradford, Associate Superintendent,  
Business Support Services of the Poway Unified  
School District

**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

# WILKINSON & HADLEY LLP

CERTIFIED PUBLIC ACCOUNTANTS

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  
13626 Twin Peaks Road  
Poway, California

Members of the Board of Trustees:

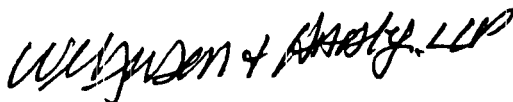
We have audited the accompanying general purpose financial statements of Poway Unified School District, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of Poway Unified School District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Poway Unified School District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types 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 February 11, 2003, on our consideration of Poway Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Poway Unified School District taken as a whole. 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 and individual fund 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



Wilkinson & Hadley, LLP  
February 11, 2003

[THIS PAGE INTENTIONALLY LEFT BLANK]

## *Basic Financial Statements*

**Poway Unified School District  
Management's Discussion and Analysis  
June 30, 2002  
(Unaudited)**

This section of Poway Unified School District's (District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ending June 30, 2002. The management's discussion and analysis is required as a new element of the reporting model established by the Governmental Accounting Standards Board (GASB) in Statement Number 34. Because this is the first year of implementation, some financial data and statements will not reflect prior year information. However, this information will be supplied in subsequent years. Please read it in conjunction with the District's financial statements, which follow this section.

**Financial Highlights**

- The District's net assets exceeded liabilities by \$95.8 million.
- Overall revenues were \$240.5 million, which exceeded expenses by \$11.3 million.
- The District enrollment declined very slightly for the second year in a row. Student enrollment decreased by 25 students for a total of 32,507 students as of October 2001. The previous year decline from October 1999 to October 2000 was four students.
- There was significant growth in Average Daily Attendance (ADA) second period (P2) from 95.82% 2000-01 to 96.35% in 2001-02. This seemingly small difference in percentage created additional ADA of 145.98 that in turn generated additional Revenue Limit income of \$672,000.
- Property tax revenue increased by 8.26% as a result of increases in taxable value of property. The majority of this increase was a result of development growth on the west side of the District.
- The District started and continued various capital projects during the year ended June 30, 2002 at a projected cost of \$46.8 million.

**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 11-13 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 ten 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, and the Extended School Services enterprise fund (ESS), each of which are considered to be major funds. Data from the other seven 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. The basic governmental fund financial statements can be found on pages 36-45 of this report.

- **Proprietary funds.** The District maintains two proprietary fund types, internal service funds and enterprise funds.

*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 18-20 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 page 22 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 23-35 of this report.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 14-17. Individual fund statements and schedules can be found on pages 36-45 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$95.8 million at the close of the most recent fiscal year.

#### 2001-02 NET ASSETS (In Millions of Dollars)

	Governmental Activities	Business Activities	Total District	Total Percentage
Current and Other Assets	\$ 44.9	\$ 1.4	\$ 46.3	22.6%
Capital Assets	153.6	4.8	158.4	77.4%
<b>Total Assets</b>	<b>\$ 198.5</b>	<b>\$ 6.2</b>	<b>\$ 204.7</b>	<b>100.0%</b>
Long Term Debt Outstanding	\$ 97.3	\$ 0.5	\$ 97.8	89.8%
Other Liabilities	10.7	0.5	11.2	10.2%
<b>Total Liabilities</b>	<b>\$ 108.0</b>	<b>\$ 1.0</b>	<b>\$ 109.0</b>	<b>100.0%</b>
<u><b>Net Assets</b></u>				
Invested in Capital Assets, Net of Related Debt	\$ 68.1	\$ 4.3	72.4	75.6%
Restricted	19.4	1.0	20.4	21.3%
Unrestricted	3.0	0	3.0	3.1%
<b>Total Net Assets</b>	<b>\$ 90.5</b>	<b>\$ 5.3</b>	<b>\$ 95.8</b>	<b>100.0%</b>

- The largest portion of the District's net assets (75.6%) 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 (21.3%) represents resources that are subject to external restrictions on how they may be used. The majority of the restricted balance is for categorical programs.
- The remaining balance of *unrestricted net assets* (3.1%) may be used to meet the District's obligations to students, employees, and creditors and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets.

**Governmental activities.** The key elements of the District's net assets for the year ended June 30, 2002 are as follows:

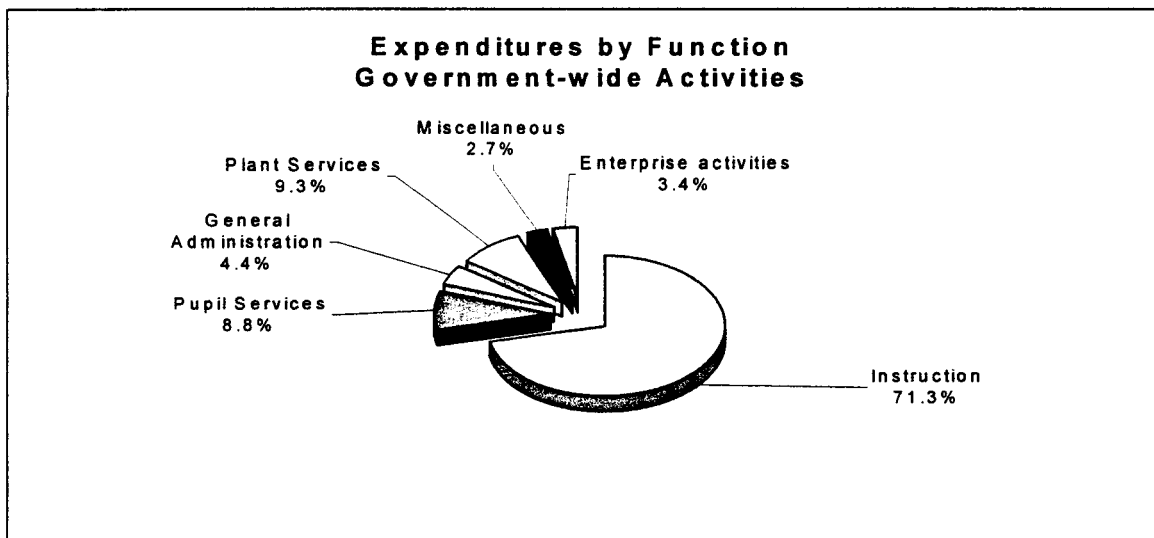
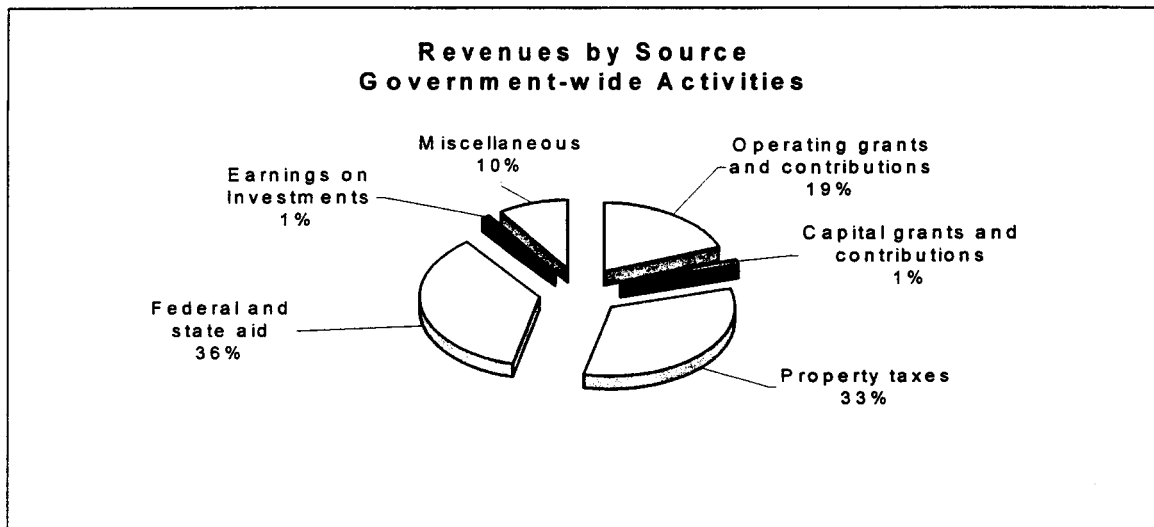
#### GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

<u>Revenues</u>	<u>2001-02</u>	<u>% of Total</u>
Program revenues		
Charges for services	\$ 8,427,668	3.50%
Operating grants and contributions	44,470,963	18.49%
Capital grants and contributions	3,080,155	1.28%
General revenues		
Property taxes	76,809,570	31.94%
Federal and state aid not restricted to specific purposes	83,507,770	34.73%
Interest and investment earnings	2,204,972	0.92%
Miscellaneous	21,979,339	9.14%
Total revenues	<u>\$ 240,480,437</u>	<u>100.00%</u>
<u>Expenditures by Function</u>		
Governmental activities		
Instruction	\$ 163,536,243	71.35%
Pupil Services	20,230,801	8.83%
General Administration	10,144,238	4.43%
Plant Services	21,285,978	9.29%
Ancillary Services	3,317,758	1.45%
Community Services	186,814	0.08%
Other outgo	(\$1,477,526)	-0.64%
Depreciation (unallocated)	4,078,648	1.78%
Business-type activities		
Enterprise activities	7,902,863	3.45%
	<u>\$ 229,205,817</u>	<u>100.00%</u>
Increase (decrease) in net assets	<u>\$ 11,274,620</u>	
Net Assets - beginning	<u>\$ 84,498,010</u>	
Net assets - ending	<u>\$ 95,772,631</u>	

- The largest dollar increase in revenues continues to be from federal and state aid as well as property taxes. Federal and state aid increases are a reflection of increased funding for specific programs. State aid increased by 3.87% cost of living adjustment (COLA) and equalization of 0.24%. State aid is based primarily on average daily attendance (ADA) and other appropriations. If a student is in attendance a full 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 increased by 4.19% during the year ended June 30, 2002 (\$4,597.38 during 2002 as compared to \$4,412.70 in 2001). Property tax revenues increased by 8.26%, mainly from increases in the taxable value of property and additional new housing developments.

5 YEAR REVENUE LIMIT TABLE				
	Poway	% Increase	State Average	Difference
1997-98	\$ 3,912	3.97%	\$3,937	(\$25)
1998-99*	4,215	7.73%	4,287	(72)
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)

\*In July of 1998, Senate Bill 727 effected Actual Attendance Accounting, whereby the Revenue Limit was adjusted to include Excused Absences.



### **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 \$29.8 million, \$27.4 million lower than the previous year. The primary reasons for the governmental funds' decrease include expending prior year carryovers and major capital improvements. In addition, the following fund balances should be noted:

- General fund salaries totaled \$150.5 million while the associated employee benefits of retirement, social security, medicare, insurance (medical, dental, vision, life, and accident), workers' compensation, and unemployment added \$29.6 million to arrive at 83.3% of total general fund expenditures.

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 \$18.3 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 2002, the \$4.3 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 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 total valuation as of June 30, 2002 was \$591,947.

*Designations for restricted balances.* 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 \$7.0 million in restricted balances as of June 30, 2002.

*Designations for unrestricted balances.* \$3.3 million includes both District self-imposed and state quasi-restricted funding sources. Self-imposed are available for expendable purposes and the District maintains the authority of deciding how they will be spent. Quasi-restricted balances are restricted by state law to be spent by individual school sites, but unrestricted on how they may be spent.

## 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 \$24.3 million or 11.7% in total general fund expenditures. The most significant differences may be summarized as follows:

- In February of 2002, the state legislature and Governor made unprecedented mid-year cuts to balance the state budget. The largest of the cuts was for energy funding totaling \$755,677.
- \$5.7 million or 2.76% increase to reflect increases in salaries and employee benefits.
- \$18.4 million or 8.81% increase in supplies, services, capital outlay and other outgo. This increase is primarily due to budget practice of appropriating carryover reserves after the June 30, 2001 adoption.
- During the year, final budgeted revenues exceeded original budgetary estimates by \$15.3 million or 7.6%, to account for increases in federal and state aid, local donations, and new lease purchase financing.
- Even with these adjustments, actual expenditures were \$16.2 million below final budgeted amounts. The most significant positive variances were \$10.1 million in supplies, and \$3 million in capital outlay. Resources available for appropriation were \$2.0 million above the final budgeted amount.
- 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 2000-01 to 2001-02.

GENERAL FUND - MAJOR FUND					
<u>Expenditures by Function</u>	<u>% of Total</u>	<u>2001-02</u>	<u>Change</u>	<u>%</u>	<u>2000-01</u>
General Education-Grades K-12	52.78%	\$114,147,360	\$590,075	0.5%	\$113,557,285
Special Education	10.50%	\$22,707,924	\$1,358,853	6.4%	\$21,349,071
Instruction-Related Services	6.41%	\$13,851,870	\$2,361,226	20.5%	\$11,490,644
School Administration	5.59%	\$12,085,588	\$810,642	7.2%	\$11,274,946
Pupil Services	3.86%	\$8,355,684	\$970,361	13.1%	\$7,385,323
Transportation	3.23%	\$6,987,720	\$395,138	6.0%	\$6,592,582
Ancillary, Co-curricular & Athletics	1.53%	\$3,317,758	\$259,846	8.5%	\$3,057,912
Community Services	0.09%	\$186,814	(\$11,013)	-5.6%	\$197,827
General Administration	3.39%	\$7,322,593	\$661,041	9.9%	\$6,661,552
Central Data Processing	0.99%	\$2,145,360	\$289,528	15.6%	\$1,855,832
Maintenance & Operations	8.99%	\$19,433,708	\$956,200	5.2%	\$18,477,508
Facility Acquisition & Construction	0.64%	\$1,386,916	\$8,260	0.6%	\$1,378,656
Facility Rents and Leases	0.09%	\$188,390	\$33,473	21.6%	\$154,917
Other Outgo	1.91%	\$4,140,800	\$12,072	0.3%	\$4,128,728
<b>Total</b>	<b>100.00%</b>	<b>\$216,256,485</b>	<b>\$8,695,702</b>		<b>\$207,562,783</b>
Final October CBEDS Enrollment		32,507	(25)		32,532
Expenditures per student =		\$6,652.67	\$272.41	4.27%	\$6,380.27

*Note: Expenses for Cafeteria, Adult Ed., Construction, Preschool and ESS (child care services) are recorded in separate funds. They are not included in the above figures.*

- Significant increases occurred in Special Education \$1.3 million or 6.4%, Instructional Services \$2.3 million or 20.5% and Pupil Services \$0.9 million or 13.1%. Special Education is incurring increases in specific program areas such as autism. Instructional Services and Pupil Services increased from a successful large federal grant application for the Wellness program.
- School Administration increased \$.8 million or 7.2% primarily from 2.26% salary increase and extending the work year of most principals to 12 months.

### Capital Asset and Debt Administration

**Capital Assets.** The state school facility 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 District continued various projects and is anticipating completing the largest projects in summer of 2002. Westview High School, at an estimated project cost of \$80 million, is being built in the fast developing west side area. Meadowbrook Middle School and Garden Road Elementary modernizations are nearing completion at an estimated project cost of \$5.1 million. Also, the District is looking to complete a \$2.8 million telephone system upgrade by June of 2003. 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, 2002 and 2001 are outlined below:

<b>CAPITAL ASSETS (NET OF DEPRECIATION)</b>			
	<b>Governmental Activities</b>		
	<b>June 30, 2002</b>	<b>June 30, 2001</b>	<b>Total Change</b>
Land	\$ 13,618,514	\$ 13,618,514	\$ -
Improvement of Sites	4,564,712	4,378,877	185,835
Buildings	77,708,147	75,766,854	1,941,293
Equipment	8,463,772	8,254,240	209,532
Work in Progress	53,527,020	25,311,044	28,215,976
<b>Total Capital Assets</b>	<b>\$ 157,882,165</b>	<b>\$ 127,329,529</b>	<b>\$ 30,552,636</b>

Additional information on the District's capital assets can be found in Note F to the basic financial statements.

**Debt Administration.** The District has no general obligation bonds outstanding. However, there are three bond issues under two community facilities districts (CFD). 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 home owners and developers. 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.

The District received rating of A3 from Moody's Investors Service in 1998 and was insured to rating Aaa. Additional information on the District's long-term debt can be found in Notes G and H to the basic financial statements.

### Changing Enrollment within the District

The demographics of the District include a mirror of the national and state patterns of a large middle school population and decreasing elementary and high school enrollments. 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 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. Enrollment has declined slightly over the recent two years, but there is a small increase recognized in the spring of 2001 that is materializing into sustained growth for the following year.

#### Changes in CBEDS from Year to Year

<u>Grade</u>	<u>Oct 1999</u>	<u>Chg</u>	<u>Oct 2000</u>	<u>Chg</u>	<u>Oct 2001</u>
K	2,204	(29)	2,175	60	2,235
1	2,353	(41)	2,312	(43)	2,269
2	2,422	(26)	2,396	(31)	2,365
3	2,444	5	2,449	(57)	2,392
4	2,617	(110)	2,507	(18)	2,489
5	2,586	56	2,642	(131)	2,511
6	2,520	117	2,637	17	2,654
7	2,390	150	2,540	96	2,636
8	2,557	(112)	2,445	143	2,588
9	2,630	(15)	2,615	(94)	2,521
10	2,550	80	2,630	7	2,637
11	2,839	(293)	2,546	49	2,595
12	2,424	214	2,638	(23)	2,615
<b>TOTAL</b>	<b>32,536</b>	<b>(4)</b>	<b>32,532</b>	<b>(25)</b>	<b>32,507</b>
	<u>1999-00</u>	<u>Chg</u>	<u>2000-01</u>	<u>Chg</u>	<u>2001-02</u>
<b>Elementary K-5</b>	14,626	(145)	14,481	(220)	14,261
<b>Middle 6-8</b>	7,467	155	7,622	256	7,878
<b>High 9-12</b>	10,443	(14)	10,429	(61)	10,368
<b>TOTAL</b>	<b>32,536</b>	<b>(4)</b>	<b>32,532</b>	<b>(25)</b>	<b>32,507</b>

The District is prepared for handling these demographic changes and is planning construction for a new elementary and middle school to be completed in fall of 2004. The District has secured agreements with developers for school facilities with funding through CFDs. The District is planning for the increased operation costs associated with new facilities.

### Requests for Information

This financial report is designed to provide a general overview of the Poway Unified School District's finances for all those with an interest in the government'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 Associate Superintendent of Business Support Services, Poway Unified School District, 13626 Twin Peaks Road, Poway, CA 92064.



**POWAY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2002**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS:</b>				
Cash	\$ 28,841,432	\$ 1,249,335	\$ 30,090,767	\$ 54,944,743
Accounts Receivable	14,195,508	169,688	14,365,195	281,298
Due from Other Funds	960,713	5,409	966,122	-
Stores Inventories	894,897	-	894,897	-
Capital Assets:				
Land	13,618,514	-	13,618,514	-
Improvement of Sites	13,077,896	4,583	13,082,479	-
Buildings	108,802,993	4,767,384	113,570,377	-
Equipment	21,385,990	48,337	21,434,327	-
Work in Progress	53,527,020	-	53,527,020	-
Less Accumulated Depreciation	(56,767,923)	-	(56,767,923)	-
Total Assets	<u>198,537,040</u>	<u>6,244,736</u>	<u>204,781,776</u>	<u>55,226,041</u>
<b>LIABILITIES:</b>				
Accounts Payable	7,151,462	184,277	7,335,739	1,936,848
Due to Other Funds	718,770	247,352	966,122	-
Deferred Revenues	2,791,592	21,865	2,813,457	-
Long-Term Liabilities:				
Due within one year	700,553	-	700,553	-
Due in more than one year	96,691,944	501,329	97,193,273	-
Total Liabilities	<u>108,054,321</u>	<u>954,823</u>	<u>109,009,144</u>	<u>1,936,848</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	68,124,067	4,318,975	72,443,042	
Restricted For:				
Capital Projects	1,830,667	-	1,830,667	-
Debt Service	2,068,953	501,329	2,570,282	-
Educational Programs	6,552,962	-	6,552,962	-
Other Purposes (expendable)	3,990,005	469,609	4,459,614	-
Other Purposes (nonexpendable)	4,917,116	-	4,917,116	-
Unrestricted	2,998,949	-	2,998,949	53,289,193
Total Net Assets	<u>\$ 90,482,719</u>	<u>\$ 5,289,913</u>	<u>\$ 95,772,632</u>	<u>\$ 53,289,193</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2002**

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>	\$ 137,201,458	\$ 14,037	\$ 31,237,565	\$ 3,080,155
<i>Instruction Related Services</i>	26,334,785	-	6,654,056	-
<i>Pupil Services</i>	20,230,801	6,047,009	4,953,836	-
<i>General Administration</i>	10,144,238	-	465,700	-
<i>Plant Services</i>	21,285,978	-	853,400	-
<i>Ancillary Services</i>	3,317,758	2,366,623	165,376	-
<i>Community Services</i>	186,814	-	-	-
<i>Depreciation (unallocated)</i>	4,078,648	-	-	-
<i>Other Outgo</i>	(1,477,526)	-	141,030	-
Total Governmental Activities	<u>221,302,954</u>	<u>8,427,669</u>	<u>44,470,963</u>	<u>3,080,155</u>
Business-type Activities:				
Other Enterprise	7,902,863	-	-	-
Total Primary Government	<u>\$ 229,205,817</u>	<u>\$ 8,427,669</u>	<u>\$ 44,470,963</u>	<u>\$ 3,080,155</u>
<b>COMPONENT UNIT:</b>				
Discretely Presented Component Unit - Governmental	<u>\$ 33,339,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
<i>Taxes and Subventions</i>				
<i>Federal and State Revenues</i>				
<i>Interest and Investment Earnings</i>				
<i>Miscellaneous</i>				
Total General Revenues and Transfers				
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>	<u>Component Unit</u>
\$ (102,869,701)		\$ (102,869,701)	
(19,680,729)		(19,680,729)	
(9,229,956)		(9,229,956)	
(9,678,538)		(9,678,538)	
(20,432,578)		(20,432,578)	
(785,759)		(785,759)	
(186,814)		(186,814)	
(4,078,648)		(4,078,648)	
1,618,556		1,618,556	
<u>(165,324,167)</u>		<u>(165,324,167)</u>	
-	\$ (7,902,863)	(7,902,863)	
<u>(165,324,167)</u>	<u>(7,902,863)</u>	<u>(173,227,030)</u>	
			\$ <u>(33,339,851)</u>
76,809,570	-	76,809,570	-
83,507,770	-	83,507,770	-
2,140,928	64,044	2,204,972	-
13,688,929	8,290,410	21,979,339	32,014,227
<u>176,147,197</u>	<u>8,354,454</u>	<u>184,501,651</u>	<u>32,014,227</u>
10,823,030	451,591	11,274,621	(1,325,624)
79,659,689	4,838,322	84,498,011	54,614,817
<u>\$ 90,482,719</u>	<u>\$ 5,289,913</u>	<u>\$ 95,772,632</u>	<u>\$ 53,289,193</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2002**

	General Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
<i>Cash in County Treasury</i>	\$ 11,243,700	\$ 3,802,649	\$ 6,592,282	\$ 21,638,631
<i>Cash on Hand and in Banks</i>	171,392	-	449,823	621,215
<i>Cash in Revolving Fund</i>	75,000	-	100	75,100
<i>Accounts Receivable</i>	11,183,068	89,991	2,676,781	13,949,840
<i>Due from Other Funds</i>	1,892,564	674	207,264	2,100,502
<i>Stores Inventories</i>	591,947	-	302,951	894,898
<b>Total Assets</b>	<u>\$ 25,157,671</u>	<u>\$ 3,893,314</u>	<u>\$ 10,229,201</u>	<u>\$ 39,280,186</u>
<b>LIABILITIES AND FUND BALANCE:</b>				
<b>Liabilities:</b>				
<i>Accounts Payable</i>	\$ 3,777,019	\$ 192,874	\$ 1,118,632	\$ 5,088,525
<i>Due to Other Funds</i>	339,684	22,680	1,240,612	1,602,976
<i>Deferred Revenue</i>	2,743,519	-	48,073	2,791,592
<b>Total Liabilities</b>	<u>6,860,222</u>	<u>215,554</u>	<u>2,407,317</u>	<u>9,483,093</u>
<b>Fund Balance:</b>				
<b>Reserved Fund Balances:</b>				
<i>Reserve for Revolving Cash</i>	75,000	-	100	75,100
<i>Reserve for Stores Inventories</i>	591,947	-	302,951	894,898
<i>Reserve for Legally Restricted Balance</i>	6,979,737	-	-	6,979,737
<b>Designated Fund Balances:</b>				
<i>Designated for Economic Uncertainties</i>	4,325,170	-	-	4,325,170
<i>Other Designated</i>	3,326,657	3,677,760	7,518,833	14,523,250
<b>Unreserved</b>	<u>2,998,938</u>	<u>-</u>	<u>-</u>	<u>2,998,938</u>
<b>Total Fund Balance</b>	<u>18,297,449</u>	<u>3,677,760</u>	<u>7,821,884</u>	<u>29,797,093</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 25,157,671</u>	<u>\$ 3,893,314</u>	<u>\$ 10,229,201</u>	<u>\$ 39,280,186</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2002**

Total fund balances - governmental funds balance sheet	\$ 29,797,093
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	4,435,768
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$215,232,717 and the accumulated depreciation is \$56,767,923.	158,464,794
To adjust for the increase in liabilities and compensated absences, not accrued in governmental funds because they are not normally expected to be liquidated with current financial resources.	(399,875)
Elimination of interfund activities among funds is required for presentation of the Statement of Net Assets.	1,368,678
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in funds. The total long-term liabilities at year end were \$97,893,826.	<u>(97,893,826)</u>
Net assets of governmental activities - statement of net assets	\$ <u><u>95,772,632</u></u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2002**

	General Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
<i>Revenue Limit Sources</i>	\$ 148,194,342	\$ -	\$ 465,447	\$ 148,659,789
<i>Federal Revenue</i>	6,458,859	-	995,916	7,454,775
<i>State Revenue</i>	47,060,794	3,074,445	1,395,880	51,531,119
<i>Local Revenue</i>	8,860,621	751,051	6,694,089	16,305,761
<b>Total Revenues</b>	<u>210,574,616</u>	<u>3,825,496</u>	<u>9,551,332</u>	<u>223,951,444</u>
<b>Expenditures:</b>				
<i>Instruction</i>	136,855,285	-	789,815	137,645,100
<i>Instruction Related Services</i>	25,937,458	-	404,018	26,341,476
<i>Pupil Services</i>	15,343,404	-	5,363,300	20,706,704
<i>General Administration</i>	9,467,953	-	420,659	9,888,612
<i>Plant Services</i>	19,622,098	-	1,770,190	21,392,288
<i>Ancillary Services</i>	3,317,758	-	-	3,317,758
<i>Community Services</i>	186,814	-	-	186,814
<i>Facility Acquisition and Construction</i>	1,386,916	32,569,831	1,753,770	35,710,517
<i>Other Outgo</i>	2,265,800	-	394,961	2,660,761
<b>Total Expenditures</b>	<u>214,383,486</u>	<u>32,569,831</u>	<u>10,896,713</u>	<u>257,850,030</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(3,808,870)</u>	<u>(28,744,335)</u>	<u>(1,345,381)</u>	<u>(33,898,586)</u>
<b>Other Financing Sources (Uses):</b>				
<i>Operating Transfers In</i>	598,965	-	756,000	1,354,965
<i>Operating Transfers Out</i>	(1,875,000)	-	-	(1,875,000)
<i>Other Sources</i>	2,765,648	8,156,965	353,588	11,276,201
<b>Total Other Financing Sources (Uses)</b>	<u>1,489,613</u>	<u>8,156,965</u>	<u>1,109,588</u>	<u>10,756,166</u>
<b>Net Change in Fund Balance</b>	<u>(2,319,257)</u>	<u>(20,587,370)</u>	<u>(235,793)</u>	<u>(23,142,420)</u>
<b>Fund Balance, July 1</b>	<u>20,616,706</u>	<u>24,265,130</u>	<u>8,057,677</u>	<u>52,939,513</u>
<b>Fund Balance, June 30</b>	<u>\$ 18,297,449</u>	<u>\$ 3,677,760</u>	<u>\$ 7,821,884</u>	<u>\$ 29,797,093</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  
YEAR ENDED JUNE 30, 2002**

Net change in fund balances - total governmental funds	\$ (23,142,420)
Amounts reported for governmental activities in the statement of activities are different because:	
The net revenue (expense) of internal service funds is reported with governmental activities.	609,757
Capital outlay expenditures made in governmental funds and financed for acquisition or construction of capital assets are reported as capital assets on the statement of net assets.	36,867,226
In the Statement of Activities, compensated absences are measured by the amounts earned by employees during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used during the year. This year the amount earned exceeded the amount used by \$379,788.	379,788
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when due, and is recognized as interest accrues in the Statement of Activities.	601,927
The cost of debt issuance is included in the governmental funds as it is incurred. The Statement of Activities allocates those costs through amortization over the life of the debt instrument.	2,235,000
Repayment of debt principal is expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,361,185
Elimination of other financing sources, other financing uses, and expenditures relating to the issuance of debt, and instead reflect liabilities and unamortized issue costs on the statement of net assets.	(5,000,000)
To adjust for revenues that were earned in a prior period, but that were "available" under the modified accrual basis of accounting, and that were therefore not accrued in the governmental funds in the prior period.	1,440,806
The current year depreciation of capital assets is not included in the governmental funds.	<u>(4,078,648)</u>
Change in net assets of governmental activities - statement of activities	\$ <u><u>11,274,621</u></u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2002**

	Major Fund Other Enterprise Funds	Nonmajor Fund Self-Insurance Funds
<b>ASSETS:</b>		
Current Assets:		
Cash in County Treasury	\$ 1,212,024	\$ 5,806,026
Cash on Hand and in Banks	37,311	221,994
Cash with a Fiscal Agent/Trustee	-	478,466
Accounts Receivable	169,688	245,666
Due from Other Funds	5,409	228,889
Total Current Assets	<u>1,424,432</u>	<u>6,981,041</u>
Noncurrent Assets:		
Fixed Assets-		
Improvement of Sites	4,583	-
Buildings	4,767,384	-
Equipment	48,337	2,136
Total Noncurrent Assets	<u>4,820,304</u>	<u>2,136</u>
Total Assets	<u>\$ 6,244,736</u>	<u>\$ 6,983,177</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable	\$ 184,277	\$ 2,062,937
Due to Other Funds	247,352	484,472
Deferred Revenue	21,865	-
Total Current Liabilities	<u>453,494</u>	<u>2,547,409</u>
Noncurrent Liabilities:		
Capital Leases Payable	501,329	-
Total Noncurrent Liabilities	<u>501,329</u>	<u>-</u>
Total Liabilities	<u>954,823</u>	<u>2,547,409</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	4,318,975	2,136
Restricted For:		
Debt Service	501,329	-
Other Purposes (expendable)	469,609	4,433,632
Unrestricted Net Assets	-	-
Total Net Assets	<u>\$ 5,289,913</u>	<u>\$ 4,435,768</u>



**POWAY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2002**

	Major Fund Other Enterprise Funds	Nonmajor Fund Self-Insurance Funds
Operating Revenues:		
Local Revenue	\$ 8,354,455	\$ 4,874,284
Total Revenues	<u>8,354,455</u>	<u>4,874,284</u>
Operating Expenses:		
Certificated Personnel Salaries	579,991	20,616
Classified Personnel Salaries	4,689,778	100,264
Employee Benefits	843,830	195,374
Books and Supplies	712,353	15,043
Services and Other Operating Expenses	1,076,911	4,494,040
Total Expenses	<u>7,902,863</u>	<u>4,825,337</u>
Operating Income (Loss)	<u>451,592</u>	<u>48,947</u>
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>
Income (Loss) before Contributions and Transfers	451,592	48,947
Interfund Transfers In	-	1,119,000
Interfund Transfers Out	-	(558,190)
Change in Net Assets	<u>451,592</u>	<u>609,757</u>
Total Net Assets - Beginning	4,838,321	3,826,011
Total Net Assets - Ending	<u>\$ 5,289,913</u>	<u>\$ 4,435,768</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT****STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2002

	Other Enterprise Fund	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>		
<i>Cash Received from Customers</i>	\$ 8,375,631	\$ 4,661,380
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(8,532,155)	(4,721,022)
Net Cash Provided (Used) by Operating Activities	<u>(156,524)</u>	<u>(59,642)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
<i>Operating Transfers From (To) Primary Government</i>	-	560,810
Net Cash Provided (Used) by Non-capital Financing Activities	<u>-</u>	<u>560,810</u>
<b>Cash Flows from Investing Activities:</b>		
<i>Interest and Dividends on Investments</i>	53,378	183,822
Net Cash Provided (Used) for Investing Activities	<u>53,378</u>	<u>183,822</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(103,146)	684,990
Cash and Cash Equivalents at Beginning of Year	1,352,481	5,821,496
Cash and Cash Equivalents at End of Year	<u>\$ 1,249,335</u>	<u>\$ 6,506,486</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 451,592	\$ 609,757
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	(41,811)	(199,808)
<i>Increase (Decrease) in Accounts Payable</i>	(472,564)	(109,430)
<i>Increase (Decrease) in Deferred Revenue</i>	(72,620)	-
<i>Increase (Decrease) in Interfund Payables</i>	32,257	384,471
Total Adjustments	<u>(554,738)</u>	<u>75,233</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (103,146)</u>	<u>\$ 684,990</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT****STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****JUNE 30, 2002**

	Agency Fund
	Student Body Fund
<b>ASSETS:</b>	
<i>Cash on Hand and in Banks</i>	\$ 2,113,355
Total Assets	<u>\$ 2,113,355</u>
<b>LIABILITIES:</b>	
<i>Due to Student Groups</i>	2,113,355
Total Liabilities	<u>2,113,355</u>
<b>NET ASSETS:</b>	
Total Net Assets	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**YEAR ENDED JUNE 30, 2002**

**EXHIBIT A-11**

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
<b>STUDENT BODY FUND</b>				
<b>ASSETS</b>				
<i>Cash and investments</i>	\$ 1,831,314	\$ 5,144,363	\$ 4,862,322	\$ 2,113,355
Total Assets	<u>\$ 1,831,314</u>	<u>\$ 5,144,363</u>	<u>\$ 4,862,322</u>	<u>\$ 2,113,355</u>
<b>LIABILITIES</b>				
<i>Due to student groups</i>	\$ 1,831,314	\$ 5,144,363	\$ 4,862,322	\$ 2,113,355
<b>NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**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 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

Based on these criteria, the District has one component unit, the Community Facilities Districts (CFD). The District is not a component unit of any other reporting entity as defined by the GASB Statement.

**2. Fund Accounting**

District accounts are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprised of assets, liabilities, fund equity (or retained earnings), revenues and expenditures or expenses as appropriate. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The fund types and funds utilized by the District are described below:

**a. Governmental Funds:**

The *General Fund* serves as the general operating fund. It is used to account for all financial resources of the District except those required to be accounted for in another fund.

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The following special revenue funds are utilized by the District:

- The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs.
- The Adult Education Fund is used to account separately for federal, state, and local revenues for adult education programs.
- The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes.
- The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program.
- The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund money for general operating purposes.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

*Capital Projects Funds* are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

- The State School Building Lease-Purchase Fund is used primarily to account for state apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).
- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
- The County School Facilities Fund is 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.
- The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes.

b. Proprietary Funds:

*Enterprise Funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the governing board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The following enterprise funds are utilized by the District:

- The Other Enterprise Fund is used to account for business activities of the daycare and preschool operations under the District's Extended Student Services (ESS) program.

*Internal Service Funds* are used to account for those activities which render services on a cost-reimbursement basis to other organizational units of the District. The following internal service funds are utilized:

- The Self-Insurance Fund is used to separate monies associated with self-insurance activities from other operating funds of the District.

c. Fiduciary Funds:

*Agency Funds* account for resources held for others in a custodial capacity. The following funds are in use:

- Student Body Funds are used to account for the activities of student groups.

d. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Some of the significant changes in the statement include the following:

For the first time the financial statements include:

- 1) A Management Discussion and Analysis (MD&A) section providing an analysis of the district's overall financial position and results of operations.
- 2) Financial statements prepared using full accrual accounting for all of the district's activities, including infrastructure.

A change in the fund financial statements to focus on the major funds.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

3. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become both measurable and available to financial expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered) except for unmatured interest on General Long-Term Debt, which is recognized when due.

Proprietary funds are accounted for on a flow of economic resources focus and use the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all applicable financial accounting and reporting standards of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, in accounting and reporting for its proprietary funds.

Agency funds are also accounted for on the modified accrual basis.

4. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code.

5. 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.

6. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the National Credit Union Association. 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, 2002**

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

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives. The range of useful lives are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Site improvements	20 Years
Buildings	25-50 Years
Equipment	5-20 Years

d. 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.

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. The noncurrent portion of the liabilities is recognized in the general long-term debt account group.

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.



**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

f. Long-Term Obligations

The long-term debt of governmental funds is reported at face value in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

g. 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.

h. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 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. Tax revenues are recognized by the District when received.

i. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those reported.

7. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

8. On-Behalf Payments

GASB No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to all California school districts. These on-behalf payments are not reflected in the accompanying financial statements as the net results to the general fund balance at year end is zero. The estimated amount of these on-behalf payments made for the district during 2001-02 are \$5,698,324.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**B. Cash and Investments**

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 (\$61,727,308 as of June 30, 2002). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$61,727,308. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest 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.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$2,993,875 as of June 30, 2002) and in the revolving fund (\$75,100) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Cash with Fiscal Agent

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. These custodial risk categories are as follows:

- Category 1 - Investments that are insured, registered or held by the District or by its agent in the District's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the District's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the District's name.

The District's investments at June 30, 2002 are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are categorized by the custodial risk categories described above.

<u>Investment</u>	<u>Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Treasury obligations	\$ -	\$ 15,365,134	\$ -	\$ 15,365,134	\$ 15,365,134
Guaranteed investment contracts	-	6,423,913	-	6,423,913	6,423,913
Morgan Stanley investments	85,069	-	-	85,069	85,069
Cash and cash equivalents	478,466	-	-	478,466	478,466
Total investments	\$ 563,535	\$ 21,789,047	\$ -	\$ 22,352,582	\$ 22,352,582

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, 2002**

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.

Investment Accounting Policy for Community Facilities Districts

Funds generated in the Community Facilities Districts are not required to be deposited in the County Treasury. The District has the option to deposit funds within the county pool to facilitate the use of the County Department of Education financial system and to invest these funds in a conservative and secure manner. Staff also has the option to deposit funds with a fiscal agent as trustee to facilitate financial transactions, including bond issuance.

When bonds are sold, a reserve account is maintained by the fiscal agent trustee used in making the annual bond payments to the bond holders. The bond proceeds are available for approved projects and invested according to cash flow needs. These funds are invested with the trustee's approval in fully insured securities and investment vehicles.

A local checking account may be maintained for expedient payments related to construction projects. It should be noted that these funds are placed in federally insured financial institutions and, in addition to the normal \$100,000 of insurance provided, the District has obtained agreements from the institutions to "fully collateralize" the deposits thereby providing insurance for 100 percent of the funds on deposit.

**C. Fund Balances-Reserved & Designated**

The following amounts were reserved and designated by the Board of Education for the special purposes below:

	<u>General Fund</u>	<u>Cafeteria Fund</u>
Reserved for:		
Revolving cash	\$75,000	\$100
Stores inventory	591,947	302,951
Legally restricted items	6,979,737	-
	<u>\$7,646,684</u>	<u>\$303,051</u>
	<u>Economic Uncertainties</u>	<u>Other Designations</u>
Designated for:		
General Fund	\$4,325,170	\$3,326,657
Adult Education Fund	-	34,925
Child Development Fund	-	42,009
Cafeteria Fund	-	2,170,258
Deferred Maintenance Fund	-	1,581,340
Special Reserve Fund	-	559,225
Capital Facilities Fund	-	2,907,914
State School Building Fund	-	72,011
Special Reserve Fund	-	151,151
County School Facilities Fund	-	3,677,760
Self Insurance Fund	-	4,435,768
Enterprise Fund	-	528,912
	<u>\$4,325,170</u>	<u>\$19,487,930</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**D. Accounts Receivable**

Accounts receivable as of June 30, 2002, consist of the following:

	Component Unit	General Fund	Special Revenue Funds	Capital Project Funds
Federal Government:				
Federal Programs	\$ -	\$ 1,479,457	\$ 134,754	\$ -
State Government:				
Categorical Aid Programs	-	1,459,223	7,096	-
Other	-	3,447,912	47,264	-
Deferred Maintenance	-	-	897,394	-
Total State Government	-	4,907,135	951,754	-
Local Government:				
Other	-	1,815,437	613	859,147
Total Local Government	-	1,815,437	613	859,147
Interest	258,339	215,391	28,231	84,421
Miscellaneous	22,959	2,765,648	-	707,852
Totals	\$ 281,298	\$ 11,183,068	\$ 1,115,352	\$ 1,651,420

	Internal Service Fund	Enterprise Fund	Totals
Federal Government:			
Federal Programs	\$ -	\$ -	\$ 1,614,211
State Government:			
Categorical Aid Programs	-	-	1,466,319
Other	-	-	3,495,176
Deferred Maintenance	-	-	897,394
Total State Government	-	-	5,858,889
Local Government:			
Other	201,325	157,002	3,033,524
Total Local Government	201,325	157,002	3,033,524
Interest	44,341	12,686	643,409
Miscellaneous	-	-	3,496,459
Totals	\$ 245,666	\$ 169,688	\$ 14,646,492

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**E. Interfund Transactions**

**Due From/Due To Other Funds**

Individual fund interfund receivable and payable balances as of June 30, 2002, are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 1,892,564	\$ 339,684
County School Facilities	674	22,680
Cafeteria	58,001	327,137
Child Development	-	59,413
Adult Education	121,239	138,032
Self Insurance	228,889	484,472
Capital Facilities	27,026	1,789
Enterprise	5,409	247,352
Special Reserve for Capital Outlay	998	673,466
Special Reserve	-	40,775
Totals	<u>\$ 2,334,800</u>	<u>\$ 2,334,800</u>

**Interfund Transfers**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2001-2002 fiscal year are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Adult Education	General	\$ 31,000
Deferred Maintenance	General	725,000
Self Insurance	General	1,119,000
General	Special Reserve-Non Capital	40,775
General	Self Insurance	558,190
Total		<u>\$ 2,473,965</u>

**F. Changes in Capital Assets**

The changes in capital assets for the year ended June 30, 2002, are shown below:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2002</u>
Land	\$ 13,618,514	\$ -	\$ -	\$ 13,618,514
Improvements	12,324,925	757,554	-	13,082,479
Buildings	109,207,027	4,363,350	-	113,570,377
Equipment	20,087,003	1,347,324	-	21,434,327
Work in Progress	23,072,966	30,454,054	-	53,527,020
Totals	<u>\$ 178,310,435</u>	<u>\$ 36,922,282</u>	<u>\$ -</u>	<u>\$ 215,232,717</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**G. Leases**

**Capital Leases**

The District leases facilities and equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2003	\$ 2,701,816
2004	1,463,997
2005	1,463,997
2006	1,280,592
2007	1,111,228
Total Minimum Lease Payments	\$ 8,021,630
Less Amount Representing Interest	(725,110)
Present Value of Net Minimum Lease Payments	<u>\$ 7,296,520</u>

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases.

**H. Community Facilities District Bonds Payable**

The outstanding bonded debt of the Community Facilities Districts as of June 30, 2002, is:

Date of Issuance	Interest Rate Payable	Maturity Date	Amounts Original Issue	Amounts Outstanding July 1 2001	Issued. (Redeemed) Current Year	Amounts Outstanding June 30 2002
1998	4.75-5.00%	2023	\$ 80,000,000	\$ 73,385,000	\$ (2,235,000)	\$ 71,150,000
2001	3.75-6.00%	2031	9,700,000	-	9,700,000	9,700,000
2001	3.75-6.00%	2031	6,345,000	-	6,345,000	6,345,000
Totals			<u>\$ 96,045,000</u>	<u>\$ 73,385,000</u>	<u>\$ 13,810,000</u>	<u>\$ 87,195,000</u>

These bonds are special tax obligations with respect to various Community Facility Districts formed by the Poway Unified School District. There is no liability of the general fund for these obligations.

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2002, are as follows:

Year Ending June 30	Principal	Interest	Total
2003	\$ 2,440,000	\$ 4,201,248	\$ 6,641,248
2004	2,675,000	4,222,722	6,897,722
2005	2,950,000	4,082,659	7,032,659
2006	3,240,000	3,928,784	7,168,784
2007	3,540,000	3,760,059	7,300,059
Thereafter	72,350,000	33,974,902	106,324,902
Totals	<u>\$ 87,195,000</u>	<u>\$ 54,170,374</u>	<u>\$ 141,365,374</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**I. Changes in General Long-Term Debt**

A schedule of changes in long-term debt for the year ended June 30, 2002, is shown below.

	Balance July 1 2001	Additions	Deductions	Balance June 30 2002
Compensated Absences	\$ 3,022,518	\$ 379,788	\$ -	\$ 3,402,306
Capital Leases	3,657,705	5,000,000	1,361,185	7,296,520
General Obligation Bonds	73,385,000	16,045,000	2,235,000	87,195,000
Totals	<u>\$ 80,065,223</u>	<u>\$ 21,424,788</u>	<u>\$ 3,596,185</u>	<u>\$ 97,893,826</u>

**J. Joint Ventures (Joint Powers Agreements)**

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSRM). 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, 2002 is as follows:

Total Assets	(\$26,216)
Total Liabilities	20,898
Total Fund Balance	(47,114)
 Total Cash Receipts	 150,316
Total Cash Disbursements	371,792
Net Change in Fund Balance	(221,476)

**K. Employee Retirement Systems**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Generally, 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.

**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

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 2001-02 was 0% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's pays to CalPERS the employees share of PERS for CSEA unit members. The District's payments to CalPERS for the years ending June 30, 2002, 2001 and 2000 were \$1,229,741, \$1,091,941 and \$690,819, respectively, and equal 100% of the required contributions for each year.

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 2001-02 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, 2002, 2001 and 2000 were \$9,278,909, \$8,814,311 and \$7,653,513, respectively, and equal 100% of the required contributions for each year.

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. Subsequent Events

The district issued \$10,000,000 of Tax and Revenue Anticipation Notes dated July 3, 2002. The notes mature on June 30, 2003 and yield 3.0% interest. The notes were sold to supplement the district's cash flow.



**POWAY UNIFIED SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**N. 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.

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 \$1,534,135 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, 2002 are indicated below:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Year 2001-02	<u>\$1,942,389</u>	<u>\$1,062,236</u>	<u>\$1,470,490</u>	<u>\$1,534,135</u>

[THIS PAGE INTENTIONALLY LEFT BLANK]

### *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**  
**GENERAL FUND-MAJOR FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2002**

**EXHIBIT B-1**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<i>Revenue Limit Sources</i>	\$ 146,287,460	\$ 148,234,221	\$ 148,194,342	\$ (39,879)
<i>Federal Revenue</i>	4,639,325	8,042,311	6,458,859	(1,583,452)
<i>State Revenue</i>	45,207,767	47,931,890	47,060,794	(871,096)
<i>Local Revenue</i>	7,075,408	9,912,541	8,860,621	(1,051,920)
<b>Total Revenues</b>	<u>203,209,960</u>	<u>214,120,963</u>	<u>210,574,616</u>	<u>(3,546,347)</u>
<b>Expenditures:</b>				
<i>Instruction</i>	135,238,591	146,668,418	136,855,285	9,813,133
<i>Instruction Related Services</i>	22,785,990	29,928,385	25,937,458	3,990,927
<i>Pupil Services</i>	14,617,467	15,138,785	15,343,404	(204,619)
<i>General Administration</i>	9,042,687	9,800,042	9,467,953	332,089
<i>Plant Services</i>	19,465,637	19,723,734	19,622,098	101,636
<i>Ancillary Services</i>	3,040,007	3,828,725	3,317,758	510,967
<i>Community Services</i>	212,655	212,655	186,814	25,841
<i>Facility Acquisition and Construction</i>	204,457	3,210,619	1,386,916	1,823,703
<i>Other Outgo</i>	3,792,360	4,189,065	2,265,800	1,923,265
<b>Total Expenditures</b>	<u>208,399,851</u>	<u>232,700,428</u>	<u>214,383,486</u>	<u>18,316,942</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(5,189,891)</u>	<u>(18,579,465)</u>	<u>(3,808,870)</u>	<u>14,770,595</u>
<b>Other Financing Sources (Uses):</b>				
<i>Operating Transfers In</i>	-	598,965	598,965	-
<i>Operating Transfers Out</i>	(1,511,000)	(1,875,000)	(1,875,000)	-
<i>Other Sources</i>	-	3,859,774	2,765,648	(1,094,126)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,511,000)</u>	<u>2,583,739</u>	<u>1,489,613</u>	<u>(1,094,126)</u>
<b>Net Change in Fund Balance</b>	<u>(6,700,891)</u>	<u>(15,995,726)</u>	<u>(2,319,257)</u>	<u>13,676,469</u>
<b>Fund Balance, July 1</b>	<u>20,616,706</u>	<u>20,616,706</u>	<u>20,616,706</u>	<u>-</u>
<b>Fund Balance, June 30</b>	<u>\$ 13,915,815</u>	<u>\$ 4,620,980</u>	<u>\$ 18,297,449</u>	<u>\$ 13,676,469</u>

**POWAY UNIFIED SCHOOL DISTRICT**

ADULT EDUCATION FUND-NON MAJOR FUND

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2002

EXHIBIT C-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources	\$ 448,022	\$ 465,447	\$ 465,447	\$ -
State Revenue	109,300	133,529	133,529	-
Local Revenue	348,391	374,319	374,319	-
Total Revenues	<u>905,713</u>	<u>973,295</u>	<u>973,295</u>	<u>-</u>
Expenditures:				
Instruction	546,724	533,714	517,456	16,258
Instruction Related Services	338,989	376,229	376,637	(408)
Pupil Services	-	37,591	46,611	(9,020)
General Administration	20,000	31,421	29,822	1,599
Total Expenditures	<u>905,713</u>	<u>978,955</u>	<u>970,526</u>	<u>8,429</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(5,660)</u>	<u>2,769</u>	<u>8,429</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	31,000	31,000	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>31,000</u>	<u>31,000</u>	<u>-</u>
Net Change in Fund Balance	-	25,340	33,769	8,429
Fund Balance, July 1	1,156	1,156	1,156	-
Fund Balance, June 30	<u>\$ 1,156</u>	<u>\$ 26,496</u>	<u>\$ 34,925</u>	<u>\$ 8,429</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**CHILD DEVELOPMENT FUND-NON MAJOR FUND**  
**SPECIAL REVENUE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2002**

**EXHIBIT C-2**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
State Revenue	\$ 261,700	\$ 322,173	\$ 322,173	\$ -
Local Revenue	5,000	43,708	43,708	-
Total Revenues	<u>266,700</u>	<u>365,881</u>	<u>365,881</u>	<u>-</u>
Expenditures:				
Instruction	250,296	267,213	272,359	(5,146)
Instruction Related Services	18,968	51,089	27,381	23,708
Pupil Services	-	349	1,107	(758)
General Administration	12,436	14,294	12,878	1,416
Plant Services	-	457	1,190	(733)
Facility Acquisition and Construction	-	38,720	35,647	3,073
Total Expenditures	<u>281,700</u>	<u>372,122</u>	<u>350,562</u>	<u>21,560</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(15,000)</u>	<u>(6,241)</u>	<u>15,319</u>	<u>21,560</u>
Net Change in Fund Balance	(15,000)	(6,241)	15,319	21,560
Fund Balance, July 1	26,690	26,690	26,690	-
Fund Balance, June 30	<u>\$ 11,690</u>	<u>\$ 20,449</u>	<u>\$ 42,009</u>	<u>\$ 21,560</u>

**POWAY UNIFIED SCHOOL DISTRICT****EXHIBIT C-3**

CAFETERIA FUND-NON MAJOR FUND  
 SPECIAL REVENUE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Federal Revenue</i>	\$ 830,000	\$ 995,916	\$ 995,916	\$ -
<i>State Revenue</i>	42,500	42,787	42,787	-
<i>Local Revenue</i>	4,552,900	4,849,283	4,849,283	-
Total Revenues	<u>5,425,400</u>	<u>5,887,986</u>	<u>5,887,986</u>	<u>-</u>
Expenditures:				
<i>Pupil Services</i>	5,716,000	5,812,954	5,315,582	497,372
<i>General Administration</i>	92,000	95,546	95,591	(45)
<i>Facility Acquisition and Construction</i>	98,600	98,600	-	98,600
Total Expenditures	<u>5,906,600</u>	<u>6,007,100</u>	<u>5,411,173</u>	<u>595,927</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(481,200)</u>	<u>(119,114)</u>	<u>476,813</u>	<u>595,927</u>
Net Change in Fund Balance	(481,200)	(119,114)	476,813	595,927
Fund Balance, July 1	1,996,496	1,996,496	1,996,496	-
Fund Balance, June 30	<u>\$ 1,515,296</u>	<u>\$ 1,877,382</u>	<u>\$ 2,473,309</u>	<u>\$ 595,927</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**DEFERRED MAINTENANCE FUND-NON MAJOR FUND**  
**SPECIAL REVENUE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2002**

**EXHIBIT C-4**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
State Revenue	\$ 875,000	\$ 891,681	\$ 891,681	\$ -
Local Revenue	55,000	53,666	53,665	(1)
Total Revenues	<u>930,000</u>	<u>945,347</u>	<u>945,346</u>	<u>(1)</u>
Expenditures:				
Plant Services	1,134,460	1,135,855	1,099,594	36,261
Facility Acquisition and Construction	585,000	1,280,500	1,280,137	363
Total Expenditures	<u>1,719,460</u>	<u>2,416,355</u>	<u>2,379,731</u>	<u>36,624</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(789,460)</u>	<u>(1,471,008)</u>	<u>(1,434,385)</u>	<u>36,623</u>
Other Financing Sources (Uses):				
Operating Transfers In	725,000	725,000	725,000	-
Total Other Financing Sources (Uses)	<u>725,000</u>	<u>725,000</u>	<u>725,000</u>	<u>-</u>
Net Change in Fund Balance	(64,460)	(746,008)	(709,385)	36,623
Fund Balance, July 1	2,290,725	2,290,725	2,290,725	-
Fund Balance, June 30	<u>\$ 2,226,265</u>	<u>\$ 1,544,717</u>	<u>\$ 1,581,340</u>	<u>\$ 36,623</u>



**POWAY UNIFIED SCHOOL DISTRICT**

EXHIBIT C-5

SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY PROJECTS-NON MAJOR FUND

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Total Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
<i>Other Outgo</i>	-	40,775	40,775	
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
Net Change in Fund Balance	-	(40,775)	(40,775)	-
Fund Balance, July1	600,000	600,000	600,000	-
Fund Balance, June 30	\$ 600,000	\$ 559,225	\$ 559,225	\$ -

**POWAY UNIFIED SCHOOL DISTRICT****EXHIBIT C-6**

CAPITAL FACILITIES FUND-NON MAJOR FUND

CAPITAL PROJECTS FUND

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local Revenue	\$ 545,000	\$ 1,369,751	\$ 1,369,751	\$ -
Total Revenues	<u>545,000</u>	<u>1,369,751</u>	<u>1,369,751</u>	<u>-</u>
Expenditures:				
General Administration	481,170	514,525	282,368	232,157
Plant Services	318,625	482,579	479,521	3,058
Facility Acquisition and Construction	1,112,470	1,008,979	478,374	530,605
Other Outgo	131,621	131,621	131,621	-
Total Expenditures	<u>2,043,886</u>	<u>2,137,704</u>	<u>1,371,884</u>	<u>765,820</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,498,886)</u>	<u>(767,953)</u>	<u>(2,133)</u>	<u>765,820</u>
Net Change in Fund Balance	(1,498,886)	(767,953)	(2,133)	765,820
Fund Balance, July 1	2,910,047	2,910,047	2,910,047	-
Fund Balance, June 30	<u>\$ 1,411,161</u>	<u>\$ 2,142,094</u>	<u>\$ 2,907,914</u>	<u>\$ 765,820</u>

**POWAY UNIFIED SCHOOL DISTRICT**  
**STATE SCHOOL FACILITIES FUND-MAJOR FUND**  
**CAPITAL PROJECTS FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2002**

**EXHIBIT C-7**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
State Revenue	\$ -	\$ 3,074,445	\$ 3,074,445	\$ -
Local Revenue	528,750	751,052	751,051	(1)
Total Revenues	528,750	3,825,497	3,825,496	(1)
Expenditures:				
Facility Acquisition	30,318,000	37,244,330	32,569,831	4,674,499
Total Expenditures	30,318,000	37,244,330	32,569,831	4,674,499
Excess (Deficiency) of Revenues Over (Under) Expenditures	(29,789,250)	(33,418,833)	(28,744,335)	4,674,498
Other Financing Sources (Uses):				
Other Sources	6,757,120	9,483,980	8,156,965	(1,327,015)
Total Other Financing Sources (Uses)	6,757,120	9,483,980	8,156,965	(1,327,015)
Net Change in Fund Balance	(23,032,130)	(23,934,853)	(20,587,370)	3,347,483
Fund Balance, July 1	24,265,130	24,265,130	24,265,130	-
Fund Balance, June 30	\$ 1,233,000	\$ 330,277	\$ 3,677,760	\$ 3,347,483

**POWAY UNIFIED SCHOOL DISTRICT**

EXHIBIT C-8

STATE SCHOOL BUILDING LEASE-PURCHASE FUND-NON MAJOR FUND

CAPITAL PROJECTS FUND

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
State Revenue	\$ -	\$ 5,710	\$ 5,710	\$ -
Local Revenue	-	(3,197)	(3,196)	1
Total Revenues	-	2,513	2,514	1
Expenditures:				
Plant Services	-	-	(756)	756
Total Expenditures	-	-	(756)	756
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	2,513	3,270	757
Other Financing Sources (Uses):				
Other Sources	-	17,578	17,577	(1)
Total Other Financing Sources (Uses)	-	17,578	17,577	(1)
Net Change in Fund Balance	-	20,091	20,847	756
Fund Balance, July 1	51,164	51,164	51,164	-
Fund Balance, June 30	<u>\$ 51,164</u>	<u>\$ 71,255</u>	<u>\$ 72,011</u>	<u>\$ 756</u>

**POWAY UNIFIED SCHOOL DISTRICT****EXHIBIT C-9***SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS-NON MAJOR FUND**CAPITAL PROJECTS FUND**BUDGETARY COMPARISON SCHEDULE**YEAR ENDED JUNE 30, 2002*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
State Revenue	\$ -	\$ -	\$ (998)	\$ (998)
Local Revenue	5,625	6,559	6,559	-
Total Revenues	5,625	6,559	5,561	(998)
Expenditures:				
Plant Services	136,600	619,368	190,641	428,727
Facility Acquisition and Construction	15,000	179,750	(40,388)	220,138
Other Outgo	-	222,565	222,565	-
Total Expenditures	151,600	1,021,683	372,818	648,865
Excess (Deficiency) of Revenues Over (Under) Expenditures	(145,975)	(1,015,124)	(367,257)	647,867
Other Financing Sources (Uses):				
Other Sources	-	849,950	336,011	(513,939)
Total Other Financing Sources (Uses)	-	849,950	336,011	(513,939)
Net Change in Fund Balance	(145,975)	(165,174)	(31,246)	133,928
Fund Balance, July 1	181,397	181,399	181,399	-
Fund Balance, June 30	<u>\$ 35,422</u>	<u>\$ 16,225</u>	<u>\$ 150,153</u>	<u>\$ 133,928</u>

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX B

### THE ECONOMY OF THE SCHOOL DISTRICT

*The School District's territory includes the City of Poway (the "City"). The following economic data for the City is presented for information purposes only. The Series A Bonds are not a debt or obligation of the City, and property taxes for the payments of the Series A Bonds will only be levied on property within the School District.*

#### Population

Poway's population as of January 1, 2002, was approximately 49,650 persons, representing approximately 1.7% of the population of the County. The population of the City and the County from 1990 to 2001 is shown in the following table. Since 1990, Poway's population has increased by approximately 14%, representing an annual compound growth rate of approximately 1.2%.

#### POPULATION OF POWAY AND SAN DIEGO COUNTY 1990-2001

Year	City of Poway		San Diego County	
	Population	Annual % Change	Population	Annual % Change
1990	43,396	—	2,498,016	—
1991	43,950	1.3%	2,529,800	1.3%
1992	44,800	1.9%	2,572,500	1.7%
1993	45,400	1.3%	2,594,100	0.8%
1994	45,400	0.0%	2,604,400	0.4%
1995	44,500	-2.0%	2,613,100	0.3%
1996	44,550	0.1%	2,621,100	0.3%
1997	45,100	1.2%	2,653,400	1.2%
1998	45,900	1.8%	2,702,800	1.9%
1999	47,050	2.5%	2,751,000	1.8%
2000	47,950	1.9%	2,805,900	2.0%
2001	48,900	2.0%	2,859,900	1.9%
2002	49,650	1.5%	2,918,300	2.0%

*Note: California Department of Finance for January 1.*

## Employment

The following table summarizes wage and salary employment in the County from 1997 to 2001. Services, retail trade, and manufacturing are the largest employment sectors in the County.

### ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT COUNTY OF SAN DIEGO 1997-2001

Industry	Average Annual Employment <sup>(1)</sup>				
	1997	1998	1999	2000	2001
Agriculture	10,800	10,600	11,200	11,400	11,000
Mining	400	300	300	400	300
Construction	53,000	61,800	67,000	70,000	73,400
Manufacturing	123,100	127,600	128,100	129,200	130,600
Transportation & Public Utilities	41,600	47,000	51,300	50,800	52,000
Wholesale Trade	45,600	48,300	50,300	51,000	50,300
Retail Trade	198,400	201,100	206,100	217,100	220,800
Finance, Insurance & Real Estate	60,900	65,300	68,700	69,500	70,800
Services	339,300	359,600	381,700	399,200	409,500
Government	192,000	194,500	199,300	206,600	213,900
Total, All Industries	<u>1,065,000</u>	<u>1,116,100</u>	<u>1,164,100</u>	<u>1,205,200</u>	<u>1,232,600</u>

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

Source: California Employment Development Department, based on March 2001 benchmark.

The following table summarizes civilian labor force, employment, and unemployment in the County from 1997 to 2001. The unemployment rate in the County in 2001 was 3.2%, in contrast, the average unemployment rate in California in 2001 was 5.3%.

### CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT SAN DIEGO COUNTY ANNUAL AVERAGES, 1997-2001

Year	Civilian Labor Force	Employed Labor Force <sup>(1)</sup>	Unemployed Labor Force <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
1997	1,285,070	1,230,820	54,250	4.2%
1998	1,321,000	1,274,600	46,400	3.5%
1999	1,361,600	1,319,600	42,000	3.1%
2000	1,401,900	1,359,900	42,000	3.0%
2001	1,424,900	1,379,200	45,700	3.2%

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

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

Source: California Employment Development Department, based on 2001 benchmark.



## Major Employers

The largest private sector employers in the City and the County are as follows:

### LARGEST PRIVATE SECTOR EMPLOYERS CITY OF POWAY

Firm	Product/Service	Employment
Poway Unified School District	Education	3,500
Geico Insurance	Insurance	2,000
First American Credco	Credit Reporting/Real Estate Appraisers	800
Pomerado Hospital	Health Services	700
HNR Framing / Anacomp	Digital document management	500
Hunter-Douglas Fabrication SW	Manufacturer	400
APW Solutions	Integrated systems	360
SYSCO Food Services	Food distributors	300
City of Poway	Government	280
Executone	Remanufactured and new telephone systems	200

Source: Poway Chamber of Commerce, February, 2003.

### LARGEST PRIVATE SECTOR EMPLOYERS COUNTY OF SAN DIEGO

Firm	Product/Service	Employment
Sharp HealthCare	Health Care Delivery System	10,500
Qualcomm Inc.	Telephone Communications	9,000
Scripps Memorial Hospital	Hospital/Medical Center	8,000
National Steel & Shipbuilding	Ship Design and Building	5,000
Enova Corporation/Sempra Energy	Combination Utility Services	4,000
Solar Turbines, Inc.	Gas Turbine Power Systems	4,000
Cubic Communications	Wireless Communications Products	3,000
Science Applications Int'l Corp.	Engineering & Architectural Services	3,000
Palomar Polmerado Health System	Hospital/Medical Center	2,800
University of San Diego – USD	Higher Education	2,600

Source: San Diego Regional Chamber of Commerce, January, 2002.

## Construction Activity

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

### BUILDING PERMIT ACTIVITY CITY OF POWAY 1998-2002

	1998	1999	2000	2001	2002
Valuation (\$000):					
Residential	\$62,206,185	\$42,200,825	\$58,160,490	\$34,602,182	\$41,409,396
Non-residential	<u>87,553,511</u>	<u>49,756,226</u>	<u>67,201,907</u>	<u>41,708,133</u>	<u>27,350,556</u>
TOTAL	\$149,759,696	\$91,957,051	\$125,362,397	\$76,310,315	\$68,759,952
Residential Units:					
Single family	172	127	111	48	73
Multiple family	<u>0</u>	<u>0</u>	<u>102</u>	<u>0</u>	<u>71</u>
TOTAL	172	127	213	48	144

Source: Construction Industry Research Board.

### BUILDING PERMIT ACTIVITY COUNTY OF SAN DIEGO 1998-2002

	1998	1999	2000	2001	2002
Valuation (\$000):					
Residential	\$2,314,056	\$2,985,960	\$3,008,209	\$3,169,514	\$3,135,057,236
Non-residential	<u>1,211,275</u>	<u>1,336,629</u>	<u>1,391,497</u>	<u>1,189,910</u>	<u>1,150,521,837</u>
TOTAL	\$3,525,331	\$4,322,589	\$4,399,706	\$4,359,424	\$4,285,579,073
Dwelling Units:					
Single family	9,160	9,993	9,167	9,326	8,569
Multiple family	<u>3,013</u>	<u>6,434</u>	<u>6,750</u>	<u>6,324</u>	<u>5,665</u>
TOTAL	12,173	16,427	15,927	15,650	14,234

Source: Construction Industry Research Board.

## Income

Total personal income in the County increased by 74% between 1988 and 1999, representing an average annual compound growth rate of 5.7%. Per capita personal income in the County grew by 43% during this time, representing an average annual compound growth of 3.7%.

The following tables summarize personal income for the County for 1988 to 2001.

### SAN DIEGO COUNTY PERSONAL INCOME 1988-2001 (In Thousands)

Year	San Diego County	Annual Percent Change
1988	\$45,643,951	---
1989	50,055,285	10%
1990	53,123,588	6%
1991	54,864,481	3%
1992	57,248,381	4%
1993	58,300,387	2%
1994	60,074,854	3%
1995	62,579,959	4%
1996	66,403,437	6%
1997	70,957,061	7%
1998	78,156,337	10%
1999	84,585,445	8%
2000	92,985,706	10%
2001	97,240,725	5%

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

### PER CAPITA PERSONAL INCOME 1988-2001

Year	San Diego County	California	United States
1988	\$19,306	\$19,713	\$ 17,403
1989	20,478	20,765	18,566
1990	21,145	21,882	19,572
1991	21,489	21,983	20,023
1992	22,077	22,650	20,960
1993	22,425	22,833	21,537
1994	22,976	23,348	22,340
1995	23,852	24,339	23,255
1996	25,043	25,373	24,270
1997	26,353	26,521	25,412
1998	28,558	28,240	26,893
1999	30,322	29,712	27,880
2000	32,910	32,363	29,760
2001	33,883	32,655	30,413

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

## Retail Sales

Taxable sales in the City and the County are shown below. Taxable sales in the City increased by approximately 73% between 1997 and 2001. The largest taxable sales sectors in the City are auto dealers and supplies, general merchandise, other retail stores, eating and drinking places and service stations.

### TAXABLE SALES CITY OF POWAY 1997-2001

	Taxable Sales (\$000)				
	1997	1998	1999	2000	2001
Apparel Stores	2,976	4,196	4,216	4,364	3,838
General Merchandise	64,868	73,994	83,078	92,498	99,099
Food Stores	25,168	25,151	26,108	24,819	26,065
Eating & Drinking Places	29,978	33,293	37,991	43,561	43,297
Home Furnishings & Appliances	849	927	1,299	2,234	2,057
Building Materials & Farm Implements	13,296	16,593	19,661	21,421	32,306
Auto Dealers & Auto Supplies	126,356	150,361	178,858	200,003	228,340
Service Stations	24,990	22,033	26,598	35,253	32,833
Other Retail Stores	32,557	33,630	42,064	51,044	57,629
Total Retail Stores	\$321,038	\$360,178	\$419,873	\$475,197	\$525,464
All Other Outlets	\$91,805	\$117,710	\$156,947	\$188,921	\$186,863
Total All Outlets	\$412,843	\$477,888	\$576,820	\$664,118	\$712,327

Source: California Board of Equalization.

### TAXABLE SALES COUNTY OF SAN DIEGO 1997-2001

	Taxable Sales (\$000)				
	1997	1998	1999	2000	2001
Apparel	926,657	1,029,691	1,050,003	1,182,173	1,274,552
General Merchandise	3,285,977	3,561,551	3,966,854	4,307,562	4,445,352
Food Stores	1,337,330	1,375,365	1,469,238	1,557,244	1,595,933
Eating & Drinking Places	2,523,340	2,714,916	2,929,084	3,211,306	3,366,463
Home Furnishings & Appliances	858,165	955,772	1,085,001	1,237,271	1,314,860
Building Materials & Farm Implements	1,560,791	1,790,299	2,009,585	2,231,482	2,343,008
Auto Dealers & Auto Supplies	3,207,297	3,659,657	4,252,265	4,892,991	5,372,706
Service Stations	1,521,295	1,382,141	1,616,478	2,062,865	2,053,876
Other Retail Stores	3,181,459	3,467,134	3,857,175	4,270,195	6,453,697
Total Retail Stores	\$18,402,311	\$19,936,526	\$22,235,683	\$24,953,089	\$28,220,447
All Other Outlets	\$9,006,215	\$9,679,478	\$10,516,722	\$11,292,329	\$9,478,886
Total All Outlets	\$27,408,526	\$29,616,004	\$32,752,405	\$36,245,418	\$37,699,333

Source: California Board of Equalization.

**APPENDIX C**  
**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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

Board of Education of the  
Poway Unified School District  
13626 Twin Peaks Road  
Poway, CA 92064-3098

Re:       \$75,000,000 General Obligation Bonds of School Facilities Improvement District No. 2002-1 of the Poway Unified School District, 2002 Election, Series A  
          Final Opinion

Ladies and Gentlemen:

We have acted as Bond Counsel for the Poway Unified School District ("District") acting for School Facilities Improvement District No. 2002-1 of the Poway Unified School District ("Improvement District"), in connection with the proceedings for the issuance and sale by the District of \$75,000,000 principal amount of General Obligation Bonds of School Facilities Improvement District No. 2002-1 of the Poway Unified School District, 2002 Election, Series A ("Bonds"). The Bonds are being issued pursuant to the Resolution of the Board of Education of the District, adopted on April 21, 2003 (Resolution No. 69-2003) ("District Resolution"), pursuant to authorization provided in Resolution No. 03-078 of the County of San Diego ("County") adopted on May 6, 2003 ("County Resolution," and with the District Resolution, the "Bond Resolution"), which resolution was adopted pursuant to California Education Code Section 15350, and in accordance with the statutory authority set forth in Education Code Sections 15266(b), 15348(b), 15350 *et seq.*, and Title 1, Division 1, Part 10, Chapter 2 of the California Education Code, commencing with Section 15300.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the issuance of the Bonds. In this connection, we have also examined such certificates of public officials and officers of the District, including certificates as to factual matters, as we have deemed necessary to render this opinion.

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

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events occur. As to questions of fact material to our opinions, we have relied upon the documents and matters referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Resolution and in certain other documents, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

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

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

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

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

Very truly yours,

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of June 1, 2003, by and between the Poway Unified School District (the "School District"), acting on behalf of School Facilities Improvement District No. 2002-1 of the Poway Unified School District (the "Improvement District"), and David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the "Dissemination Agent"), under the Disclosure Agreement in connection with the issuance of \$75,000,000 aggregate principal amount General Obligation Bonds of School Facilities Improvement District No. 2002-1 of the Poway Unified School District, 2002 Election, Series A (the "Series A Bonds");

#### WITNESSETH:

**WHEREAS**, pursuant to the Resolution of the Board of Trustees of the School District adopted on April 21, 2003 (the "School District Resolution") and the Resolution of the Board of Supervisors of San Diego County adopted on May 6, 2003 (the "County Resolution," and together with the School District Resolution, the "Resolutions"), the School District has, through the County, issued the Series A Bonds in the aggregate principal amount of \$75,000,000 on behalf of the Improvement District; and

**WHEREAS**, the Series A Bonds are payable from and secured by *ad valorem* taxes levied against property within the Improvement District;

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

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

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

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

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

"Disclosure Representative" shall mean the Associate Superintendent, Business Support Services of the School District, or his or her designee, or such other officer or employee as the School District shall designate in writing to the Dissemination Agent and the County of San Diego, acting as the Paying Agent (or successor Paying Agent) (the "Paying Agent") from time to time.

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

“Improvement District” shall mean the School Facilities Improvement District No. 2002-1 of the School District.

“Insurer” shall mean MBIA Insurance Corporation, or any successor thereto or assignee thereof.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

“Participating Underwriter” shall mean Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

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

“School District” shall mean Poway Unified School District, Poway, California.

“State Repository” shall mean 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 as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### Section 3. Provision of Annual Reports.

(a) The School District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing February 1, 2004, provide to each Repository, the Paying Agent, the Insurer and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the School District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to February 1 in any year, the Dissemination Agent shall notify the School District of such failure to receive the Annual Report. The School District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the School District and shall have no duty or obligation to review such Annual Report.

(b) If the School District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.



(c) 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;

(ii) provide any Annual Report received by it to each Repository, the Paying Agent, the Insurer and the Participating Underwriter as provided herein; and

(iii) if the Dissemination Agent is other than the School District and to the extent it can confirm such filing of the Annual Report, file a report with the School District, the Paying Agent, the Insurer and the Participating Underwriter 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 4. Content of Annual Reports. The School District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the School District prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available at the time required for filing, unaudited financial statements shall be submitted with the Annual Report and audited financial statements shall be submitted once available.

(b) The following information regarding the Series A Bonds, any parity bonds and any refunding bonds issued by the Improvement District:

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

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

(iii) Principal amount and accreted value of Series A Bonds, any parity bonds and any general obligation refunding bonds outstanding as of a date within 45 days preceding the date of the Annual Report;

(iv) Balance in the Debt Service Fund as of a date within 45 days preceding the date of the Annual Report;

(v) Balance in the Improvement Fund, and each account or subaccount thereunder, if any, as of a date within 45 days preceding the date of the Annual Report, and of any other fund related to the Series A Bonds not referenced in clauses (i), (ii), (iii) or (iv) hereof;

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

(vii) Top ten property owners in the Improvement District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value and their percentage of total secured assessed value, if material.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the School District shall provide such further information, if any, as may be necessary to make the statements required under Section 4(b), 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 School 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 School District shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the School District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series A Bonds and any refunding 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 bond calls;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the securities;  
and
- (xi) Rating changes.

(b) The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event and request that the School District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For

purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the School District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the School District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the School District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the School District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The School District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the School District determines that the Listed Event would not be material under applicable Federal securities law, the School District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the School District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Insurer and to the Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Series A Bonds pursuant to the Resolutions.

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

Section 7. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days’ written notice to the Paying Agent (if the Paying Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the School District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the School District and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the School District, so long as such

amendment does not adversely affect the rights or obligations of the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Series A Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the Series A Bonds in the manner provided in the Resolutions for amendments to the Resolutions with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Series A Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the School District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the School District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the School District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Paying Agent and any owner or beneficial owner of the Series A Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the School District or the Dissemination Agent to

comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolutions, and the sole remedy under this Disclosure Agreement in the event of any failure of the School District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of the Dissemination Agent. Sections 15 and 17 of the Agreement to Provide Transfer Agent, Registrar, Authenticating Agent and Paying Agent Services for the School District made and entered into with respect to the Series A Bonds (the "Paying Agent Agreement") by and between the School District and the Paying Agent is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Paying Agent Agreement, and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Paying Agent thereunder. The Dissemination Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the School District. The Paying Agent shall have no obligation to make any disclosure concerning the Series A Bonds, the School District or any other matter, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Paying Agent under the Resolutions. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Paying Agent has or may have any banking, fiduciary or other relationship with the School District or any other party, apart from the relationship created by the Resolutions, shall not be construed to mean that the Paying Agent has knowledge or notice of any event or condition relating to the Series A Bonds or the School District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the School District as to the materiality of any event for purposes of Section 5 hereof. The Dissemination Agent makes no representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the School District for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The School District's obligations under this Section shall survive the termination of this Disclosure Agreement.

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

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

If to the School District: Poway Unified School District  
13626 Twin Peaks Road  
Poway, California 92064-3098  
Telephone: (858) 679-2552  
Telecopier: (858) 513-0967  
Attention: Associate Superintendent, Business Support Services

If to the Dissemination Agent: David Taussig & Associates, Inc.  
1301 Dove Street, Suite 600  
Newport Beach, California 92660  
Telephone: (949) 955-1500  
Telecopier: (949) 955-1590

If to the Participating Underwriter: Stone & Youngberg LLC  
50 California Street, 35th Floor  
San Francisco, California 94111  
Telephone: (415) 445-2332  
Telecopier: (415) 445-2395

If to the Insurer: MBIA Insurance Corporation  
113 King Street  
Armonk, NY 10504  
Telephone: 914/273-4545  
Telecopier: 914/765-3161/3162

Section 14. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the School District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the School District to meeting the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the School District to disclose information concerning any owner of land within the School District except as required as part of the information required to be disclosed by the School District pursuant to Section 4 and Section 5 hereof.

Section 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 16. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 17. 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: \_\_\_\_\_  
Authorized Officer

DAVID TAUSSIG & ASSOCIATES, INC.,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

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

Name of Issuer: School Facilities Improvement District No. 2002-1 of the Poway Unified School District

Name of Bond Issue: General Obligation Bonds of School Facilities Improvement District No. 2002-1 of the Poway Unified School District, 2002 Election, Series A

Date of Issuance: June 5, 2003

NOTICE IS HEREBY GIVEN that the Poway Unified School District (the "School District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of June 1, 2003, by and between the School District and David Taussig & Associates, Inc., as Dissemination Agent. [The School District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_, 20\_\_

David Taussig & Associates, Inc., as  
Dissemination Agent, on behalf of the School  
District

cc: Poway Unified School District  
Stone & Youngberg LLC  
U.S. Bank National Association



**EXHIBIT B**  
**PARTICIPATING UNDERWRITER**

Stone & Youngberg LLC  
One Ferry Building  
San Francisco, California 94111  
Telephone: (415) 445-2300  
Telecopier: (415) 445-2395  
Attention: Municipal Research Department

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX E**

**SPECIMEN COPY OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY  
TO BE ISSUED BY MBIA INSURANCE CORPORATION**

[THIS PAGE INTENTIONALLY LEFT BLANK]

# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage 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.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President: \_\_\_\_\_

Attest: \_\_\_\_\_

Assistant Secretary

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX F

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series A Bonds, payment of principal of and interest on the Series A Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Series A Bonds, confirmation and transfer of beneficial ownership interests in the Series A Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Series A Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series A Bonds. The Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series A Bond will be issued for each maturity of the Series A Bonds, each in the aggregate principal amount of such maturity 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants (the "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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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 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 (the "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).

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

To facilitate subsequent transfers, all Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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 A Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the Series A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series A Bonds documents. For example, Beneficial Owners of Series A Bonds may wish to ascertain that the nominee holding the Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

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

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

### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the Series A Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the School District will discontinue the Book-Entry System with DTC for the Series A Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Series A Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the Series A Bonds, then the Series A Bonds shall no longer be restricted to being registered in the 2002 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Series A Bonds shall designate.

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

*The School District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Series A Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant*



*of any amount in respect of the principal of, redemption price of or interest on the Series A Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Series A Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Series A Bonds or the Resolution. The School District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the Series A Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The School District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Series A Bonds or any error or delay relating thereto.*

[THIS PAGE INTENTIONALLY LEFT BLANK]



